Annual Financial Report 2013

Bank of Cyprus Group

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Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)	Christis Hassapis CHAIRMAN Vladimir Strzhalkovskiy VICE CHAIRMAN Anjelica Anshakova Dmitry Chichikashvili Marinos Gialelis Marios Kalochoritis Konstantinos Katsaros Eriskhan Kurazov Adonis Papaconstantinou Anton Smetanin Xanthos Vrachas Marios Yiannas Andreas Yiasemides Ioannis Zographakis John Patrick Hourican
Executive Committee	John Patrick Hourican CHIEF EXECUTIVE OFFICER Costas Argyrides DIRECTOR WEALTH, BROKERAGE AND ASSET MANAGEMENT Michalis Athanasiou CHIEF RISK OFFICER Stelios Christodoulou GENERAL MANAGER GENERAL INSURANCE Euan Hamilton HEAD OF RESTRUCTURING AND RECOVERIES Eliza Livadiotou CHIEF FINANCIAL OFFICER Solonas Matsias HUMAN RESOURCES DIRECTOR Miltiades Michaelas DIRECTOR INTERNATIONAL OPERATIONS Artemis Pantelidou GENERAL MANAGER EUROLIFE Christodoulos Patsalides FINANCE DIRECTOR Louis Pochanis DIRECTOR INTERNATIONAL BANKING SERVICES Charis Pouangare DIRECTOR CONSUMER AND SME BANKING Nicolas Sparsis DIRECTOR CORPORATE BANKING Aristos Stylianou CHIEF OPERATING OFFICER
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Company Secretary	Panayiotis Agapiou
Legal Advisers	Chryssafinis & Polyviou
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Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2013, the names of which are listed below, confirm that, to the best of our knowledge:

(a) the consolidated financial statements on pages 17 to 190

(i) have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union and the requirements of the Cyprus Companies Law,

(ii) have been audited by the independent auditors of the Company in accordance with the International Standards on Auditing.

The qualification included in the independent auditor's report to the members of the Company on the Consolidated Financial Statements relates exclusively to the accounting treatment afforded under IFRS (the 'Accounting Treatment') of the effect of the decrees of the Central Bank of Cyprus ('CBC') in its capacity as Resolution Authority concerning the bail-in of the Company and its taking over of certain assets and liabilities from Cyprus Popular Bank Public Co Ltd (the 'Decrees'), and in particular to the value assigned to the new shares issued pursuant to the Decrees. It is considered appropriate to underline the fact that the value assigned to these shares has no impact on the value of the assets, the liabilities and the shareholders' equity reported in these Consolidated Financial Statements as further explained and elaborated on in the notes to the consolidated financial statements and in particular notes 2, 3.2.2 and 54.2,

(iii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole, subject to the qualification included in the Report to the Board of Directors of the Company on the Audit of the Consolidated Financial Statements, which as explained above, does not affect the Group's equity and financial position, and

(b) the Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis	Chairman
Vladimir Strzhalkovskiy	Vice Chairman
Anjelica Anshakova	Non-executive Director
Dmitry Chichikashvili	Non-executive Director
Marinos Gialeli	Non-executive Director
Marios Kalochoritis	Non-executive Director
Konstantinos Katsaros	Non-executive Director
Eriskhan Kurazov	Non-executive Director
Adonis Papaconstantinou	Non-executive Director
Anton Smetanin	Non-executive Director
Xanthos Vrachas	Non-executive Director
Marios Yiannas	Non-executive Director
Andreas Yiasemides	Non-executive Director
Ioannis Zographakis	Non-executive Director
John Patrick Hourican	Executive Director
Christodoulos Patsalides	Finance Director
Eliza Livadiotou	Chief Financial Officer

27 March 2014

The Board of Directors submit to the shareholders of the Company their Report together with the audited consolidated financial statements for the year ended 31 December 2013.

Activities

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiaries in Cyprus and abroad during the year continued to be the provision of banking, financial services and insurance services.

All Group companies and branches are set out in Note 53 of the consolidated financial statements.

Operating environment

The Cyprus economy entered into a deep recession in 2013 following the bailout agreement signed with the Troika. The agreement entailed the recapitalisation of the two largest banks through the bailing-in of their uninsured depositors. These developments undermined the credibility of the entire banking system, stalled the credit cycle and made necessary the imposition of capital controls.

Amidst an extremely adverse macroeconomic and financial environment, domestic demand dropped steeply and real Gross Domestic Product ('GDP') contracted by 5,4% in 2013. Unemployment rose steeply to 17% in the fourth quarter of the year, according to European Union statistics.

The actual decline in real GDP in 2013 is some three percentage points lower than initial estimates for an 8,7% contraction. The better than anticipated performance of the economy reflects a number of self-reinforcing factors that reveal important underlying strengths. Some sectors, particularly tourism and business services, proved more resilient. Private consumption also proved more resilient reflecting smoothing effects and the drawing down of past savings. The real surprise however, was in the extent to which the economy proved to be flexible. Wages and prices dropped significantly in the year thus supporting a higher employment level than would otherwise be possible.

In the foreign sector, even though exports of goods and services declined, a steep drop in the corresponding imports resulted in net exports having a significant positive contribution to real GDP growth.

However, a combination of factors continues to weigh negatively on economic activity. These primarily entail the tight credit conditions, the continuing public and private sector deleveraging, and rising unemployment. As a result, domestic demand will continue to be weighed down and the recession is expected to continue into 2014. Real GDP in fact is expected to contract by 4,8% according to the European Commission.

The drop in domestic demand and the steep wage adjustments led to a considerable deceleration and decline in consumer inflation. Consumer prices started to decline at an accelerating pace from last October, falling on average by 0,4% in the year, and are expected to continue to decline well into 2014.

The restoration of a sound and well capitalised banking sector along with progress in the gradual deleveraging of the private sector will create the conditions for the eventual economic recovery. The recession is expected to end in 2015 when real GDP is expected to increase by slightly less than 1% according to the European Commission. Unemployment is expected to peak in 2014 at around 20% and to start to decline thereafter.

However, downside risks remain. These mainly relate to a more protracted period of tight credit conditions, a prolonged deleveraging process and further worsening of labour market conditions.

On the fiscal side, adjustment is well under way. The deficit in 2013 is estimated at 5,5% of GDP which is considerably less than initially anticipated. This is due to continued prudent budget execution and the milder recession that ensued. The deficit is expected to widen slightly in 2014, rising to 5,8% of GDP, driven mainly by falling profits and declining wages and employment. Fiscal conditions are expected to improve in 2015 driven by an improving macroeconomic environment and a bettering of conditions in the labour market. The public debt to GDP ratio will increase further in the medium term in line with the prevailing macroeconomic conditions and will peak in 2015.

Operating environment (continued)

The recession in 2013 has been steep, coupled with falling wages and rising unemployment. But overall macroeconomic performance has been better than initially anticipated as the economy has proven to be more resilient and significantly more flexible. The fiscal performance has also been better than anticipated, exceeding programme targets by a considerable margin. Furthermore, in the banking sector there are signs of stabilisation and deposit outflows have dissipated towards the end of the year. The outlook for 2014 remains difficult as the economy continues to face significant challenges, but programme implementation remains on track and the recession is likely to end in 2015.

Going concern

The Board of Directors has made an assessment of the Company's and Group's ability to continue as a going concern.

The conditions that existed during the year ended 31 December 2013 that have been considered in management's going concern assessment, include amongst others, the following:

Restructuring plan

The Group has prepared a Restructuring Plan ('Plan') which has been approved by the Central Bank of Cyprus ('CBC') in November 2013. The Restructuring Plan defines the Group's strategy, business model and risk appetite.

The Plan defines the strategic objectives and actions the Group should take to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy by:
- Rebuilding trust and confidence of both depositors and investors.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating the operations of ex Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

The Plan aims to enable the Group to overcome its current difficulties and gradually normalise its performance. The Plan sets specific medium-term financial targets that prioritise the stability and viability of the Group. One of the more important targets is the compliance with the minimum capital adequacy requirements set forth by the CBC, with Core Tier 1 remaining above the CBC's target of 9% throughout the Restructuring Plan period. The Group considers the achievement of a superior Core Tier 1 capital ratio as a more important target than profitability, shielding the Bank from further shocks and eventually enabling the Group's credit rating to improve, facilitating access to capital markets for funding in the medium term.

Macroeconomic environment in Cyprus

As the Company is the largest financial institution in Cyprus and given its very high credit exposure to the Cypriot businesses and households, the Company's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus.

Although the economic situation remains challenging, the economic recession has been less pronounced than expected and the economy is proving relatively resilient. Real GDP contracted by 5,4% in 2013. The actual decline in real GDP in 2013 is some three percentage points lower than initial estimates for an 8,7% contraction. The better than anticipated performance of the economy reflects a number of self-reinforcing factors that reveal important underlying strengths. Some sectors, particularly tourism and business services, proved more resilient. Private consumption also proved more resilient reflecting smoothing effects and the drawing down of past savings. Unemployment has, however, risen to 17% in the fourth quarter of the year. Wages and prices dropped significantly in the year thus supporting a higher employment level than would otherwise be possible. Going forward, the Troika expects the economy to contract by about 4,8% in 2014 and to recover gradually starting in 2015, driven by non-financial services.

Going concern (continued)

Macroeconomic environment in Cyprus (continued)

The Troika has recently concluded the third quarterly review of Cyprus' economic programme. The Troika has commented that the Cyprus programme is on track. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution, and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector, with the sector showing signs of stabilisation. This has allowed further relaxation of payment restrictions, in line with the government's milestone-based roadmap.

Regulatory capital ratios

During the year ended 31 December 2013, the Group has suffered significant losses due to the disposal of its Greek operations and significant provisions for impairment of loans and advances.

As part of the agreement reached between the Troika and the Cyprus government in March 2013, the Group was recapitalised through a bail-in of uninsured depositors (a deposit-to-equity conversion) which was completed in July 2013 and the absorption of accumulated losses by the holders of ordinary shares and debt securities as of 29 March 2013. The Group, as also confirmed by the Resolution Authority, has been capitalised to a level which can sustain expected losses on its loans portfolio.

The Core Tier 1 ratio of the Group at 31 December 2013 stands at 10,2%. Going forward, the Group aims to preserve its capital adequacy by retaining internally generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC will set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

Following its recapitalisation of the Group, the Group is in compliance with the minimum requirement for Core Tier 1 ratio.

During the year and up to 30 December 2013, the Company was not in compliance with the minimum requirement for total capital ratio. However this requirement has been abolished, effective from 31 December 2013.

Liquidity

The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding. The transfer of certain operations of Laiki Bank to the Group resulted in an amount of €9 billion of ELA funding at the acquisition date to be transferred to the Group.

Since August 2013, the Company has been reinstated by the ECB as an eligible counterparty for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus resulted in a reduction in funding from ELA, as the Company has access to funding from the ECB under monetary policy operations. Furthermore, ECB funding is provided at a lower rate than the rate for borrowing from ELA.

The level of central bank funding (ELA and ECB funding) of the Group as at 31 December 2013 amounts to €10,96 billion, comprising €1,40 billion of ECB funding and €9,56 billion of ELA funding.

Although the Group has received no specific guarantees, the Board of Directors expects that the Group will continue to have access to the central bank liquidity facilities in line with applicable rules. In this respect, the House of Representatives has approved on 27 January 2014 the issuance of additional government guarantees of up to €2,9 billion as contingency collateral in case of need.

Going concern (continued)

Liquidity (continued)

The Cypriot authorities in March 2013 have introduced certain temporary restrictive measures and capital controls with respect to banking and cash transactions. These measures are allowing the Group some headroom to deal with the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals and capital movements.

Following the third quarterly review in February 2014, the Troika has stated that 'with key milestones in the authorities' roadmap now completed, payment restrictions will need to continue to be relaxed in line with the published milestone-based roadmap, while safeguarding financial stability'.

With key milestones in the authorities' roadmap now completed, the second phase of gradual relaxations of restrictions is expected to start shortly.

Exposure to Greece

The sale of the Group's banking and leasing operations in Greece to Piraeus Bank in March 2013, in line with the provisions of the Cyprus–Eurogroup agreement, largely eliminated the Group's exposure to the prevailing uncertainties of the Greek economy.

As a result, the Group does not expect any material impact on its capital or liquidity position from continued adverse economic conditions or any further deterioration of the economic environment in Greece.

Litigation and claims

The Board and management have also considered the impact of litigation and claims against the Group relating mainly to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Group has obtained legal advice in respect of these claims.

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the Board and management consider that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

Profitability

The challenging macroeconomic environment in Cyprus is affecting the Group's profitability. Cyprus is expected to continue to be in recession during 2014, with moderate real GDP growth driven by non-financial services and a decline in unemployment levels expected for 2015. Borrowers are expected to continue facing challenges, while property prices may fall even further.

The Group's strategy is to address these challenges through the set up of independent, centralised and specialised delinquency and recovery units and a special projects division to manage large exposures, through which the Group aims to proactively and efficiently manage delinquencies and problem loan recoveries in order to contain the increase of problem loans and provisions for impairment expected to arise from the ongoing economic slowdown. As part of the group's new organisational structure, the Restructuring and Recoveries Division aims to manage arrears across all portfolios. The Division handles all activity relating to exposures greater than €100.000 thousand, debt restructuring and debt collection and recovery of non-performing loans across all customer segments. The creation of this Division is a major step in the Group's recovery path, as swiftly and professionally addressing problem lending is absolutely critical.

ECB Comprehensive Assessment

The Group is one of the institutions participating in the ECB's Asset Quality Review, run as part of the ECB's comprehensive assessment prior to inception of the Single Supervisory Mechanism. As a result, it will also be subject to the ECB's stress testing process. This comprehensive assessment aims to enhance the transparency of the balance sheets of significant banks in the Euro area, and in so doing, to trigger balance sheet repair where necessary, as well as to strengthen confidence. Disclosure of the results of these exercises are planned in late 2014.

Going concern (continued)

Uncertainties

The Company's management and Board of Directors believe that the Group is taking all the necessary measures to maintain its viability and the development of its business in the current economic environment.

However, the ability of the Group to continue as a going concern is dependent on:
- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario which formed the basis of its preparation.
- The period over which the restrictive measures and capital controls are in place.
- The continuing reliance on and availability of the central bank liquidity facilities.
- The actual outcome of litigation and claims mainly relating to the bail-in of deposits and the absorption of losses by the holders of equity and debt instruments of the Company.
- The outcome of the ECB's comprehensive assessment, which may reveal additional capital requirements for the Group.

Going concern assessment

The Company's management and Board of Directors, taking into consideration the above factors and the measures taken to support the Cyprus economy and the realised and planned actions as detailed in its Restructuring Plan, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:
- The Group has been successfully recapitalised.
- The Troika is expected to continue to provide the required financial support to Cyprus as per the MoU.
- The implementation of additional actions as per the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Cyprus government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the Cyprus government will maintain certain temporary restrictive measures and capital controls with respect to banking and cash transactions for as long as required to ensure the stability of the Cyprus banking system.

Notwithstanding this assessment and the conclusion reached, the Board considers that material uncertainties remain that may cast significant doubt upon the Company's ability to continue as a going concern.

Events after the reporting date

In January 2014 the Group reached an agreement to sell its business in the Ukraine to ABH Ukraine Limited, a member of the Alfa Group.

In January 2014 the Group released the six-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013.

Details of the events after the reporting date are disclosed in Note 56 of the consolidated financial statements.

Financial results

The main financial highlights for 2013 are set out below:

Group Income Statement			
€ mn	**2013**	2012	Annual change ±%
Net interest income	**999**	702	+42%
Net fee and commission income	**169**	173	-2%
Net foreign exchange gains/(losses) and net gains/(losses) on other financial instruments	**5**	(3)	-
Insurance income net of insurance claims	**65**	63	+3%
Other income	**(64)**	(15)	+326%
Total income	**1.174**	920	+28%
Staff costs	**(322)**	(294)	+10%
Other operating expenses	**(230)**	(251)	-8%
Total expenses	**(552)**	(545)	+2%
Profit before impairments, restructuring costs and discontinued operations	**622**	375	+66%
Provisions for impairment of loans and advances	**(1.067)**	(1.339)	-20%
Share of profit from associates	**2**	-	-
Loss before tax, restructuring costs and discontinued operations	**(443)**	(964)	-54%
Tax	**5**	43	-
Loss attributable to non-controlling interests	**12**	9	-
Loss after tax and before restructuring costs and discontinued operations	**(426)**	(912)	-53%
Restructuring costs	**(168)**	(10)	-
Loss from discontinued operations	**(90)**	(789)	-
Loss on disposal of the Greek operations	**(1.366)**	-	-
Impairment of GGBs pre-tax and impairment of goodwill	**-**	(503)	-
Loss after tax attributable to the owners of the Company	**(2.050)**	(2.214)	-7%
Net interest margin	**3,62%**	2,94%	+68 b.p.*
Cost to income ratio	**47%**	59%	-12 p.p.*
90+ DPD provision coverage ratio	**38%**	48%	-10 p.p.*

*p.p.= percentage points, 1 percentage point = 1%
b.p.= basis points, 100 basis points = 1 percentage point (1%)

Financial results (continued)

Key Balance Sheet figures and ratios	**31 December 2013**	31 December 2012	Annual charge ±%
Gross loans (€ bn)	**26,7**	28,1	-5%
Customer Deposits (€ bn)	**15,0**	28,4	-47%
Loans to deposits ratio	**145%**	86%	+59 p.p.*
90+ DPD ratio	**49%**	27%	+22 p.p.*
Capital			
Core tier 1 capital ratio	**10,2%**	-1,9%	+12,1 p.p.*
Tier 1 capital ratio	**10,2%**	0,6%	+9,6 p.p.*
Total capital ratio	**10,5%**	0,9%	+9,6 p.p.*
Risk weighted assets (€ bn)	**22,4**	21,6	+4%

*p.p.= percentage points, 1 percentage point = 1%

Balance Sheet

- The core tier 1 capital ratio was sustained at 10,2% at 31 December 2013, at the same level as 30 September 2013. Although negatively affected by a 2% reduction in the core tier 1 capital during the fourth quarter of 2013 (a negative impact of 0,2 percentage points), the core tier 1 capital ratio was sustained at 10,2% due to a 2% reduction in risk weighted assets (a positive impact of 0,2 percentage points).

- At 31 December 2013, gross loans and deposits were €26,7 billion and €15,0 billion respectively, with a net loans to deposits ratio of 145%.

- The Emergency Liquidity Assistance (ELA) funding has been reduced to €9,56 billion at 31 December 2013, down from €9,86 billion at 30 September 2013. ECB funding totalled €1,4 billion at 31 December 2013.

- With their growth rate contained to 0,2% during the fourth quarter of 2013, loans in arrears for more than 90 days (90+ DPD) totalled €13.003 million at 31 December 2013, compared to €12.983 million at 30 September 2013, and accounted for 49% of gross loans (90+ DPD ratio). The provision coverage ratio of 90+ DPD was improved to 38% from 37% at 30 September 2013, while taking into account tangible collateral, at market value 90+ DPD are fully covered by provisions and tangible collateral. Loan quality challenges continue into 2014, with 90+ DPD showing signs of stabilisation, but with the new definition Non-Performing Loans continuing to rise.

Income Statement

- Total income for the year ended 31 December 2013 was €1.174 million, with net interest income (‘NII’) at €999 million and net interest margin (‘NIM’) at 3,62%. Total income for the fourth quarter of 2013 was €314 million, with NII at €274 million and NIM at 3,87%.

- Total expenses for the year ended 31 December 2013 were €552 million and the cost to income ratio was at 47%. Total expenses for the fourth quarter of 2013 were €130 million, 5% lower compared to the third quarter of 2013.

- Profit before impairments, restructuring costs and discontinued operations for the year ended 31 December 2013 was €622 million, while profit before impairments, restructuring costs and discontinued operations for the fourth quarter of 2013 was €184 million.

- Provisions for impairment of loans for the year ended 31 December 2013 were €1.067 million, with the provisioning charge accounting for 3,9% of gross loans. Provisions for impairment of loans for the fourth quarter of 2013 were €268 million, compared to €261 million for the third quarter of 2013.

Financial results (continued)

Income Statement (continued)

- Loss from continuing operations (defined as loss before restructuring costs, discontinued operations and the disposal of Greek operations) for the year ended 31 December 2013 totalled €426 million. Loss from continuing operations for the fourth quarter of 2013 totalled €77 million.

- The disposal of Greek operations in the first quarter of 2013 resulted in a combined loss on disposal and from discontinued operations of €1.456 million.

- Restructuring costs for the year ended 31 December 2013 totalled €168 million, of which €121 million relate to the cost of the two Voluntary Retirement Schemes ('VRS') implemented during the year.

- Loss after tax attributable to the owners of the company for the year ended 31 December 2013 totalled €2.050 million. Loss after tax attributable to the owners of the company for the fourth quarter of 2013 totalled €103 million.

Capital base

Following the Eurogroup's decisions on Cyprus, the Company was placed under Resolution, from 25 March 2013 to 30 July 2013, and was recapitalised and restructured in accordance with decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority in accordance with the Resolution of Credit Institutions and Other Institutions Law of 2013.

The recapitalisation was implemented via the bail-in of unsecured depositors, through the conversion of 47,5% of uninsured deposits into equity. In addition, the holders of ordinary shares and debt securities issued by the Company as of 29 March 2013 have contributed to the recapitalisation through the absorption of losses.

At 31 December 2013, the Group's equity amounted to €2.656 million. At 31 December 2013, the Group had a Core Tier 1 capital ratio of 10,2% and a total capital ratio of 10,5%.

The minimum Core Tier 1 ratio set by the Central Bank of Cyprus is 9%.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC will set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

Share capital

In March 2013, in accordance with the decrees issued by the Resolution Authority, the nominal value of the ordinary shares in issue on 29 March 2013 was reduced from €1,00 per share to €0,01 per share. The total amount from the reduction of the nominal value of the shares was applied for the absorption of losses of the Company. These shares were subsequently consolidated and converted to 17.913 thousand ordinary shares of nominal value €1,00 each.

Share capital (continued)

Also, in accordance with decrees issued by the Resolution Authority, the Convertible Bonds 2013/2018, the Capital Securities 12/2007, the Convertible Capital Securities and the Convertible Enhanced Capital Securities in issue on 29 March 2013, were converted to 581.941 thousand Class D shares of €1,00 each. The nominal value of these shares was reduced to €0,01 per share and the reduction was applied for the absorption of losses of the Company. These shares were subsequently consolidated and converted to 5.819 thousand ordinary shares of nominal value €1,00 each.

The Resolution Authority also issued Decrees for the partial deposit-to-equity conversion of uninsured deposits and other creditors. A percentage of 47,5% of eligible deposits were converted to 3.814.495 thousand Class A shares of €1,00 each. These shares were subsequently converted to ordinary shares. In addition, the Resolution Authority required the Company to issue shares to Cyprus Popular Bank Public Company Ltd ('Laiki Bank') representing 18,1% of the issued share capital of the Company after the above mentioned changes in the share capital, as consideration for the net assets transferred to the Group on 29 March 2013. Accordingly, 845.758 thousand shares were issued to Laiki Bank.

Following the above-mentioned changes in share capital, the total issued share capital of the Company as at the date of approval of these financial statements amounts to €4.683.985 thousand divided into 4.683.985.003 ordinary shares of a nominal value of €1,00 each.

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2013 was 20.767 thousand (2012: 73.331 thousand). Treasury shares include 298 thousand shares resulted from the conversion of Convertible Enhanced Capital Securities, of nominal value of €29.825 thousand, which were held by the Group. The total cost of acquisition of treasury shares was €88.051 thousand (2012: €38.595 thousand).

Part of these shares held by entities controlled by the Group resulted from the bail-in of deposits that these entities maintained with the Company and in accordance with the provisions of Company Law, these shares must be sold within one year from their acquisition.

In addition, the life insurance subsidiary of the Group held, as at 31 December 2013, a total of 16.031 thousand (2012: 16.031 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders (Note 25). The cost of acquisition of these shares was €21.463 thousand (2012: €21.463 thousand).

Other information

During 2013 and 2012 there were no restrictions on the transfer of the Company's ordinary shares other than the provisions of the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to acquiring shares of the Company in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Shares of the Company held by the life insurance subsidiary of the Group as part of their financial assets which are invested for the benefit of insurance policyholders carry no voting rights, pursuant to the insurance law. The Company does not have any shares in issue which carry special control rights.

Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2013 and 22 March 2014, 18,1% of the share capital of the Company was held by Cyprus Popular Bank Public Co Ltd. As at 31 December 2013 and at 22 March 2014, the Company was not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Company.

Dividends

The Board of Directors does not propose the payment of dividend for 2013. No dividend was proposed during 2012.

Agreements which are effective upon a change of control of the Company

In case of an announcement of a public tender offer to the Company's shareholders or the proposal of a resolution at the general meeting of the Company for a merger, acquisition or sale of its operations, then, based on the terms of issue of the Convertible Bonds 2013/2018, the Convertible Capital Securities and the Share Options granted to employees, a special conversion/exercise period would be activated. During this period, holders could convert/exercise their securities into shares of the Company at a special conversion price as determined by the terms of issue. In addition, in case of a successful outcome of a public tender offer to the Company's shareholders, the holders of these securities had the right to demand repayment of their capital at par together with any accrued interest. The Convertible Bonds 2013/2018 and the Convertible Capital Securities were converted into shares in March 2013. The Share Options lapsed on 31 December 2013.

The service contract of the executive director in office as at 31 December 2013 includes a clause for termination, by service of four months' notice to that effect upon the executive director, without cause but at its sole discretion. In such a case the Company shall have the right to pay the executive director in lieu of notice for immediate termination.

Strategy and priorities

Within the context of an unprecedented and intensifying economic crisis in Cyprus, as well as the implications of the Eurogroup decisions and the radical changes in the Group's balance sheet, the Group has prepared a Restructuring Plan covering the period 2013-2017 clearly articulating its strategy, business model and risk appetite. The Plan has been approved by the Central Bank of Cyprus in November 2013, as per the requirements of the Memorandum of Understanding (MoU) between the Republic of Cyprus and the Troika.

The Restructuring Plan defines the strategic objectives and actions the Group should take to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy. The proposed business risk management, operational efficiency, liquidity and capital measures aim to strengthen the Group and restore its viability by:

- Rebuilding trust and confidence of both depositors and investors in the Group and in the overall banking sector in Cyprus.
- Preserving the Group's status as the systemic cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating ex-Laiki Bank operations, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

Specifically, the Restructuring Plan of the Group defines the following Key Pillars of its Strategy:

- *Refocus on the core domestic business lines, leveraging on the Bank's position as the leading financial institution in Cyprus and reforming its operations in three key areas:*
    - Retaining and gathering deposits from a broader, more stable customer base through targeted campaigns and the provision of enhanced products and services, addressing the needs and fostering the loyalty of customers. The Group will channel prudent new lending to the lower risk retail products and customers as well as to the most promising sectors of the domestic economy. The Group aims at enhancing fee generation by continuing to serve international businesses, stimulating bancassurance and capturing opportunities in the financial markets emanating from domestic economic developments (such as privatisation and hydrocarbon exploration).

    - Tackling the Company's loan portfolio quality is of utmost importance and is a top priority for the Group. The creation of the Restructuring and Recoveries Division (RRD), as part of the new organisational structure, aims to manage arrears across all portfolios. Compared to a previous fragmented approach to managing distressed and delinquent clients, the RRD will be responsible for all these clients as a centralised arrears management area operating in a much more robust, focused and logical manner. The RRD will handle all activity relating to exposures greater than €100 million, debt restructuring and debt collection and recovery of non-performing loans across all customer segments. The creation of the RRD is a major step in the Bank's recovery path, as swiftly and professionally addressing problem lending positions is absolutely critical.

Strategy and priorities (continued)

    - Following its exit from the Greek market, the Group expects to proceed with a full review of its overseas banking operations and will proceed with the disposal of operations considered as non-core or non-viable. Within this context, the Group has already entered into an agreement to dispose its Ukrainian operations.

- *Strengthen risk management and credit policies:* Enhancing risk management is a top priority for the Group. In terms of credit risk, credit sanctioning has been separated from business and lending criteria are continuously being revised to reflect market conditions, credit monitoring is being strengthened to ensure any issues are proactively identified and addressed while the Group is also augmenting its delinquency management and recovery processes, in line with recently issued Central Bank of Cyprus directives and international best practices. Parallel to its efforts on credit risk, no proprietary trading is undertaken and foreign currency positions are hedged in order to minimise market risk.

- *Smoothly integrate ex Laiki Bank operations and improve operational efficiency:* In order to improve its operational efficiency after the absorption of the domestic operations of ex Laiki Bank, the Group has taken decisive measures towards the restructuring of its Cyprus operations. The total number of branches in Cyprus has already decreased to 130 by end February 2014, down from 203 after the absorption of the operations of Laiki Bank and with a plan to close another 3 branches during 2014. In addition, the Group completed a voluntary retirement scheme by which personnel in Cyprus has been reduced by 24%. Following the voluntary retirement scheme and salary cuts, staff costs in Cyprus have been reduced by 35% on an annualised basis, marking an important step towards the enhancement of the profitability of the Group. In parallel to these measures, the cost reduction effort in overseas operations continues unabated. The overall integration with ex Laiki Bank is progressing at a fast pace, including the migration of IT systems which is expected to be completed in June 2014.

- *Progressively normalise funding conditions*: Eurosystem funding (comprising ECB funding for monetary operations and Emergency Liquidity Assistance (ELA)) has already been reduced following the Company's recapitalisation and exit from Resolution, as of 30 July 2013 when the Company was reinstated as an eligible counterparty by the European Central Bank for monetary policy operations and regained access to direct funding with improved terms. Between April 2013 and December 2013, the Company reduced its Eurosystem funding by €450 million from €11,4 billion to €10,96 billion and at the same time managed to absorb a significant reduction in its deposit base. The Group aims to reduce further its funding from the Eurosystem, to retain and attract customer deposits, to reduce the loans-to-deposits ratio of the Group and to decrease the funding provided to its overseas subsidiaries.

- *Preserve and enhance capital adequacy of the Group:* Following the Group's recapitalisation through the bail-in of depositors, the Group aims to further strengthen capital adequacy by internally generating capital through profitability and by effectively managing its risk weighted assets aiming at further deleveraging and disposal of non-core assets. The Group considers the achievement of a superior Core Tier 1 ratio as a more important target than profitability, shielding the Company from further shocks and eventually enabling its credit ratings to improve facilitating access to capital markets for funding in the medium term.

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 46 to 49 of the consolidated financial statements. The Group's exposure to sovereign debt of countries which have entered the European Support Mechanism or whose Moody's credit rating is below Aa1 and total Group exposure exceeds €100 million is set out in Note 50.

In addition, details of the significant judgements, estimates and assumptions which may have a material impact on the Group's financial performance and position are set out in Note 4.

Corporate Governance Statement

In September 2012 the Cyprus Stock Exchange ('CSE') issued the 3rd Edition (Amended) of the Corporate Governance Code (the 'Code'). Listed companies have an obligation to include in their Annual Report, a Report by the Board of Directors on Corporate Governance. In the first part of the Report, companies should report whether they comply with the Code and the extent to which they implement its principles. In the second part of the Report, companies should confirm that they have complied with the Code provisions and in the event that they have not, should give adequate explanation.

Regarding the first part of the Report, as a company listed on the CSE, the Company has adopted the CSE Code and applies its principles.

Regarding the second part of the Report, the Company complies with the provisions of the Code. There were some exceptions during 2013 and these are noted in the Corporate Governance Report for 2013.

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in section 1.5 of the Corporate Governance Report for 2013. The powers of the executive and supervisory bodies of the Group are also set out in the Corporate Governance Report.

Any amendment or addition to the Articles of Association of the Company is only valid if approved by a special resolution at a shareholders' meeting.

The Board of Directors may issue share capital if there is sufficient authorised share capital which has not been issued and provided that the new shares to be issued are firstly offered to existing shareholders, pro-rata to their percentage shareholding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares will not be offered to existing shareholders, the approval of the shareholders in a General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the share capital section above.

The Corporate Governance Report for 2013 is available on the Group's website (www.bankofcyprus.com).

Preparation of periodic reporting

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

The Group's risk assessment process for financial reporting purposes aims at the identification, analysis and management of risks relevant to the preparation of financial statements, related disclosures and other financial reports that comply with the respective financial reporting, legal and regulatory framework, including the periodic reporting required by the Transparency Laws of Cyprus (Law Providing for Transparency Requirements in relation to Information about Issuers whose Securities are admitted to trading on a Regulated Market) of 2007 and 2009. This is achieved through the identification of the risks of material misstatements in the reports and the implementation of controls to prevent or detect errors or fraud that could result in material misstatements.

Board of Directors

The members of the Board of Directors of the Company as at the date of this report are listed on page 1. All Directors, except for Mr John Patrick Hourican, were members of the Board since their election by the Annual General Meeting of shareholders held on 10 September 2013. Mr John Patrick Hourican, who was appointed by the Board of Directors as Group Chief Executive Officer on 1 November 2013, was also appointed as member of the Board on 26 November 2013. Mr Costas Hadjipapas and Mr Igor Lojevsky who were elected by the Annual General Meeting of shareholders on 10 September 2013, resigned on 10 October 2013 and 22 October 2013, respectively.

On 10 January 2013 Messrs George M. Georgiades and Nikolaos P. Tsakos resigned from the Board of Directors. Mr Stavros J. Constantinides resigned on 31 January 2013. On 28 February 2013, the Board of Directors announced the appointment of Messrs Constantinos Damtsas and Constantinos Herodotou as members of the Board of Directors. These appointments were subject to Central Bank of Cyprus approval. The Eurogroup events of mid March followed and the approval of the Central Bank of Cyprus had not been granted by that time.

On 25 March 2013 the Resolution Authority appointed Mr Dinos Christofides as the Special Administrator of the Company. All members of the Board resigned from office on 29 March 2013.

On 26 April 2013 an interim Board of Directors was appointed by the Resolution Authority. The members of the interim Board of Directors were: Constantinos Damtsas, Lenia Georgiadou, Costas Hadjipapas, Philippos Mannaris, Sophocles Michaelides, Lambros Papadopoulos, Andreas Persianis, Andreas Poetis, Panicos Pouros, Erol Riza, Savvakis Savvides, Takis Taoushanis, George Theocharides and Michalis Zannetides. On 30 April 2013 Mr Sophocles Michaelides and Mr Erol Riza were elected as Chairman and Vice-Chairman of the interim Board respectively. On 10 May 2013 Mr Takis Arapoglou was appointed as member of the interim Board of Directors. Mr Arapoglou resigned on 2 July 2013.

Mr Christos Sorotos was appointed interim Chief Executive Officer and a member of the Board of Directors on 29 May 2013. The interim Board of Directors and interim Chief Executive Officer remained in office until the Annual General Meeting of shareholders on 10 September 2013.

In accordance with the Articles of Association of the Company, one third of the Directors shall retire from office at an Annual General Meeting and the Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day, those to retire shall, unless they otherwise agree among themselves, be determined by lot (the 'Rotation Decision'). A Rotation Decision as to the identity of the Directors to be retiring at the upcoming Annual General Meeting of the Company has not been taken to this date but shall be taken or made not later than the giving of Notice for the said Annual General Meeting and be announced (including the provision of CVs of those offering themselves for re-election) accordingly.

Board of Directors (continued)

The interest in the share capital of the Company held by each member of the Board of Directors at 31 December 2013 and 22 March 2014 is presented in the table below:

	31 December 2013	22 March 2014
Non-executives	%	%
Christis Hassapis	-	-
Vladimir Strzhalkovskiy	0,66	0,66
Anjelica Anshakova	-	-
Dmitry Chichikashvili	0,25	0,25
Marinos Gialeli	-	-
Marios Kalochoritis	-	-
Konstantinos Katsaros	-	-
Eriskhan Kurazov	-	-
Adonis Papaconstantinou	-	-
Anton Smetanin	-	-
Xanthos Vrachas	-	-
Marios Yiannas	-	-
Andreas Yiasemides	-	-
Ioannis Zographakis	-	-
Executive		
John Patrick Hourican	-	-
	0,91	0,91

Dr Christis Hassapis

Chairman

27 March 2014

Consolidated Financial Statements

Consolidated Financial Statements – Contents

for the year ended 31 December 2013

Consolidated Income Statement

for the year ended 31 December 2013

		2013	2012 (restated and represented)
	Notes	**€000**	€000
Continuing operations			
Turnover	*3.11*	**1.966.621**	1.859.797
Interest income	*6*	**1.660.461**	1.415.611
Interest expense	*7*	**(661.030)**	(713.835)
Net interest income		**999.431**	701.776
Fee and commission income	*8*	**193.458**	191.566
Fee and commission expense	*8*	**(24.639)**	(18.881)
Net foreign exchange (losses)/gains	*9*	**(5.148)**	24.948
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	*10*	**10.589**	(27.899)
Insurance income net of claims and commissions	*11*	**64.956**	62.972
Other income	*12*	**(64.282)**	(15.099)
		1.174.365	919.383
Staff costs	*13*	**(442.797)**	(293.556)
Other operating expenses	*14*	**(277.196)**	(260.553)
Profit before impairment of loans and advances and goodwill and intangible assets		**454.372**	365.274
Provisions for impairment of loans and advances	*46*	**(1.067.345)**	(1.339.269)
Impairment of goodwill and intangible assets	*15*	**-**	(359.746)
Loss before share of profit of associates		**(612.973)**	(1.333.741)
Share of profit of associates	*55*	**1.885**	222
Loss before tax		**(611.088)**	(1.333.519)
Tax	*17*	**5.184**	43.463
Loss after tax		**(605.904)**	(1.290.056)
Discontinued operations			
Loss after tax from discontinued operations		**(1.455.604)**	(932.290)
Loss for the year		**(2.061.508)**	(2.222.346)

Attributable to:			
Owners of the Company – continuing operations		**(593.898)**	(1.280.825)
Owners of the Company – discontinued operations		**(1.455.604)**	(932.290)
Total loss attributable to the owners of the Company		**(2.049.502)**	(2.213.115)
Non-controlling interests – continuing operations		**(12.006)**	(9.231)
Loss for the year		**(2.061.508)**	(2.222.346)

Basic and diluted losses per share (cent) - continuing operations	*18*	**(16,8)**	(8.302,6)
Basic and diluted losses per share (cent)	*18*	**(57,8)**	(14.345,9)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

		2013	2012 (restated)
	Notes	**€000**	€000
Loss for the year		**(2.061.508)**	(2.222.346)
Other comprehensive income (OCI)			
OCI to be reclassified in the consolidated income statement in subsequent periods			
Foreign currency translation reserve			
(Loss)/profit on translation of net investment in overseas subsidiaries and branches		**(22.548)**	20.690
Profit/(loss) on hedging of net investments	*21*	**28.257**	(12.063)
Transfer to the consolidated income statement on disposal of subsidiary		**104**	-
		5.813	8.627
Available-for-sale investments			
Gains on revaluation before tax		**14.420**	59.973
Transfer to the consolidated income statement on impairment		**17.457**	3.096
Transfer to the consolidated income statement on sale		**1.177**	75.089
Tax		**39**	(2.239)
		33.093	135.919
		38.906	144.546
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Property revaluation			
Fair value loss before tax	*26*	**(16.493)**	(15.732)
Transfer to the consolidated income statement on impairment		**22**	-
Tax		**3.106**	5.573
		(13.365)	(10.159)
Actuarial loss for the defined benefit plans			
Remeasurement losses on defined benefit plans		**(246)**	(8.640)
Tax		**-**	(2.386)
		(246)	(11.026)
		(13.611)	(21.185)
Other comprehensive income after tax		**25.295**	123.361
Total comprehensive loss for the year		**(2.036.213)**	(2.098.985)

Attributable to:			
Owners of the Company		**(2.020.788)**	(2.091.763)
Non-controlling interests		**(15.425)**	(7.222)
Total comprehensive loss for the year		**(2.036.213)**	(2.098.985)

		2013	2012 (restated)	2011 (restated)
	Notes	**€000**	€000	€000
Assets				
Cash and balances with central banks	*19*	**1.240.043**	1.272.424	1.375.047
Placements with banks	*19*	**1.290.102**	1.768.836	2.627.831
Reverse repurchase agreements		**-**	-	215.936
Investments	*20*	**2.859.584**	1.135.333	2.629.124
Investments pledged as collateral	*20*	**672.809**	734.747	938.070
Derivative financial assets	*21*	**28.765**	26.794	193.734
Loans and advances to customers	*23*	**21.764.338**	24.374.531	27.366.917
Life insurance business assets attributable to policyholders	*25*	**443.579**	495.756	504.579
Property and equipment	*26*	**414.404**	483.193	473.188
Intangible assets	*27*	**130.580**	123.555	472.510
Other assets	*28*	**1.394.751**	613.760	674.439
Investments in associates	*55*	**103.402**	3.107	2.820
Total assets		**30.342.357**	31.032.036	37.474.195
Liabilities				
Amounts due to banks	*29*	**196.422**	341.044	965.200
Funding from central banks	*30*	**10.956.277**	-	2.100.556
Repurchase agreements		**594.004**	607.773	785.993
Derivative financial liabilities	*21*	**83.894**	183.826	488.111
Customer deposits	*31*	**14.971.167**	28.442.152	29.654.498
Insurance liabilities	*32*	**551.829**	604.170	611.264
Debt securities in issue	*33*	**841**	44.775	49.791
Other liabilities	*34*	**252.653**	339.727	348.260
Subordinated loan stock	*35*	**4.676**	133.294	128.380
Total liabilities		**27.611.763**	30.696.761	35.132.053
Equity				
Share capital	*36*	**4.683.985**	1.795.141	899.528
Shares subject to interim orders	*36*	**58.922**	-	-
Share premium		**-**	428.271	1.164.903
Convertible Enhanced Capital Securities	*37*	**-**	428.835	862.233
Revaluation and other reserves		**65.664**	106.336	2.585
Accumulated losses	*39*	**(2.152.330)**	(2.500.530)	(671.551)
Equity attributable to owners of the Company		**2.656.241**	258.053	2.257.698
Non-controlling interests		**74.353**	77.222	84.444
Total equity		**2.730.594**	335.275	2.342.142
Total liabilities and equity		**30.342.357**	31.032.036	37.474.195

Chr. Hassapis Chairman
V. Strzhalkovskiy Vice-Chairman
I. Zographakis Director

J. P. Hourican Chief Executive Officer
Chr. Patsalides Finance Director
E. Livadiotou Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Attributable to the owners of the Company														
	Share capital (Note 36)	Shares subject to interim orders (Note 36)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 37)	Accumulated losses (Note 39)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Treasury shares	**Total**	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2013	**1.795.141**	**-**	**428.271**	**428.835**	**(2.500.530)**	**144.415**	**2.903**	**6.059**	**91.996**	**5.251**	**(105.693)**	**(38.595)**	**258.053**	**77.222**	**335.275**
Loss for the year	-	-	-	-	(2.049.502)	-	-	-	-	-	-	-	**(2.049.502)**	(12.006)	**(2.061.508)**
Other comprehensive (loss)/income net of tax	-	-	-	-	(246)	(13.231)	32.960	-	-	-	9.231	-	**28.714**	(3.419)	**25.295**
Total comprehensive (loss)/income for the year	-	-	-	-	(2.049.748)	(13.231)	32.960	-	-	-	9.231	-	**(2.020.788)**	(15.425)	**(2.036.213)**
Bail-in of deposits and structured products	3.814.495	-	-	-	-	-	-	-	-	-	-	(19.631)	**3.794.864**	-	**3.794.864**
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	122.541	-	-	-	-	-	-	-	-	-	-	(6)	**122.535**	-	**122.535**
Conversion of CECS into shares	459.399	-	-	(429.580)	-	-	-	-	-	-	-	(29.819)	**-**	-	**-**
Reduction of nominal value of share capital and utilisation of share premium	(2.353.349)	-	(428.271)	-	2.786.871	-	-	-	-	(5.251)	-	-	**-**	-	**-**
Shares subject to interim orders	-	58.922	-	-	-	-	-	-	-	-	-	-	**58.922**	-	**58.922**
Acquisitions (Note 54)	845.758	-	-	-	(402.953)	-	-	-	-	-	-	-	**442.805**	13.504	**456.309**
Exchange difference on CECS	-	-	-	745	(745)	-	-	-	-	-	-	-	**-**	-	**-**
Transfer of realised profits on sale of property	-	-	-	-	15.226	(15.226)	-	-	-	-	-	-	**-**	-	**-**
Increase in value of in-force like insurance business	-	-	-	-	(3.275)	-	-	-	3.275	-	-	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	-	2.974	-	-	-	(2.974)	-	-	-	**-**	-	**-**
Defence contribution on deemed dividend distribution	-	-	-	-	(150)	-	-	-	-	-	-	-	**(150)**	(24)	**(174)**
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	**-**	(924)	**(924)**
31 December 2013	**4.683.985**	**58.922**	**-**	**-**	**(2.152.330)**	**115.958**	**35.863**	**6.059**	**92.297**	**-**	**(96.462)**	**(88.051)**	**2.656.241**	**74.353**	**2.730.594**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Attributable to the owners of the Company												Non-controlling interests	**Total equity**
	Share capital (Note 36)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 37)	Accumulated losses (Note 39)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Treasury Shares	**Total**		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2012	**899.528**	**1.164.903**	**862.233**	**(670.988)**	**161.219**	**(133.221)**	**-**	**88.697**	**5.251**	**(112.682)**	**(6.679)**	**2.258.261**	**84.444**	**2.342.705**
Change in accounting policy (Note 3)	-	-	-	(563)	-	-	-	-	-	-	-	**(563)**	-	**(563)**
1 January 2012 (restated)	**899.528**	**1.164.903**	**862.233**	**(671.551)**	**161.219**	**(133.221)**	**-**	**88.697**	**5.251**	**(112.682)**	**(6.679)**	**2.257.698**	**84.444**	**2.342.142**
Loss for the year	-	-	-	(2.213.115)	-	-	-	-	-	-	-	**(2.213.115)**	(9.231)	**(2.222.346)**
Other comprehensive (loss)/income net of tax	-	-	-	(11.026)	(10.735)	136.124	-	-	-	6.989	-	**121.352**	2.009	**123.361**
Total comprehensive (loss)/income for the year	-	-	-	(2.224.141)	(10.735)	136.124	-	-	-	6.989	-	**(2.091.763)**	(7.222)	**(2.098.985)**
Purchase of shares of the Company	-	-	-	-	-	-	-	-	-	-	(39.756)	**(39.756)**	-	**(39.756)**
Disposal of shares of the Company	-	-	-	(4.702)	-	-	-	-	-	-	7.840	**3.138**	-	**3.138**
Capitalisation of reserves of subsidiary company	-	-	-	-	(6.059)	-	6.059	-	-	-	-	**-**	-	**-**
Transfer of realised profits on sale of property	-	-	-	10	(10)	-	-	-	-	-	-	**-**	-	**-**
Increase in value of in-force life insurance business	-	-	-	(3.618)	-	-	-	3.618	-	-	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	319	-	-	-	(319)	-	-	-	**-**	-	**-**
Issue of shares	159.683	-	-	-	-	-	-	-	-	-	-	**159.683**	-	**159.683**
Issue costs	-	(2.449)	-	-	-	-	-	-	-	-	-	**(2.449)**	-	**(2.449)**
Issue of bonus shares	303.743	(303.743)	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Conversion of CECS	432.187	-	(432.187)	-	-	-	-	-	-	-	-	**-**	-	**-**
Defence contribution on deemed dividend distribution	-	-	-	(28.498)	-	-	-	-	-	-	-	**(28.498)**	-	**(28.498)**
Reduction of share premium	-	(430.440)	-	430.440	-	-	-	-	-	-	-	**-**	-	**-**
Exchange difference on CECS	-	-	(1.211)	1.211	-	-	-	-	-	-	-	**-**	-	**-**
31 December 2012 (restated)	**1.795.141**	**428.271**	**428.835**	**(2.500.530)**	**144.415**	**2.903**	**6.059**	**91.996**	**5.251**	**(105.693)**	**(38.595)**	**258.053**	**77.222**	**335.275**

	Notes	2013	2012 (restated and represented)
		€000	€000
Net cash flow used in operating activities	42	**(2.816.135)**	(3.574.954)
Cash flows from investing activities			
Purchases of investments:			
- debt securities and treasury bills		**-**	(1.642.434)
- equity securities		**-**	(4.349)
Proceeds on disposal/redemption of investments:			
- debt securities and treasury bills		**1.037.839**	3.485.848
- equity securities		**22.559**	987
Interest received from debt securities and treasury bills		**219.584**	173.840
Dividend income from equity securities		**432**	241
Cash consideration paid net of cash acquired		**1.126.302**	-
(Amounts paid on disposal)/net proceeds on disposal of subsidiary companies		**(1.151.100)**	103.137
Purchase of property and equipment		**(24.842)**	(28.247)
Proceeds on disposal of property and equipment and intangible assets		**8.838**	555
Purchase of intangible assets		**(8.314)**	(10.822)
Proceeds on disposal of investment properties		**4.406**	6.300
Net cash flow from investing activities		**1.235.704**	2.085.056
Cash flows from financing activities			
Issue of share capital net of issue costs		**-**	157.234
Funding from central banks		**1.853.749**	-
Redemption of debt securities in issue		**(28.877)**	(5.016)
Interest reversal/(charge) on subordinated loan stock		**4.319**	(6.148)
Interest on senior debt		**(629)**	(1.913)
Interest on funding from central banks		**(167.560)**	-
Acquisition of own shares		**-**	(39.756)
Disposal of own shares		**-**	3.138
Net cash flow from financing activities		**1.661.002**	107.539
Net increase / (decrease) in cash and cash equivalents for the year		**80.571**	(1.382.359)
Cash and cash equivalents			
1 January		**1.337.956**	2.725.508
Exchange adjustments		**44.716**	(5.193)
Net increase/(decrease) in cash and cash equivalents for the year		**80.571**	(1.382.359)
31 December	43	**1.463.243**	1.337.956

1. Corporate information

Bank of Cyprus Public Company Ltd is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiary companies during the year continued to be the provision of banking, financial and insurance services.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Stock Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 15 March 2013, the shares of the Company have been suspended from trading on the Cyprus and Athens Stock Exchanges.

Consolidated financial statements
The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2013 were authorised for issue by a resolution of the Board of Directors on 27 March 2014.

2. Cyprus-Eurogroup agreement and the operating environment thereafter

Following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets had been significantly affected. As a result, in June 2012 the Cyprus government applied to the European Union and the International Monetary Fund for financial assistance. This led to negotiations with the European Commission, the European Central Bank ('ECB') and the International Monetary Fund ('IMF') (collectively referred to as the 'Troika') for a comprehensive programme of financial assistance.

Cyprus and the Eurogroup reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years.

The stability support granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding ('MoU') has been agreed between Cyprus and the Troika which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. The financial assistance that Cyprus will receive is up to €10 billion and is subject to a restructuring programme. The memorandum was approved on 12 April 2013 and the first two tranches of funds have already been received by the Republic of Cyprus.

Although the economic situation in Cyprus remains challenging, the economic recession has been less severe than expected and the economy is proving relatively resilient. The third quarterly review mission of Troika has concluded that the Cyprus adjustment programme remains on track, with the macro-fiscal outturn better than expected. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector, with the sector showing signs of stabilisation. As a result, the Eurogroup has endorsed in principle the disbursement of the next tranche of financial assistance to Cyprus, and it is expected early in April 2014.

The package of measures aims to restore the soundness of the Cypriot banking sector, to correct the general government deficit, to increase the efficiency of public spending, to improve the functioning of the public sector, to support competiveness and to restore sustainable and balanced growth and it includes the following:

2.1 Restructuring of the financial sector

The main terms of the MoU for the financial sector were:

- Based on a decision by the Central Bank of Cyprus ('CBC') in its capacity as Resolution Authority and in compliance with Cyprus' adopted Bank Resolution Framework, Cyprus Popular Bank Public Company Ltd ('Laiki Bank') was subjected to immediate resolution. Laiki Bank, including mostly uninsured depositors and assets outside Cyprus, is expected to be run down over time. The assets in Cyprus of Laiki Bank, the majority of Laiki Bank liabilities, mainly the insured deposits, €9 billion of Emergency Liquidity Assistance ('ELA') funding, and certain assets and liabilities of the UK and Greek operations of Laiki Bank were acquired by the Group. Additional information is presented in Note 54.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.1 Restructuring of the financial sector (continued)

- The Company was recapitalised through a deposit-to-equity conversion of 47,5% of deposits subject to bail-in in accordance with the relevant decrees issued by the Resolution Authority ('uninsured deposits') with full contribution of equity shareholders and debt holders as discussed in Note 2.5 below.

- The Greek branches of the Company, Laiki Bank and Hellenic Bank, were acquired by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Financial Stability Fund (HFSF). Piraeus Bank acquired assets of €20 billion and liabilities of €14 billion of these branches.

The Eurogroup also commented that the ECB would provide liquidity to the Company in line with applicable rules. The programme financing earmarked for Cyprus of up to €10 billion, would not be used in the recapitalisations of Laiki Bank and the Company.

The Eurogroup noted the Cypriot authorities' decision to introduce capital controls for a swift reopening of the domestic banks, noting that these measures would be temporary, proportionate, non-discriminatory and subject to strict monitoring in terms of scope and duration in line with the European Treaty.

2.2 Tax and other fiscal measures

Pursuant to the implementation of the decision of the Eurogroup, the House of Representatives of Cyprus voted a number of bills regarding direct and indirect taxes, the most important of which are:

Increase of corporation tax rate
The corporate tax rate was increased from 10% to 12,5% as of 1 January 2013.

Carry forward of tax losses
As from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under The Credit Institutions' Resolution Law, any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to fifteen years from the end of the year during which the transfer took place.

Increase in special defence contribution on interest
The special defence contribution rate on interest was increased from 15% to 30% as of 29 April 2013. The special defence contribution on interest is payable only by tax residents of Cyprus and applies to physical persons as well as legal persons which receive interest which is not associated with the ordinary activities of the company.

Assessment and Collection of Taxes Law
The law has been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced in the Companies Law.

Immovable property taxes
The immovable property tax rates have been increased for 2013 (legislation passed in April 2013) at rates which range from 0,6% to 1,9% of the value of the property as at 1 January 1980.

Annual levy on bank deposits
The special levy paid by banking institutions on deposits was increased from 0,11% to 0,15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant drop in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% (Note 14).

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.3 Temporary restrictions on money transfers

The Cypriot authorities have introduced temporary restrictive measures, with respect to banking and cash transactions as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provide for the compulsory partial renewal of maturing deposits.

Since their introduction, these restrictive measures have been gradually relaxed and the government has published a road map for the gradual liberalisation of the restrictions, taking into account investor confidence and financial stability indicators.

2.4 Restructuring of the Group as a result of the programme

The Group underwent significant restructuring in order to meet the conditions for the implementation of the MoU, as summarised below:

Sale of the Group's Greek operations to Piraeus Bank
The Resolution Authority decided the sale of the loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece to Piraeus Bank through a Decree issued on 26 March 2013.

The loss on disposal of the Greek operations is presented in Note 54. As a result of this transaction, the Group has written off in 2012 a deferred tax asset of €0,3 billion in Greece as this was no longer considered as recoverable.

Acquisition of certain operations of Cyprus Popular Bank by the Group
The 'Sale of Certain Operations of the Group of Cyprus Popular Bank Public Co Ltd Decree' issued on 29 March 2013, provided for the acquisition of the insured deposits and the majority of assets and loans of the Laiki Bank by the Company. The Company serves all Laiki Bank customers in Cyprus based on existing terms and all employees of Laiki Bank in Cyprus have been transferred to the Group.

Pursuant to the provisions of this Decree, the Resolution Authority was required to perform a valuation of the transferred assets and liabilities of Laiki Bank and to determine a fair compensation for Laiki Bank. By a further Decree issued on 30 July 2013, the Resolution Authority required the Company to issue to Laiki Bank a number of Class A shares, to compensate Laiki Bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares (Note 2.5). The Decree issued by the Resolution Authority required that the shares issued to Laiki Bank should constitute 18,1% of the issued share capital of the Company after the recapitalisation. Accordingly 845.758 thousand shares were issued to Laiki Bank.

The provisional fair values of the identifiable assets and liabilities acquired from Laiki Bank are presented in Note 54.

Laiki UK operations
On 1 April 2013, the customer deposits of the UK Branch of Laiki Bank were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Group.

Romanian operations
On 25 April 2013, in accordance with a relevant Decree issued by the Resolution Authority, the Company's Romanian Branch has transferred to Marfin Bank (Romania) SA assets amounting to €82.000 thousand which include certain customer loans and related collateral and cash and other liquid assets and customer deposits amounting to €77.000 thousand.

Sale of subsidiaries
On 18 July 2013, the Group agreed the sale of the subsidiary, Kyprou Asset Management AEDAK, to Alpha Trust Mutual Fund Management S.A., subject to the approval of the relevant regulatory authorities. The transaction was completed on 7 October 2013 and the loss on transaction did not have any significant impact on the Group results.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.4 Restructuring of the Group as a result of the programme (continued)

Sale of subsidiaries (continued)
On 29 August 2013, the Group appointed financial advisors to explore and review strategic alternatives available for the Group's shareholding in its Ukrainian subsidiary, PJSC Bank of Cyprus. The Group currently holds a 99,7% stake in the share capital of PJSC Bank of Cyprus, which it acquired in 2008. On 31 January 2014 the Group reached agreement to sell its Ukrainian business (Note 56).

2.5 Recapitalisation of the Company

The Company has been recapitalised through a bail-in (deposit-to equity conversion) of uninsured deposits. The holders of ordinary shares and debt securities as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree of 2013' (the 'Decree') issued on 29 March 2013, the 'Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013' (the 'Amended Decree') issued on 21 April 2013 and the 'Bail-in of Bank of Cyprus Public Company Limited Amended' (No. 2 and 3) Decrees of 2013 (the 'Amended Decrees No. 2 and 3') issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the 'Bail-in Decrees').

Pursuant to Article 6(4) of the Resolution of Credit and Other Institutions Law of 2013, the implementation of resolution measures under the Bail-in Decrees shall not activate any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event which may be considered as a credit event or an event equivalent to insolvency.

Bail-in of deposits and structured products as at 26 March 2013
As per the provisions of the Decree, 37,5% of the uninsured deposits of the Company as of 26 March 2013 were converted to Class A shares of the Company, 22,5% remained frozen and were subject to partial or total conversion to Class A shares of the Company, and 30% remained frozen and were subject to partial or total conversion to a time deposit.

On 30 July 2013, the Central Bank of Cyprus in its capacity as Resolution Authority, issued a decision whereby an additional 10% of the uninsured deposits has been converted to equity, revising the total percentage of eligible deposits converted to equity to 47,5%. On 30 July 2013, the Resolution Authority issued Amended Decree No. 2 whereby it required the conversion of the structured products which were in issue, into Class A shares. As a result of the bail-in, the Company issued 3.814.495 thousand new Class A shares of a nominal value €1,00 each. These shares were subsequently converted into 1 ordinary share of a nominal value €0,01 each.

Holders of debt securities as of 29 March 2013
The Bail-in Decrees provided that the subordinated debt and claims of the Company included subordinated debt and claims up to Tier 2 capital, including Tier 1 capital. In this respect, the following securities were included:
- Convertible Bonds 2013/2018 (Note 35)
- Capital Securities 12/2007 (Note 35)
- Convertible Capital Securities (Note 35)
- Convertible Enhanced Capital Securities (Note 37)

According to the Decrees:
- The subordinated debt and claims have been converted to Class D shares at a conversion rate of 1 share of €1,00 nominal amount for each €1,00 of principal amount of such subordinated debt and claims.
- The subordinated debt and claims issued in foreign currency and in particular the Convertible Enhanced Capital Securities issued in US Dollars have been converted to Class D shares with a conversion rate 1 share of €1,00 nominal value for each equivalent of €1,00 principal amount of Convertible Enhanced Capital Securities calculated based on the exchange rate €:$ 1:1,2861 as contained in the reference exchange rates published by the European Central Bank on 26 March 2013.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.5 Recapitalisation of the Company (continued)

Holders of debt securities as of 29 March 2013 (continued)
According to the Amended Decrees No. 2 and 3, the following have been effected:

- Reduction of the nominal value of all Class D shares from €1,00 each to Class D shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital, as a result of the reduction in the nominal value of the issued Class D shares, was utilised for the reduction of accumulated losses of the Company.
- Each Class D share of nominal value of €0,01 was converted to an Ordinary Share of €0,01 each.

As a result of the above, the Convertible Bonds 2013/2018, the Capital Securities 12/2007, the Convertible Capital Securities and the Convertible Enhanced Capital Securities in issue as of 29 March 2013 were converted to 581.941 thousand Class D shares of €1,00 nominal value each. The nominal value of these shares was reduced to €0,01 per share and the reduction was applied for the absorption of losses of the Company. These shares were subsequently consolidated and converted to 5.819 thousand ordinary shares of nominal value €1,00 each.

Holders of ordinary shares as of 29 March 2013
According to the Decree, all shareholder rights in relation to the ordinary shares were suspended from the entry into force of the relevant Decree until the Class D reconversion date.

According to the Amended Decrees No. 2 and 3 the following have been effected:

- Reduction of the nominal value of all ordinary shares from €1,00 each to ordinary shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.

As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17.913 thousand.

Following the conversion of Class A, Class B, Class C and Class D shares to ordinary shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0,01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1,00 each. Any remaining ordinary shares of a nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

All ordinary shares resulting from the above corporate actions comprise the sole class of shares of the Company and each share ranks pari passu and has the same voting and dividend rights with the other ordinary shares.

Issue of shares on acquisition of Laiki Bank
The Resolution Authority, pursuant to Decrees issued, required the Company to issue shares to Laiki Bank equal to 18,056371% of the total issued share capital of the Company, representing consideration for the assets and liabilities acquired by the Group on 29 March 2013. Accordingly, 845.758 thousand ordinary shares of €1,00 nominal value each, were issued to Laiki Bank.

Following the above-mentioned changes in share capital, as well as the issue of shares to Laiki Bank, the issued share capital of the Company as at the date of approval of these financial statements amounts to €4.683.985 thousand divided into 4.683.985 thousand ordinary shares of a nominal value of €1,00 each.

All issued ordinary shares carry the same rights.

Share premium reserve
Pursuant to Bail-in Decrees, the balance of the share premium reserve was reduced to zero and the reduction was applied to write off accumulated losses of the Company.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.5 Recapitalisation of the Company (continued)

Uninsured deposits not converted to equity
In accordance with Amended Decrees No. 2 and 3 and relevant announcement by the Resolution Authority on 30 July 2013, 37,4% of uninsured deposits have been converted into three equal new fixed term deposits with a term of 6, 9 and 12 months. The Company is allowed unilaterally to renew these for a further equal term.

2.6 Exit from resolution

Following the completion of the recapitalisation of the Company, the Central Bank of Cyprus, in its capacity as the Resolution Authority, announced that as of 30 July 2013, the Company was no longer under resolution.

The duties of the Board of Directors were exercised by the members of the interim Board of Directors until the Annual General Meeting of shareholders held on 10 September 2013 when the new Board of Directors was elected.

On 1 August 2013, the Company was reinstated as an eligible counterparty by the ECB for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus, resulted in a reduction in funding from ELA, as the Company has access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is under improved terms, given that the rate for main refinancing operations currently stands at 0,25% per annum.

3. Accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Presentation of financial statements
The consolidated financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 45.

Statement of compliance
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

3.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the accounting policy for the bail-in of uninsured deposits and debt securities which was adopted in the current year (Note 3.2.2) and the adoption of new and amended standards and interpretations (Note 3.2.1) as explained below.

3.2.1 New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements and additional disclosures in the consolidated financial statements. These include IAS 19 Employee Benefits (Revised 2011), IFRS 13 Fair Value Measurement, amendments to IFRS 7 Financial Instruments Disclosures, and amendments to IAS 1 Presentation of Financial Statements.

Several other amendments also apply for the first time in 2013. However, they do not impact the Group financial statements.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.1 New and amended standards and interpretations (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. IFRS 13 applies prospectively.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in Other Comprehensive Income ('OCI'). Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g. net loss or gain on available-for-sale-financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. These amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

The Group applied IAS 19 (Revised 2011) retrospectively in the current year in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated. IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Group include the following:

- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.
- The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

The effect of the adoption of the IAS 19 (Revised 2011) on the Group's financial position, performance and cash flows is disclosed in Note 3.2.3 below. IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 13.

IAS 19 (Revised 2011) has been applied retrospectively, with the following permitted exceptions: sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.1 New and amended standards and interpretations (continued)

IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment did not have a significant impact on the Group's financial position.

3.2.2 Recapitalisation of the Company through a bail-in of uninsured deposits and debt securities

As described in Note 36, during the year the Company has been recapitalised partly through a bail-in of uninsured deposits and conversion of debt securities in accordance with the provisions of the relevant decrees and enforced by the Resolution Authority. Up to the date of this transaction, the Company did not a have an accounting policy with respect to the accounting treatment of such transactions.

In accordance with IFRS (more specifically IAS 39 Financial Instruments: Recognition and Measurement and related interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments), the difference between the carrying amount of a financial liability (uninsured deposits) extinguished and the consideration paid (shares issued in this case), including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Due to the specific conditions under which this transaction took place, i.e. the fact that the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of extinguishment as the discussions and negotiations with the Troika were on-going, the non-availability of up to date financial information as at the date of extinguishment due to the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction. Similarly, the fair value of the deposits and debt securities, due to the same uncertainties described above, cannot be reliably measured either.

The Company has therefore accounted for this transaction by reference to the carrying value of deposits and debt securities extinguished and has set the value of shares issued to equal the carrying amount of the liabilities derecognised.

As a result of the above accounting treatment, no profit or loss arises from this transaction. Had the Group been able to determine a fair value for the shares, any difference would be recognised in profit or loss. Therefore the Group's total equity is unaffected by the way this transaction is accounted for.

3.2.3 Adoption of IAS 19 (Revised 2011) and impact on accounting for employee retirement benefits

In 2012 the Group changed its accounting policy with respect to the recognition of actuarial gains and losses arising from defined benefit plans. As a result, actuarial gains and losses are recognised in full in the period in which they occur, in the consolidated income statement. The change in accounting policy in 2012 conforms with the provisions of the IAS 19 (Revised 2011) and as a result the impact on the Group's financial performance and position from the adoption of the IAS 19 (Revised 2011) in 2013 was not material.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.3 Adoption of IAS 19 (Revised 2011) and impact on accounting for employee retirement benefits (continued)

The following adjustments were made to the financial results and position of the Group for comparative periods:

	2012	2011
Consolidated Income Statement	€000	€000
Loss for the year		
Before the change in accounting policy	(2.223.019)	(1.366.413)
Decrease in staff costs – mainly attributable to replacement of expected return on assets with net interest income/expense	673	382
After the change in accounting policy	**(2.222.346)**	**(1.366.031)**

	2012	2011
Consolidated Statement of OCI	€000	€000
Before the change in accounting policy	123.895	189.595
Impact from remeasurements – expected return on plan assets excluding interest income	(534)	(945)
After the change in accounting policy	**123.361**	**188.650**

	2012	2011
Consolidated Balance Sheet	€000	€000
Other liabilities		
Before the change in accounting policy	339.303	347.697
Increase in net liability of plans	424	563
After the change in accounting policy	**339.727**	**348.260**

3. Accounting policies (continued)

3.3 Standards and Interpretations that are issued but not yet effective

3.3.1 Standards and Interpretations issued by the IASB and adopted by the EU

Up to the date of approval of the consolidated financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IAS 27 Separate Financial Statements (Revised)
The Standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in their separate financial statements. Earlier application is permitted. The Group is in the process of assessing the impact of this amendment on the Company's separate financial statements but no material impact is expected.

IAS 28 Investments in Associates and Joint Ventures (Revised)
The Standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. The adoption of the revised standard is not expected to have a significant impact on the Group's consolidated financial statements.

IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities (amendments). The Group is in the process of assessing the impact of the amendment on its financial position but no material impact is expected.

IFRS 10 Consolidated Financial Statements
The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation—Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is in the process of assessing the impact of the new standard on its financial position but no material impact is expected.

IFRS 11 Joint Arrangements
The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ('JCEs') using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is in the process of assessing the impact of the new standard on its financial position but no material impact is expected.

3. Accounting policies (continued)

3.3 Standards and Interpretations that are issued but not yet effective (continued)

3.3.1 Standards and Interpretations issued by the IASB and adopted by the EU (continued)

IFRS 12 Disclosures of Involvement with Other Entities

The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 and related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is in the process of assessing the impact of the new standard on the presentation of its financial statements.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28 and the consequential amendments, at the latest, as from the commencement of its first financial year beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. The Group will implement the interim guidance with the implementation of the affected standards.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of businesses that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. The Group is in the process of assessing the impact of the amendment on its financial position.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB has amended IAS 36 to require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The IASB has also amended IAS 36 to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. Moreover, the amendments issued in this document incorporate an amendment proposed by the Exposure Draft for Annual Improvements to IFRSs 2010–2012 Cycle, published in May 2012, to require an entity to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. The intention behind that amendment is to harmonise the disclosure requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The Group is in the process of assessing the impact of the amendment on the presentation of its financial statements.

3. Accounting policies (continued)

3.3 Standards and Interpretations that are issued but not yet effective (continued)

3.3.1 Standards and Interpretations issued by the IASB and adopted by the EU (continued)

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when, as a consequence of laws or regulations or their introduction, an entity changes the immediate counterparty of a hedging instrument to achieve clearing with a central counterparty. The amendment covers novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. The relief does not apply to all novations. The forthcoming hedge accounting requirements of IFRS 9 will include a similar relief. The Group is in the process of assessing the impact of this amendment on its results and financial position but no material impact is expected.

3.3.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU

IFRS 9 Financial Instruments
The new standard is effective for annual periods beginning on or after 1 January 2018. IFRS 9, as issued reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The Group is currently assessing the impact of adopting IFRS 9, which is expected to have a significant effect on the classification and measurement of the Group's financial assets, the recognition of impairment and hedge accounting. However, the impact of adoption depends on the assets and liabilities of the Group at the date of adoption, and it is therefore not practical to quantify the effect.

IFRIC Interpretation 21 Levies
The interpretation is effective for annual periods beginning on or after 1 January 2014. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Early application is permitted. Retrospective application is required. The Group is in the process of assessing the impact of the interpretation on its results and financial position.

IFRS 14 Regulatory Deferral Accounts
The new standard is effective for annual periods beginning on or after 1 January 2016. IFRS 14 allows rate-regulated entities to continue recognising regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The Group is in the process of assessing the impact of the amendment on its results and financial position.

IAS 19 Defined Benefit Plans: Employee Contributions (Amendments)
The amendment is effective for annual periods beginning on or after 1 July 2014. The pronouncement amends IAS 19 Employee Benefits (2011) to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contribution, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. The Group is in the process of assessing the impact of the amendment on its results and financial position.

3. Accounting policies (continued)

3.3 Standards and Interpretations that are issued but not yet effective (continued)

3.3.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU (continued)

Annual Improvements to IFRSs 2010–2012 Cycle (effective for annual periods beginning on or after 1 July 2014)

The issues included in this cycle are:

- IFRS 2: Definition of 'vesting condition'
- IFRS 3: Accounting for contingent consideration in a business combination
- IFRS 8: Aggregation of operating segments
- IFRS 8: Reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 13: Short-term receivables and payables
- IAS 7: Interest paid that is capitalised
- IAS 16/IAS 38: Revaluation method—proportionate restatement of accumulated depreciation
- IAS 24: Key management personnel

Annual Improvements to IFRSs 2011–2013 Cycle (effective for annual periods beginning on or after 1 July 2014)

The issues included in this cycle are:

- IFRS 1: Meaning of effective IFRSs
- IFRS 3: Scope exceptions for joint ventures
- IFRS 13: Scope of paragraph 52 (portfolio exception)
- IAS 40: Clarifying the interrelationship of IFRS 3 *Business Combinations* and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

3.4 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the year ended 31 December. The financial statements of the subsidiaries (including special purpose entities that the Group consolidates) are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

All intra-group balances and transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating strategies of an entity so as to benefit from its activities. Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, respectively.

The Group promotes/sponsors the formation of special purpose entities (‘SPEs’), primarily for the purpose of asset securitisation transactions and to accomplish certain narrow and well defined objectives. The Group consolidates these SPEs if the substance of its relationship with them indicates that it has control over them.

3. Accounting policies (continued)

3.4 Basis of consolidation (continued)

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The losses of a subsidiary are allocated to non-controlling interests even if this will result in a negative balance. The non-controlling interests are presented separately in the consolidated income statement and within equity, separately from the Company owners' equity.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises or any gain/loss is recognised in the income statement from such transactions. The exchange differences which relate to the share of non-controlling interests being sold are reclassified from the foreign currency reserve to non-controlling interests.

Put/call option arrangements on non-controlling interest
As part of business combinations, the Group may enter into arrangements to acquire the shares held by the non-controlling interest in a subsidiary through put/call option arrangements, whereby a non-controlling interest holder can sell its shares to the Group at a predetermined price (put option) and the Group can buy the non-controlling interest at the same predetermined price (call option).

Such a put/call option arrangement is accounted for in the consolidated financial statements as a liability. This results in accounting as if the Group has already acquired the shares subject to such arrangements. Therefore, no non-controlling interest is recognised for reporting purposes in relation to the shares that are subject to such an arrangement. The liability is measured at fair value, using valuation techniques based on best estimates available to management. Any difference between the fair value of the liability and the legal non-controlling interest's share of net assets is recognised as part of goodwill. Subsequent changes to the valuation of the liability, other than foreign currency translation and the time value of money, are recorded as changes to the liability and goodwill, without any direct impact on the consolidated income statement.

3.5 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. Acquisition related costs are expensed as incurred and included in administrative expenses.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Contingent consideration
When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. Accounting policies (continued)

3.5 Business combinations (continued)

Contingent consideration (continued)
The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured and subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is subsequently remeasured in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognised in the income statement.

Provisional accounting
If the initial accounting for a business combination is incomplete at the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Such provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets and liabilities are recognised to reflect the new information obtained about facts and circumstances that existed at the acquisition date that if known, would have affected the amounts recognised as at that date.

3.6 Investments in associates

In the consolidated financial statements, the Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Using the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the profit or loss outside operative profit and represent profit or loss after tax. The Group recognises its share of any changes in the equity of the associate through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of the associate are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates.

3.7 Interest in joint ventures

In the consolidated financial statements, the Group recognises its interest in joint ventures using proportionate consolidation. The financial statements of the joint venture entities are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

3.8 Foreign currency translation

The consolidated financial statements are presented in Euros (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

3. Accounting policies (continued)

3.8 Foreign currency translation (continued)

3.8.1 Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 'Net Foreign exchange gains' in the consolidated income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in subsidiaries and overseas branches. These differences are recognised in other comprehensive income in the 'Foreign currency translation reserve' until the disposal of the net investment, at which time the cumulative amount is reclassified in profit or loss in the consolidated income statement.

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value is determined.

3.8.2 Subsidiary companies and branches

At the reporting date, the assets and liabilities of subsidiaries (including special purpose entities that the Group consolidates) and branches whose functional currency is other than the Group's presentation currency are translated into the Group's presentation currency at the rate of exchange ruling at the reporting date, and their income statements are translated using the average exchange rates for the year. Any goodwill arising on the acquisition of branches and subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the branches and subsidiaries and translated at the exchange rate ruling on the reporting date.

Exchange differences arising on translation are recognised in other comprehensive income in the 'Foreign currency translation reserve'. On disposal of a subsidiary or branch, the cumulative amount of the exchange differences relating to that particular overseas operation, is reclassified in profit or loss in the consolidated income statement as part of the profit or loss on disposal.

3.9 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group of persons that allocate resources to and assess the performance of the operating segments.

The chief operating decision-maker is the Chief Executive Officer.

3.10 Discontinued Operations

The Group presents discontinued operations in a separate line in the consolidated income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale. Net profit from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax) and discontinued operations tax expense.

3.11 Turnover

Group turnover comprises interest income, fee and commission income, foreign exchange gains, gross insurance premiums, turnover of property and hotel business and other income.

3. Accounting policies (continued)

3.12 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

3.12.1 Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate a shorter period, to the carrying amount of the financial instruments. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.12.2 Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised using the effective interest rate method as part of interest income.

3.12.3 Dividend income

Dividend income is recognised in the consolidated income statement when the Group's right to receive payment is established.

3.12.4 Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

3.12.5 Income from the disposal of property held for sale

Gains on disposal of property held for sale are recognised in the consolidated income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

3.13 Retirement benefits

The Group operates several defined contribution and defined benefit retirement plans. As of 1 January 2012, the main defined benefit plan in Cyprus was terminated and has been replaced by a defined contribution plan (refer to Note 13).

The cost of providing benefits for defined benefit plans is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), reduced by the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a funded plan or qualifying insurance policies. Any net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

The net charge to the income statement mainly comprises the service costs and the net interest on the net defined benefit liability, and is presented in staff costs. Service costs comprises current service costs, past-service costs, gains and losses or curtailments and non-routine settlements. Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest), and the return on plan assets (excluding net interest), are recognised immediately on the balance sheet with a corresponding debit or credit in other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

3. Accounting policies (continued)

3.13 Retirement benefits (continued)

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

The cost of providing benefits under defined contribution and early retirement plans is recognised as an expense in the consolidated income statement as the employees render the service.

3.14 Share-based payments

Employees (including executive directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments such as shares or options to buy shares of the Company (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which the award is granted. The fair value is determined using appropriate valuation models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in retained earnings within equity, over the period in which the performance and/or service conditions are fulfilled. The total cost recognised at each reporting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for a period is included in 'Staff costs' and represents the movement in the cumulative cost recognised as at the beginning and end of that period.

No cost is recognised for benefits which do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

3.15 Tax

Tax on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method. Current income tax and deferred tax relating to items recognised directly in equity is recognised directly in equity.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the reporting date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Accounting policies (continued)

3.15 Tax (continued)

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extend that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the reporting date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

3.16 Financial instruments

3.16.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis. 'Balances with central banks', 'Obligations to central banks and amounts due to banks', 'Customer deposits', 'Placements with banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers.

3.16.2 Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

3.16.3 Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Net Foreign exchange gains' in the case of currency derivatives and in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the case of all other derivatives. Interest income and expense are included in the corresponding captions in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement.

3.16.4 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Revaluations are recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement. Interest income and expense is included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

3. Accounting policies (continued)

3.16 Financial instruments (continued)

3.16.5 Other financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting, as well as unlisted equities which are managed on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the consolidated balance sheet at fair value. Changes in fair value are recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement. Interest income and expense are included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

3.16.6 Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives' in discontinued operations. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for accordingly.

3.16.7 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading investments', 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the captions 'Placements with banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables in the balance sheet'. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances', in case of loans and advances to customers, in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives' in discontinued operations in the case of Greek Government Bonds classified as loans and receivables and in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the case of other investments classified as loans and receivables.

Renegotiated loans
A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

3. Accounting policies (continued)

3.16 Financial instruments (continued)

3.16.7 Loans and receivables (continued)

Renegotiated loans (continued)
Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes. Loans subject to collective impairment assessment whose terms have been renegotiated are taken into account in determining the inputs for collective impairment calculation. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification in accordance with the rules of the relevant Directive of the Central Bank of Cyprus.

3.16.8 Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in other comprehensive income in the 'Available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal of subsidiaries' and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded in 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal of subsidiaries' and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

3.16.9 Subordinated loan stock and debt securities in issue

Subordinated loan stock and debt securities in issue are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Company has the right to redeem the subordinated loan stock and the debt securities in issue.

Debt instruments issued by the Company and held by the Group are treated as redemptions. Gains or losses on redemption are recognised if the repurchase price of the debt instrument was different from its carrying value at the date of repurchase. Subsequent sales of own debt instruments in the market are treated as debt re-issuance.

Interest on subordinated loan stock and debt securities in issue is included in 'Interest expense' in the consolidated income statement.

3. Accounting policies (continued)

3.16 Financial instruments (continued)

3.16.10 Convertible bonds

On issuance of compound financial instruments that contain both liability and equity elements, these are accounted for separately, as financial liabilities and equity respectively.

When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. No gain or loss arises from initially recognising the components of the instrument separately.

The liability component is subsequently measured at amortised cost using the effective interest rate method in order to amortise the difference between the nominal value and the carrying value at inception until it is extinguished on conversion or redemption. The equity component is not subsequently remeasured.

3.16.11 Convertible Enhanced Capital Securities (CECS)

The CECS were perpetual financial instruments issued by the Company. These instruments were classified as equity instruments as they did not include a contractual obligation for the Company to deliver cash or another financial asset to the holders and were redeemable/convertible at the discretion of the Company. In 2013 the CECS were converted into equity as part of the recapitalistion of the Company (Note 2.5).

3.16.12 Other financial liabilities at amortised cost

Other financial liabilities include 'Customer deposits', 'Amounts due to banks' and 'Funding from central banks'.

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers, funding from Central banks and due to banks is at amortised cost, using the effective interest rate method.

3.17 Derecognition of financial assets and financial liabilities

3.17.1 Financial assets

A financial asset is derecognised when: (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Group has transferred its contractual rights to receive cash flows from the asset or (c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.17.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

3. Accounting policies (continued)

3.18 Impairment of financial assets

3.18.1 Loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults. There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due, according to the original contract terms.

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

Provisions for impairment of loans are determined using the 'incurred loss' model as required by IFRS, which require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those events be.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the consolidated income statement.

3. Accounting policies (continued)

3.18 Impairment of financial assets (continued)

3.18.2 Investments classified as held-to-maturity and loans and receivables

For held-to-maturity investments and loans and receivables investments, the Group assesses at each reporting date whether there is objective evidence of impairment. 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 not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

3.18.3 Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each reporting date.

In the case of equity securities classified as available-for-sale, objective evidence would include a significant decrease which is considered to be a loss of 25% or more, except in the cases of investment companies, where higher limits are set, or prolonged decrease, for a period of 12 months, in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is deducted from the 'Revaluation reserve of available-for-sale investments' in OCI and recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement. Impairment losses on equity securities are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised in the 'Revaluation of available-for-sale investments' in OCI.

In the case of debt securities classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in the case of Greek Government Bonds in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

3.19 Hedge accounting

The Group uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks and in the case of the hedge of net investments, the Group uses non-derivative financial liabilities. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness both at the inception and an ongoing basis, of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship and at each hedge effectiveness assessment date, a formal assessment is undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

3. Accounting policies (continued)

3.19 Hedge accounting (continued)

3.19.1 Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal of subsidiaries'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal of subsidiaries'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the income statement, over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

3.19.2 Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the consolidated income statement.

3.19.3 Hedges of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while gains or losses relating to the ineffective portion are recognised in 'Net foreign exchange gains' in the consolidated income statement.

On disposal of an overseas branch or subsidiary, the cumulative gains or losses recognised in other comprehensive income are in 'Net foreign exchange gains' in the consolidated income statement.

3.20 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.21 Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition.

3.22 Insurance business

The Group undertakes both life insurance and general insurance business and issues insurance and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Investment contracts are those contracts that transfer financial risk.

Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all of the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

3. Accounting policies (continued)

3.22 Insurance business (continued)

3.22.1 Life insurance business

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

3.22.2 Life insurance in-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the reporting date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

3.22.3 General insurance business

Premiums are recognised in the consolidated income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the reporting date are deferred to subsequent reporting periods.

An increase in liabilities arising from claims is made for the estimated cost of claims notified but not settled and claims incurred but not notified at the reporting date. The increase in liabilities for the cost of claims notified but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the increase in liabilities for claims incurred but not notified at the reporting date.

3.22.4 Investment contracts

The Group offers deposit administration funds which provide a guaranteed investment return on members' contributions. Policies are written to employees of companies, which define the benefits to be received. Any shortfalls are covered by the companies which employ the staff being insured. The Group has no liability for any actuarial deficit.

3.22.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the consolidated income statement.

3.23 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase ('repos') at a specific future date are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Repos outstanding at the reporting date relate to agreements with financial institutions. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its balance sheet to 'Investments pledged as collateral'.

3. Accounting policies (continued)

3.23 Repurchase and reverse repurchase agreements (continued)

Securities purchased under agreements to resell ('reverse repos') at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. Reverse repos outstanding at the reporting date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

3.24 Finance leases – The Group as lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the consolidated income statement.

3.25 Operating leases – The Group as lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term in 'Other operating expenses'.

3.26 Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, depending on the property, by independent qualified valuers applying a valuation model recommended by the International Valuation Standard. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Gain or losses from revaluations are recognised in other comprehensive income in 'Property Revaluation'. The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment properties'. Useful lives are in the range of 30 to 67 years. Freehold land is not depreciated. On disposal of freehold land and buildings, the relevant 'Revaluation reserve' balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 3 to 5 years or over the period of the lease if this does not exceed 5 years.

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 3 to 10 years.

At the reporting date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

3. Accounting policies (continued)

3.27 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in 'Other income/expenses' in the consolidated income statement. Valuations are carried out by independent qualified valuers or by the internal qualified valuers of the Company applying a valuation model recommended by the International Valuation Standards.

The Group in its normal course of business acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties. These properties are recognised in the Group's consolidated financial statements as investment properties, reflecting the substance of these transactions.

3.28 Stock of property held for sale

Stock of property held for sale is measured at the lower of cost or net realisable value.

3.29 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use.

The condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' such as deferred taxes, financial instruments, investment properties measured at fair value, insurance contracts and assets and liabilities arising from employee benefits. These are measured in accordance with the Group's relevant accounting policies described else where in this note.

Immediately before the initial classification as held for sale, the carrying amount of the asset (or assets and liabilities in the disposal group) is measured in accordance with applicable IFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of IFRS 5 are remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is determined.

If fair value less costs to sell for the disposal group is below the aggregate carrying amount of all of the assets and liabilities included in the disposal group, the disposal group is written down. The impairment loss is recognised in profit or loss for the period. Where an impairment loss is recognised (or reversed) for a disposal group, it is allocated between the scoped-in non–current assets using the order of allocation set out in IAS 36 and no element of the adjustment is allocated to the other assets and liabilities of the disposal group. In case that the carrying amount of scoped-in non-current assets is less than the amount by which a disposal group's carrying amount exceeds its fair value less costs to sell, the excess is not recognised.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

3. Accounting policies (continued)

3.30 Goodwill and other intangible assets

Goodwill represents the excess of the cost of the acquisition over the net fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment annually as at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Other intangible assets include computer software, licence fees, brands, acquired insurance portfolio customer lists and customer relationships acquired as part of business combinations. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for license fees, 7 to 10 years for customer relationships, 8 years for brands and 3 to 5 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 3.22.1.

Intangible assets other than goodwill are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

3.31 Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

3.32 Treasury shares

Own equity instruments which are acquired by the Company or by any of its subsidiaries are presented as treasury shares at their acquisition cost. Treasury shares are deducted from equity until they are cancelled or reissued.

3.33 Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

3.34 Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated income statement in 'Provisions for impairment of loans and advances'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the consolidated income statement when the guarantee is fulfilled, cancelled or expired.

3.35 Comparative information

Comparatives have been re-presented to reflect the reclassification of the Greek operations disposed during the year, from continuing to discontinued operations. In addition, comparatives have been adjusted to reflect the change in accounting policy for employee retirement benefits. The impact on loss after tax and equity of the Group is set out in Note 3.2.3.

4. Significant judgements, estimates and assumptions

The preparation of the consolidated financial statements requires the Company's Board of Directors and management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the consolidated financial statements and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

4.1 Going concern

The Board of Directors has made an assessment of the Company's and Group's ability to continue as a going concern.

The conditions that existed during the year ended 31 December 2013 that have been considered in management's going concern assessment, include amongst others, the following:

4.1.1 Restructuring Plan

The Group has prepared a Restructuring Plan ('Plan') which has been approved by the CBC in November 2013. The Restructuring Plan defines the Group's strategy, business model and risk appetite.

The Plan defines the strategic objectives and actions the Group should take to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy by:
- Rebuilding trust and confidence of both depositors and investors.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating the operations of ex Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

The Plan aims to enable the Group to overcome its current difficulties and gradually normalise its performance. The Plan sets specific medium-term financial targets that prioritise the stability and viability of the Group. One of the more important targets is the compliance with the minimum capital adequacy requirements set forth by the CBC, with Core Tier 1 remaining above the CBC's target of 9% throughout the Restructuring Plan period. The Group considers the achievement of a superior Core Tier 1 capital ratio as a more important target than profitability, shielding the Group from further shocks and eventually enabling the Group's credit rating to improve, facilitating access to capital markets for funding in the medium term.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.2 Macroeconomic environment in Cyprus

As the Company is the largest financial institution in Cyprus and given its very high credit exposure to the Cypriot businesses and households, the Company's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus.

Although the economic situation remains challenging, the economic recession has been less pronounced than expected and the economy is proving relatively resilient. Real GDP contracted by 5,4% in 2013. The actual decline in real GDP in 2013 is some three percentage points lower than initial estimates for an 8,7% contraction. The better than anticipated performance of the economy reflects a number of self-reinforcing factors that reveal important underlying strengths. Some sectors, particularly tourism and business services, proved more resilient. Private consumption also proved more resilient reflecting smoothing effects and the drawing down of past savings. Unemployment has, however, risen to 17% in the fourth quarter of the year. Wages and prices dropped significantly in the year thus supporting a higher employment level than would otherwise be possible. Going forward, the Troika expects the economy to contract by about 4,8% in 2014 and to recover gradually starting in 2015, driven by non-financial services.

The Troika has recently concluded the third quarterly review of Cyprus' economic programme. The Troika has commented that the Cyprus programme is on track. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution, and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector, with the sector showing signs of stabilisation. This has allowed further relaxation of payment restrictions, in line with the government's milestone-based roadmap.

4.1.3 Regulatory capital ratios

During the year ended 31 December 2013, the Group has suffered significant losses due to the disposal of its Greek operations and significant provisions for impairment of loans and advances.

As part of the agreement reached between the Troika and the Cyprus government in March 2013, the Group was recapitalised through a bail-in of uninsured depositors (a deposit-to-equity conversion) which was completed in July 2013 and the absorption of accumulated losses by the holders of ordinary shares and debt securities as of 29 March 2013. The Group, as also confirmed by the Resolution Authority, has been capitalised to a level which can sustain expected losses on its loans portfolio.

The Core Tier 1 ratio of the Group at 31 December 2013 stands at 10,2%. Going forward, the Group aims to preserve its capital adequacy by retaining internally generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC will set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

Following its recapitalisation, the Group is in compliance with the minimum requirement for Core Tier 1 ratio.

During the year and up to 30 December 2013, the Company was not in compliance with the minimum requirement for total capital ratio. However this requirement has been abolished, effective from 31 December 2013.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.4 Liquidity

The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding. The transfer of certain operations of Laiki Bank to the Group resulted in an amount of €9 billion of ELA funding at the acquisition date to be transferred to the Group.

Since August 2013, the Company has been reinstated by the ECB as an eligible counterparty for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus resulted in a reduction in funding from ELA, as the Company has access to funding from the ECB under monetary policy operations. Furthermore, ECB funding is provided at a lower rate than the rate for borrowing from ELA.

The level of central bank funding (ELA and ECB funding) of the Group as at 31 December 2013 amounts to €10,96 billion, comprising €1,40 billion of ECB funding and €9,56 billion of ELA funding.

Although the Group has received no specific guarantees, the Board of Directors expects that the Group will continue to have access to the central bank liquidity facilities in line with applicable rules. In this respect, the House of Representatives has approved on 27 January 2014 the issuance of additional government guarantees of up to €2,9 billion as contingency collateral in case of need.

The Cypriot authorities in March 2013 have introduced certain temporary restrictive measures and capital controls with respect to banking and cash transactions. These measures are allowing the Group some headroom to deal with the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals and capital movements.

Following the third quarterly review in February 2014, the Troika has stated that 'with key milestones in the authorities' roadmap now completed, payment restrictions will need to continue to be relaxed in line with the published milestone-based roadmap, while safeguarding financial stability'.

With key milestones in the authorities' roadmap now completed, the second phase of gradual relaxations of restrictions is expected to start shortly.

4.1.5 Exposure to Greece

The sale of the Group's banking and leasing operations in Greece to Piraeus Bank in March 2013, in line with the provisions of the Cyprus–Eurogroup agreement, largely eliminated the Group's exposure to the prevailing uncertainties of the Greek economy.

As a result, the Group does not expect any material impact on its capital or liquidity position from continued adverse economic conditions or any further deterioration of the economic environment in Greece.

4.1.6 Litigation and claims

The Board and management have also considered the impact of litigation and claims against the Group relating mainly to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Group has obtained legal advice in respect of these claims.

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the Board and management consider that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.7 Profitability

The challenging macroeconomic environment in Cyprus is affecting the Group's profitability. Cyprus is expected to continue to be in recession during 2014, with moderate real GDP growth driven by non-financial services and a decline in unemployment levels expected for 2015. Borrowers are expected to continue facing challenges, while property prices may fall even further.

The Group's strategy is to address these challenges through the set up of independent, centralised and specialised delinquency and recovery units and a special projects division to manage large exposures, through which the Group aims to proactively and efficiently manage delinquencies and problem loan recoveries in order to contain the increase of problem loans and provisions for impairment expected to arise from the ongoing economic slowdown. As part of the group's new organisational structure, the Restructuring and Recoveries Division aims to manage arrears across all portfolios. The Division handles all activity relating to exposures greater than €100.000 thousand, debt restructuring and debt collection and recovery of non-performing loans across all customer segments. The creation of this Division is a major step in the Group's recovery path, as swiftly and professionally addressing problem lending is absolutely critical.

4.1.8 ECB Comprehensive Assessment

The Group is one of the institutions participating in the ECB's Asset Quality Review, run as part of the ECB's comprehensive assessment prior to inception of the Single Supervisory Mechanism. As a result, it will also be subject to the ECB's stress testing process. This comprehensive assessment aims to enhance the transparency of the balance sheets of significant banks in the Euro area, and in so doing, to trigger balance sheet repair where necessary, as well as to strengthen confidence. Disclosure of the results of these exercises are planned in late 2014.

4.1.9 Uncertainties

The Company's management and Board of Directors believe that the Group is taking all the necessary measures to maintain its viability and the development of its business in the current economic environment.

However, the ability of the Group to continue as a going concern is dependent on:
- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario which formed the basis of its preparation.
- The period over which the restrictive measures and capital controls are in place.
- The continuing reliance on and availability of the central bank liquidity facilities.
- The actual outcome of litigation and claims mainly relating to the bail-in of deposits and the absorption of losses by the holders of equity and debt instruments of the Company.
- The outcome of the ECB's comprehensive assessment, which may reveal additional capital requirements for the Group.

4.1.10 Going concern assessment

The Company's management and Board of Directors, taking into consideration the above factors and the measures taken to support the Cyprus economy and the realised and planned actions as detailed in its Restructuring Plan, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:
- The Group has been successfully recapitalised.
- The Troika is expected to continue to provide the required financial support to Cyprus as per the MoU.
- The implementation of additional actions as per the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Cyprus government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the Cyprus government will maintain certain temporary restrictive measures and capital controls with respect to banking and cash transactions for as long as required to ensure the stability of the Cyprus banking system.

Notwithstanding this assessment and the conclusion reached, the Board considers that material uncertainties remain that may cast significant doubt upon the Company's ability to continue as a going concern.

4. Significant judgements, estimates and assumptions (continued)

4.2 Provision for impairment of loans and advances to customers

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and the calculation of the impairment allowance involves the use of judgement. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ. A very important factor for the estimation of provisions is the timing and net recoverable amount from foreclosure of collaterals which mainly comprise land and buildings.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral.

For example, it has been assumed that where the most recent valuation took place more than 9 months ago then an indexation factor was used to reach open market values. The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by Recoveries Division for more than 2 years, and 4 years for customers that have been managed by Recoveries Division for less than 2 years. For all other loans the period is 5 years immediately after their classification into non-performing loans.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. Further information on impairment allowances and related credit information is set out in Note 46.

4. Significant judgements, estimates and assumptions (continued)

4.2 Provision for impairment of loans and advances to customers (continued)

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. The Group adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information for probabilities of default and loss rates is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

The total amount of the Group's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas. Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's loan impairment provisions as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

4.3 Fair value of investments

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group only uses models with unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further information on fair value of assets and liabilities is disclosed in Note 22.

4. Significant judgements, estimates and assumptions (continued)

4.4 Impairment of available-for-sale investments

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The Group's policy in place requires that a review for potential impairment is carried out for individual debt securities when their fair value at the reporting date falls below 90% of the instrument's amortised cost. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgement.

4.5 Reclassification of financial assets

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 'Reclassification of Financial Assets' which were approved by the IASB and endorsed by the EU in October 2008, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified, there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications. Refer to Note 20 for further information on the assets reclassified by the Group.

Management judgement and assumptions are required to determine whether an active market exists in order for a financial asset to meet the definition of loans and receivables. Management judgement and assumptions are also required to estimate the fair value of the financial assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in the highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgement. Financial assets proposed for reclassification need to be approved by the Group Assets and Liabilities Committee (ALCO) based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold the asset. In addition to the above, management judgement is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

4.6 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Group's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Group's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

4. Significant judgements, estimates and assumptions (continued)

4.7 General insurance business

The Group is engaged in the provision of general insurance services. Risks under these policies usually cover a period of 12 months.

The case liabilities for outstanding claims arising from insurance contracts issued by the Group are calculated based on case estimates by loss adjusters and facts known at the reporting date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends, and take into consideration claims handling costs. Other external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are also taken into consideration.

Provision is also made for claims incurred but not reported ('IBNR') by the reporting date. Past experience as to the number and amount of claims reported after the reporting date is taken into consideration in estimating the IBNR provision.

Insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of certain court cases, are very difficult to quantify. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty existing at the reporting date.

4.8 Life insurance business

The Group is engaged in the provision of life insurance services. Whole life insurance plans (life plans) relate to plans associated with assets where the amount payable in the case of death is the greater of the sum insured and the value of investment units. Simple insurance or temporary term plans (term plans) relate to fixed term duration plans for protection against death. In case of death within the coverage period, the insured sum will be paid. Endowment insurance (investment plans/mortgage plans/horizon plans) refer to specific duration plans linked to investments, to create capital through systematic investment in association with death insurance coverage whereby the higher of the sum insured and the value of investment units is payable on death within the contract term.

4.8.1 Value of in-force business

The value of in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets. The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 31 December 2013 are set out in Note 27.

4.8.2 Insurance liabilities

The calculation of liabilities and the choice of assumptions regarding insurance contracts require the management of the Group to make significant estimates.

The assumptions underlying the estimates for each claim are based on past experience, internal factors and conditions, as well as external factors which reflect current market prices and other published information. The assumptions and judgements are determined at the date of valuation of liabilities and are assessed systematically so that the reliability and realistic position can be ensured.

Estimates for insurance contracts are made in two stages. Initially, at the start of the contract, the Group determines the assumptions regarding future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, at each reporting date, an actuarial valuation is performed which assesses whether liabilities are adequate according to the most recent estimates.

4. Significant judgements, estimates and assumptions (continued)

4.8 Life insurance business (continued)

4.8.2 Insurance liabilities (continued)

The assumptions with the greatest influence on the valuation of insurance liabilities are presented below:

Mortality and morbidity rates
Assumptions are based on standard national tables of mortality and morbidity, according to the type of contract. In addition, a study is performed based on the actual experience (actual deaths) of the insurance company for comparison purposes and if sufficient evidence exists which is statistically reliable, the results are incorporated in these tables. An increase in mortality rates will lead to a larger number of claims (or claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for shareholders.

Investment return and discount rate
The weighted average rate of return is derived based on assets that are assumed to back liabilities, consistent with the long-term investment strategy of the Group. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment returns would lead to an increase in profits for shareholders.

Management expenses
Management expense assumptions are provided for management fees and contract maintenance as well as for general expenses, and are based on the actual costs of the Group. An assumption is also made for the rate of increase in expenses in relation to the annual inflation rate. An increase in the level of expenses would reduce profits for shareholders.

Lapses
Each year an analysis of contract termination rates is performed, using actual data from the insurance company incorporation until the immediate preceding year. Rates vary according to the type and duration of the plan. According to the insurance legislation of Cyprus, no assumption is made for policy termination rates in the actuarial valuation.

4.9 Tax

The Group operates and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets. Further details on taxes are disclosed in Note 17.

4.10 Consolidation of special purpose entities

The Group sponsors the formation of special purpose entities ('SPEs') for various purposes including asset securitisation, which may or may not be directly or indirectly owned subsidiaries. The Group consolidates those SPEs that it controls. In determining whether the Group controls an SPE, judgements are made about the Group's exposure to the risks and rewards related to the SPE and about its ability to make operational decisions for the SPE in question.

4. Significant judgements, estimates and assumptions (continued)

4.11 Fair value of properties held for own use and investment properties

The Group's accounting policy for property held for own use as well as for investment property requires that it is measured at fair value. In the case of property held for own use valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties the valuation is performed on an annual basis. Valuations are carried out by qualified valuers by applying a valuation model recommended by the International Valuation Standards.

Depending on the nature of the underlying asset and available market information, the determination of the fair value of property and investment property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets including the main markets in which the Group retains real estate properties, Cyprus and Greece.

Since the acceleration of the economic crisis in Cyprus in 2010, transaction activity in both commercial and residential properties has recorded a significant decrease and according to local published indices, prices have declined by approximately 15% to 35% since 2011 (depending on the location and type of property). Forced sales activity is expected to accelerate as a result of pressures on the banks to enforce security on property collaterals. The high prevailing uncertainty over the economic developments in Cyprus and the financial and property sectors in particular make forecasts of the future developments in the real estate market extremely difficult.

In arriving at their estimates of market values as at 31 December 2013, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market, in estimating the market values of property. Further information on inputs used is disclosed in Note 22.

4.12 Impairment of goodwill

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimates, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors mentioned below.

Impairment testing in respect of goodwill is performed by comparing the recoverable amount of Cash-Generating Units ('CGUs') of the acquired entities based on a value in use calculation. The calculation of value in use uses cash flow estimates based on management's projections, extrapolated in perpetuity using a nominal long-term growth rate based among others on the current market assessment of GDP, inflation and foreign exchange rates as well as specific sector penetration for the countries within which each acquired entity operates. Cash flows are extrapolated in perpetuity in line with the long-term perspective of the Group for these businesses. The value in use can be significantly different to the fair value less costs to sell of each CGU due to the different assumptions inherent in each valuation methodology.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the CGU's estimated fair value is reduced. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, an impairment of goodwill will be recorded.

Significant management judgement is required in calculating value in use and in estimating the future cash flows of the CGUs of the acquired entities. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

4. Significant judgements, estimates and assumptions (continued)

4.12 Impairment of goodwill (continued)

Additionally, the cost of capital assigned to each acquired entity and used to discount its future cash flows, can have a significant effect on the entity's valuation. The cost of capital is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned, a premium to reflect the inherent risk of the business being evaluated and foreign exchange rates. Some of these variables are established on the basis of significant management judgement and are subject to uncertainty.

During 2012, the Group fully impaired goodwill. The key assumptions used to determine the recoverable amount for the different CGUs including a sensitivity analysis are disclosed and further explained in Note 27.

4.13 Provisions

The accounting policy for provisions is described in Note 3. Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims or regulatory matters require a higher degree of judgement than other types of provisions. For a detailed description of the nature of uncertainties and assumptions and the effect on amount and timing of pending litigation and claims refer to Note 41.

5. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit. On 26 March 2013 through a Decree issued by the Resolution Authority, the Group disposed off the loans, property and equipment, intangible assets and deposits of its banking and leasing operations in Greece to Piraeus Bank. As a result, the majority of the Greek operations which represented the Group's banking and leasing activities are presented as discontinued. The remaining operations in Greece which have not been sold to Piraeus Bank are presented within 'Other countries' due to their size.

The Group's activities in the United Kingdom, Romania and Ukraine are separate operating segments for which information is provided to management but, due to their size, have been aggregated for disclosure purposes into one segment, namely 'Other countries'.

The Group's activities in Cyprus include the provision of banking, financial and insurance services as well as property and hotel business. The Group's activities in Greece following the disposal of operations to Piraeus Bank include the provision of financial and insurance services as well as management of investment property. In the other countries, the Group provides only banking services.

Group management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis.

Operating segment disclosures are provided as presented to the Chief Executive Officer. Each segment's capital and the related interest income and expense are adjusted in order to be on the same basis as a percentage of the segment's risk weighted assets, as calculated for capital adequacy purposes in accordance with the relevant regulations of the CBC. The results of each segment are also adjusted to reflect the liquidity surplus/shortfall of each segment. The Group's total loss as presented in the consolidated income statement is not affected by the above adjustments.

The loans and advances to customers, the customer deposits and the related income and expense are generally included in the segment where the business is originated, instead of the segment where the transaction is recorded.

5. **Segmental analysis** (continued)

	Cyprus	Russia	Other countries	**Total continuing operations**	**Discontinued operations**
2013	€000	€000	€000	**€000**	**€000**
Net interest income	842.318	96.968	60.145	**999.431**	**46.279**
Net fee and commission income	131.918	27.508	9.393	**168.819**	**11.217**
Net foreign exchange gains/(losses)	6.611	4.153	(15.912)	**(5.148)**	**(14.667)**
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	14.726	-	(4.137)	**10.589**	**5.411**
Insurance income net of claims and commissions	57.375	-	7.581	**64.956**	**-**
Other expenses	(19.249)	(243)	(44.790)	**(64.282)**	**(2.070)**
	1.033.699	128.386	12.280	**1.174.365**	**46.170**
Staff costs	(247.309)	(51.286)	(23.613)	**(322.208)**	**(22.241)**
Other operating expenses	(146.925)	(49.894)	(33.636)	**(230.455)**	**(55.001)**
Restructuring costs (Note 13 and 14)	(156.808)	(172)	(771)	**(157.751)**	**-**
Impairment of assets held for sale (Note 54.9)	-	-	(9.579)	**(9.579)**	**-**
Profit/(loss) before impairment of loans and advances	482.657	27.034	(55.319)	**454.372**	**(31.072)**
Provisions for impairment of loans and advances	(856.380)	(78.795)	(132.170)	**(1.067.345)**	**(58.908)**
Loss on disposal of Greek banking and leasing operations (Note 54)	-	-	-	**-**	**(1.365.624)**
Share of profit of associates	2.076	-	(191)	**1.885**	**-**
Loss before tax	(371.647)	(51.761)	(187.680)	**(611.088)**	**(1.455.604)**
Tax	3.360	7.019	(5.195)	**5.184**	**-**
Loss after tax	(368.287)	(44.742)	(192.875)	**(605.904)**	**(1.455.604)**
Non-controlling interests -loss	924	11.047	35	**12.006**	**-**
Loss after tax attributable to the owners of the Company	(367.363)	(33.695)	(192.840)	**(593.898)**	**(1.455.604)**

5. **Segmental analysis** (continued)

	Cyprus	Russia	Other countries	**Total continuing operations**	**Discontinued operations**
2012	€000	€000	€000	**€000**	**€000**
Net interest income	514.319	120.452	67.005	**701.776**	**309.342**
Net fee and commission income	132.504	32.796	7.385	**172.685**	**46.082**
Net foreign exchange gains	16.702	5.956	2.290	**24.948**	**2.841**
Net (losses)/gains on financial instrument transactions	(29.713)	210	1.604	**(27.899)**	**83.192**
Insurance income net of claims and commissions	53.431	-	9.541	**62.972**	**-**
Other (expenses)/income	(488)	863	(15.474)	**(15.099)**	**(3.709)**
	686.755	**160.277**	**72.351**	**919.383**	**437.748**
Staff costs	(204.829)	(61.568)	(27.159)	**(293.556)**	**(102.990)**
Other operating expenses	(172.121)	(52.551)	(26.171)	**(250.843)**	**(88.917)**
Restructuring costs	(9.710)	-	-	**(9.710)**	**(11.128)**
Profit before impairment of loans and advances, goodwill and intangible assets	**300.095**	**46.158**	**19.021**	**365.274**	**234.713**
Provisions for impairment of loans and advances	(1.186.111)	(88.888)	(64.270)	**(1.339.269)**	**(966.888)**
Share of profit of associates	31	-	191	**222**	**-**
Loss before tax	**(885.985)**	**(42.730)**	**(45.058)**	**(973.773)**	**(732.175)**
Tax	42.872	429	162	**43.463**	**(12.036)**
Loss after tax	**(843.113)**	**(42.301)**	**(44.896)**	**(930.310)**	**(744.211)**
Non-controlling interests (loss/(profit))	1.954	7.278	(1)	**9.231**	**-**
Loss before impairment of GGBs, goodwill and intangible assets	**(841.159)**	**(35.023)**	**(44.897)**	**(921.079)**	**(744.211)**
Impairment of goodwill and intangible assets	-	(328.791)	(30.955)	**(359.746)**	**-**
Impairment of GGBs and change in fair value of related hedging derivatives, after tax				**-**	**(188.079)**
Loss after tax attributable to the owners of the Company				**(1.280.825)**	**(932.290)**

The Chief Executive Officer does not consider the impairment of GGBs and the change in fair value of related hedging derivatives to be part of each segment's operating results, and the related amounts are therefore not distributed to segments in the above analysis.

5. **Segmental analysis** (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions and other income.

	Cyprus	Russia	Other countries	**Total continuing operations**	**Discontinued operations**
	€000	€000	€000	**€000**	**€000**
2013					
Banking and financial services	950.984	150.582	7.855	**1.109.421**	**49.067**
Insurance services	57.990	-	7.568	**65.558**	**-**
Property and hotel business	(3.509)	-	(2)	**(3.511)**	**-**
Total revenue from third parties	1.005.465	150.582	15.421	**1.171.468**	**49.067**
Inter-segment revenue/(expense)	28.234	(22.196)	(3.141)	**2.897**	**(2.897)**
Total revenue	**1.033.699**	**128.386**	**12.280**	**1.174.365**	**46.170**
2012					
Banking and financial services	586.825	185.930	72.143	**844.898**	**448.383**
Insurance services	54.092	-	8.611	**62.703**	**-**
Property and hotel business	1.154	-	(7)	**1.147**	**-**
Total revenue from third parties	642.071	185.930	80.747	**908.748**	**448.383**
Inter-segment revenue/(expense)	44.684	(25.653)	(8.396)	**10.635**	**(10.635)**
Total revenue	**686.755**	**160.277**	**72.351**	**919.383**	**437.748**

Analysis of assets

	Cyprus	Russia	Other countries	**Total**
2013	€000	€000	€000	**€000**
Assets	28.656.025	1.316.068	2.044.721	**32.016.814**
Inter-segment assets				**(1.674.457)**
Total assets				**30.342.357**

2012				
Assets	23.500.888	2.193.129	10.976.690	**36.670.707**
Inter-segment assets				**(5.638.671)**
Total assets				**31.032.036**

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 31 and 46, respectively.

5. **Segmental analysis** (continued)

Analysis of liabilities

	Cyprus	Russia	Other countries	**Total**
2013	€000	€000	€000	**€000**
Liabilities	25.183.780	1.380.412	2.724.213	**29.288.405**
Inter-segment liabilities				**(1.676.642)**
Total liabilities				**27.611.763**

2012				
Liabilities	20.569.930	2.194.056	13.573.631	**36.337.617**
Inter-segment liabilities				**(5.640.856)**
Total liabilities				**30.696.761**

Other countries include assets and liabilities of the Greek operations.

6. **Interest income**

	2013	2012
	€000	€000
Loans and advances to customers	**1.407.910**	1.240.494
Placements with banks and central banks	**31.096**	28.016
Investments available-for-sale	**33.891**	17.306
Investments held-to-maturity	**-**	70.549
Investments classified as loans and receivables	**173.521**	22.048
	1.646.418	1.378.413
Trading investments	**111**	42
Derivative financial instruments	**13.193**	35.798
Other investments at fair value through profit or loss	**739**	1.358
	1.660.461	1.415.611

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances amounting to €188.530 thousand (2012: €52.956 thousand).

7. Interest expense

	2013	2012
	€000	€000
Customer deposits	426.724	582.846
Funding from central banks and amounts due to banks	183.783	33.548
Repurchase agreements	10.130	17.368
Debt securities in issue	629	1.913
Subordinated loan stock (reversal)/charge	(4.319)	6.148
	616.947	641.823
Derivative financial instruments	44.083	72.012
	661.030	713.835

8. Fee and commission income and expense

Fee and commission income

	2013	2012
	€000	€000
Credit-related fees and commissions	79.252	71.816
Other banking commissions	95.581	109.851
Mutual funds and asset management fees	3.757	4.665
Brokerage commissions	1.624	2.778
Other commissions	13.244	2.456
	193.458	191.566

Mutual funds and asset management fees include income of €2.635 thousand (2012: €3.168 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	2013	2012
	€000	€000
Banking commissions	24.103	18.441
Mutual funds and asset management fees	334	358
Brokerage commissions	202	82
	24.639	18.881

9. Net foreign exchange (losses)/gains

Net foreign exchange (losses)/gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange (losses)/gains from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

10. Net gains/(losses) on financial instrument transactions and disposal of subsidiaries

	2013	2012
	€000	€000
Trading portfolio:		
- equity securities	**543**	(2.914)
- debt securities	**(204)**	673
- derivative financial instruments	**14.675**	11.582
Other investments at fair value through profit or loss:		
- equity securities	**-**	(85)
- debt securities	**2.507**	(3.313)
Loss on disposal of held-to-maturity investments:		
- debt securities	**-**	(22.333)
Net gains/(losses) on disposal of available-for-sale investments:		
- equity securities	**962**	(506)
- debt securities	**(11.530)**	(8.036)
Net gains on disposal of loans and receivables:		
- debt securities	**6.681**	-
Realised losses on disposal of loans and deposits	**(6.920)**	-
Gains on repurchase of own debt securities in issue and subordinated loan stock	**-**	6
Impairment of debt securities excluding GGBs	**(15.898)**	(1.645)
Impairment of available-for-sale equity securities	**(6.627)**	(2.568)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**2.135**	(55.189)
- hedged items	**(729)**	56.384
(Loss)/profit on dissolution/disposal of subsidiaries	**(1.361)**	45
Other losses on financial instruments	**(288)**	-
Gain on derecognition of loans	**26.643**	-
	10.589	(27.899)

Gain on derecognition of loans arises on settlement of loans acquired during the year through the acquisition of Laiki Bank operations (Note 54), at an amount which is higher than their carrying amount on settlement date.

11. Insurance income net of claims and commissions

The insurance income net of claims and commissions of €64.956 thousand (2012: €62.972 thousand) is analysed as follows:

	2013		2012	
	Income	**Claims and commissions**	Income	Claims and commissions
	€000	**€000**	€000	€000
Life insurance business	**107.232**	**(69.950)**	130.003	(94.753)
General insurance business	**48.308**	**(20.634)**	52.438	(24.716)
	155.540	**(90.584)**	182.441	(119.469)

	2013		2012	
	Life insurance	**General insurance**	Life insurance	General insurance
Income	**€000**	**€000**	€000	€000
Gross premiums	**94.789**	**78.165**	107.986	80.646
Reinsurance premiums	**(16.616)**	**(45.979)**	(17.724)	(42.433)
Net premiums	**78.173**	**32.186**	90.262	38.213
Change in the provision for unearned premiums	**-**	**3.197**	-	863
Total net earned premiums	**78.173**	**35.383**	90.262	39.076
Investment income and other income	**21.122**	**39**	31.164	47
Commissions from reinsurers and other income	**4.662**	**12.886**	4.959	13.315
	103.957	**48.308**	126.385	52.438
Change in value of in-force business before tax (Note 27)	**3.275**	**-**	3.618	-
	107.232	**48.308**	130.003	52.438

	2013		2012	
	Life insurance	**General insurance**	Life insurance	General insurance
Claims and commissions	**€000**	**€000**	€000	€000
Gross payments to policyholders	**(119.922)**	**(26.835)**	(100.616)	(33.852)
Reinsurers' share of payments to policyholders	**8.564**	**10.295**	8.377	13.236
Gross change in insurance contract liabilities	**47.586**	**(758)**	5.014	2.719
Reinsurers' share of gross change in insurance contract liabilities	**2.191**	**2.590**	1.868	(1.640)
Commissions paid to agents and other direct selling costs	**(8.369)**	**(5.922)**	(9.396)	(5.182)
Changes in equalisation reserve	**-**	**(4)**	-	3
	(69.950)	**(20.634)**	(94.753)	(24.716)

11. **Insurance income net of claims and commissions** (continued)

In addition to the above, the following insurance income and expense items have been recognised in the relevant captions of the consolidated income statement:

	2013		2012	
	Life insurance	**General insurance**	Life insurance	General insurance
	€000	**€000**	€000	€000
Net (expense)/income from non-linked insurance business assets	**(304)**	**876**	(147)	332
Net losses on financial instrument transactions and other non-linked insurance business income	**(12.315)**	**(2.686)**	(399)	(55)
Staff costs	**(7.702)**	**(9.683)**	(7.384)	(8.278)
Other operating expenses	**(3.677)**	**(2.521)**	(4.355)	(3.323)

12. **Other income**

	2013	2012
	€000	€000
Dividend income	**421**	216
Profit on sale of stock of property held for sale	**38**	932
Losses on sale and write-off of property and equipment and intangible assets	**(817)**	(1.008)
Rental income from investment properties	**1.936**	1.300
Losses from revaluation of investment properties (Note 28)	**(78.203)**	(24.369)
Income from hotel activities	**1.729**	3.153
Other income	**10.614**	4.677
	(64.282)	(15.099)

13. Staff costs

	2013	2012 (restated)
	€000	€000
Salaries	**255.961**	245.306
Employer's contributions to state social insurance and pension funds	**40.807**	39.672
Retirement benefit plan costs	**25.440**	8.150
	322.208	293.128
Voluntary retirement schemes (VRS)	**120.589**	65
Restructuring costs – VRS in Greece	**-**	363
	442.797	293.556

The number of persons employed by the Group as at 31 December 2013 was 7.752 (2012: 10.772).

In January and August 2013 the Group proceeded with a Voluntary Retirement Scheme (VRS) for its employees in Cyprus, the cost of which is included in staff costs and amounted to €120.589 thousand.

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance and pension funds, the Group operates plans for the provision of additional retirement benefits as described below:

	2013	2012
	€000	€000
Effect of termination of defined benefit plans	**-**	(16.697)
Defined benefit plans	**(1.587)**	300
Defined contribution plans	**27.027**	24.547
	25.440	8.150

Cyprus
The main retirement plan for the Group's permanent employees in Cyprus (52% of total Group employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14% and employee contributions of 3%-10% of the employees' gross salaries.

The defined contribution plan replaced the defined benefit plan which was in effect until 31 December 2011, which provided for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded, with assets backing the obligations held in separate legal vehicles.

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus (continued)
The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the val uation of the remaining Group retirement plans in Cyprus during 2013 and 2012 are set out below:

	2013	2012
Discount rate	**3,55%**	3,43%
Inflation rate	**2%**	2%
Future salary increases	**0% for 2014-2015, 2% for 2016 and 3% thereafter**	0% for 2013-2014 and 3% thereafter
Rate of pension increase	**0% - 2%**	0% - 2%
Life expectancy for pensioners at age 60	**24,0 years M 30,1 years F**	24,0 years M 30,1 years F

Greece
As part of the disposal of the Greek operations the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. A small number of employees of Group Greek subsidiaries remain members of the defined benefit plans.

All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan, were out of the Company's assets because this plan is unfunded.

In addition, a number of employees recruited up to 31 December 2002 participated in a defined benefit plan which comprised of two schemes, A and B. Scheme A covered part of the difference between the salary and the retirement benefit and it was settled in full and terminated with the consent of the employees in October 2011. Scheme B provided for a lump sum payment on retirement up to approximately 50 monthly salaries depending on the length of service and was still in place at 31 December 2012.

The present value of the defined benefit obligations under the two defined benefit plans in Greece was estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2013	2012
Discount rate	**3,64%**	3,56%
Inflation rate	**2%**	2%
Future salary increases	**0% for 2014-2015, 2% for 2016 and 3% thereafter**	0% for 2013-2014 and 3% thereafter

The third plan applied to employees recruited after 31 December 2002 and was a defined contribution plan.

United Kingdom
The Group's employees in the United Kingdom (2% of total Group employees) are covered by a defined contribution plan for all current employees and a defined benefit plan which was closed in December 2008 to future accrual of benefits for active members.

13. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom (continued)
The present value of the defined benefit plan obligations is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation were as follows:

	2013	2012
Discount rate	**4,65%**	4,50%
Inflation rate	**3,45%**	3,00%
Rate of pension increase	**3,30%**	2,90%
Life expectancy for pensioners at age 65	**23,70 years**	23,24 years

Other countries
The Group does not operate any retirement benefit plans in Romania, Russia and Ukraine.

Analysis of the results of the actuarial valuations for the defined benefit plans
The amount included in the consolidation statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2013	2012
	€000	€000
Net present value of obligations	**80.022**	126.861
Fair value of plan assets	**(86.651)**	(112.443)
	(6.629)	14.418
Amount not recognised as an asset because of the asset restriction requirement	**14.449**	22.666
Net liability of retirement benefit plans recognised in the consolidated balance sheet	**7.820**	37.084

One of the plans has a funded status surplus of €15.000 thousand (2012: €23.500 thousand) that is not recognised as an asset on the basis that the Group has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

	2013	2012
	€000	€000
Amounts recognised in the consolidated balance sheet		
Liabilities (Note 34)	**9.139**	38.694
Assets (Note 28)	**(1.319)**	(1.610)
	7.820	37.084

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The movement in the net present value of obligations is set out below:

	2013	2012
	€000	€000
1 January	**126.861**	560.107
Current service cost	**1.357**	2.811
Interest cost on liabilities	**3.881**	5.198
Actuarial (gains)/losses:		
- remeasurement (gain)/loss - financial	**(4.268)**	10.600
- remeasurement loss - demographic	**587**	1.008
- remeasurement (gain)/loss - experience	**(368)**	387
Benefits paid from the plans	**(14.486)**	(7.900)
Benefits paid directly by the Group	**(7.958)**	(4.507)
Contributions by plan participants	**215**	283
Terminations, curtailments and settlements	**(2.749)**	9.143
Effect of termination of plan upon disposal of operations	**(21.894)**	-
Exchange differences from overseas plans	**(1.156)**	1.022
Termination of defined benefit plan	**-**	(451.291)
31 December	**80.022**	126.861

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The movement in the fair value of plan assets are set out below:

	2013	2012
	€000	€000
1 January	**112.443**	494.344
Interest income on schemes assets	**4.054**	5.338
Remeasurement – return on plan assets (excluding interest income)	**(12.512)**	(1.917)
Employer's contributions	**2.453**	55.789
Contributions by plan participants	**215**	283
Benefits paid from the plans	**(14.486)**	(7.900)
Termination of plan	**-**	(434.564)
Asset adjustment due to disposal	**(4.609)**	-
Exchange differences from overseas plans	**(907)**	1.070
31 December	**86.651**	112.443

The actual return on plan assets for the year 2013 was a loss of €8.458 thousand (2012: gain of €3.421 thousand).

The assets of funded plans are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or as insurance contracts. Plan assets held in trust are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Group is exposed to a number of risks as outlined below:

Interest rate risk	The Group is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Group faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases), exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit.

13. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The major categories of plan assets as a percentage of total plan assets are as follows:

	2013	2012
Equity securities	**45%**	27%
Debt securities	**38%**	31%
Placements with banks	**17%**	40%
Other plan assets	**0%**	2%
	100%	100%

The assets held by the funded plans include securities issued by the Company, the fair value of which is:

	2013	2012
	€000	€000
Equity securities	**2.982**	2.828
Debt securities	**-**	44
	2.982	2.872

The components of the expense recognised in the consolidated income statement in relation to the defined benefit plans are as follows:

	2013	2012
	€000	€000
Current service cost	**1.357**	2.811
Net interest income	**(172)**	(140)
Curtailments and settlements	**(2.772)**	(2.371)
	(1.587)	300

The components of the expense recognised in the consolidated statement of comprehensive income in relation to the defined benefit plans are as follows:

	2013	2012
	€000	€000
Remeasurements losses	**4.049**	(11.995)
Return on plan assets (excluding interest income)	**(12.512)**	(1.917)
Change in the effect of limit on plan surpluses	**8.217**	5.272
	(246)	(8.640)

The Group’s expected contribution to the plans in 2014 is €962 thousand.

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations
The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 34% of the defined benefit obligations, the Group adopted a full yield curve approach using AA rated corporate bonds data from the iBoxx Euro Corporates AA10+ index. For the Group's plan in the UK which comprises 66% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is shown below:

Variable	**Change +0,5%**	**Change -0,5%**
Discount rate	-7,3%	8,2%
Inflation growth rate	4,9%	-4,6%
Salary growth rate	0,3%	-0,1%
Pension growth rate	1,0%	-0,9%
	Plus 1 year	**Minus 1 year**
Life Expectancy	1,5%	-1,2%

The above sensitivity analyses (with the exception of the inflation sensitivity) are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions the same method has been applied as when calculating the pension liability recognised in the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous periods.

14. Other operating expenses

	2013	2012
	€000	€000
Operating lease rentals for property and equipment	**31.887**	28.094
Advertising and marketing	**17.605**	27.057
Repairs and maintenance of property and equipment	**22.806**	20.506
Other property-related costs	**21.213**	15.775
Communication expenses	**12.653**	13.087
Printing and stationery	**5.298**	4.969
Depreciation of property and equipment (Note 26)	**20.941**	16.098
Impairment of property (Note 26)	**3.370**	3.237
Amortisation of intangible assets (Note 27)	**13.005**	13.177
Contribution to depositor protection scheme	**6.199**	10.215
Special tax levy on credit institutions	**20.853**	18.155
Provision and settlements of litigations or claims	**7.420**	9.005
Other operating expenses	**47.205**	71.468
	230.455	250.843
Advisory and other restructuring costs	**37.162**	9.710
Impairment of assets held for sale (Note 54.9)	**9.579**	-
	277.196	260.553

The special tax levy on credit institutions was increased from 0,11% to 0,15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant decrease in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% per quarter.

Advisory and other restructuring costs comprise mainly of the cost of the stress-testing exercise, loan diagnostic review and the preparation of the restructuring plan of the Group.

Other operating expenses include fees (including taxes) to the independent auditors of the Group, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2013	2012
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**1.980**	2.059
Other audit-related services	**54**	212
Tax services	**284**	432
Other services	**281**	475
	2.599	3.178
Continuing operations	**2.446**	2.644
Discontinued operations	**153**	534
	2.599	3.178

15. Impairment of goodwill and intangible assets

	2013	2012
	€000	€000
Goodwill (Note 27)	-	338.247
Intangible assets (Note 27)	-	21.499
	-	359.746

16. Impairment of Greek Government Bonds

In 2012 the Group participated in the exchange offer for Greek Government Bonds (GGBs) which was completed in March/April 2012, on the basis of the terms set out below:

- Write-off of 53,5% of the nominal value of the existing GGBs.
- Receipt of new GGBs with nominal value 31,5% of the exchanged GGBs, in an amortising structure, from 11 to 30 years (final maturity in 2042). The coupon of the new bonds was set at 2,00% for years 2013-2015, 3,00% for years 2016-2020, 3,65% for year 2021 and 4,30% thereafter (2022-2042).
- Immediate repayment of 15% of the nominal value of exchanged GGBs with short term securities issued by the European Financial Stability Facility (EFSF) with a 1-2 year maturity and bearing market interest rates.
- The payment of accrued interest through EFSF securities with a six-month maturity and bearing market interest rates.
- Receipt of detachable Greek GDP-linked securities with a notional amount equal to the new GGBs of each holder. The securities provide for annual payments of up to 1% of their notional amount, commencing in 2015, in the event that Greek GDP growth exceeds certain thresholds.

The impairment of GGBs and the change in fair value of related hedging instruments recorded in the consolidated income statement is as follows:

	2013	2012
	€000	€000
Loss on initial recognition of new GGBs	-	109.308
Change in fair value of related hedging instruments	-	34.265
Total impairment charge per the consolidated income statement	-	143.573

The related hedging derivatives were terminated during 2012.

In December 2012 the Group participated in the voluntary repurchase of new GGBs by the Greek Republic. As a result, the Group disposed of all its GGBs and realised a gain of €96.515 thousand during 2012, which is included in 'discontinued operations' (Note 5).

17. Tax

	2013	2012
	€000	€000
Current tax:		
- Cyprus	**2.111**	(3.432)
- overseas	**2.686**	(39.312)
Cyprus defence contribution	**123**	174
Deferred tax	**(10.101)**	(1.964)
Prior year tax adjustments	**(3)**	1.071
	(5.184)	(43.463)

The Group's share of the tax charge of associates was nil for the years 2012 and 2013.

The reconciliation between the tax expense and the loss before tax as estimated using the current tax rates is set out below:

	2013	2012
	€000	€000
Loss before tax from continuing operations	**(611.088)**	(1.333.519)
Tax at the normal tax rates in Cyprus	**(76.263)**	(133.343)
Tax effect of:		
- expenses not deductible for tax purposes	**21.185**	28.606
- losses non tax allowable/(income) not subject to tax	**(5.790)**	2.851
- change in corporation tax rate in Cyprus	**(6.526)**	-
- differences between overseas tax rates and Cyprus tax rates	**6.787**	(40.122)
Tax effect of losses on which deferred tax is not recognised	**55.426**	97.474
	(5.181)	(44.534)
Prior years' tax adjustments	**(3)**	1.071
	(5.184)	(43.463)

The loss on disposal of Greek operations is included in discontinued operations and is a tax deductible loss.

Corporation tax in Cyprus is calculated at the rate of 12,5% on taxable income (2012:10%).

For life insurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 15% until 29 April 2013 and 30% thereafter (2012: 15%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2013 were: Greece 26% (2012: 20%), Romania 16% (2012: 16%), Russia 20% (2012: 20%), UK 24% until 31 March 2013 and 23% thereafter (2012: 26% until 31 March and 24% thereafter) and Ukraine 19% (2012: 21%).

17. Tax (continued)

The accumulated tax losses are presented in the tables below:

31 December 2013	**Total tax losses**	**Tax losses for which deferred tax asset was recognised**	**Tax losses for which no deferred tax asset was recognised**
	€000	**€000**	**€000**
Expiring within 4 years	**241.275**	**18.295**	**222.980**
Expiring within 5 and 10 years	**4.303.561**	**295.584**	**4.007.977**
Expiring within 11 and 15 years	**7.378.801**	**3.336.000**	**4.042.801**
Expiring indefinitely	**34.923**	**34.923**	**-**
	11.958.560	**3.684.802**	**8.273.758**
31 December 2012			
Expiring within 4 years	227.792	3.917	223.875
Expiring within 5 and 10 years	2.388.601	295.580	2.093.021
Expiring within 11 and 15 years	-	-	-
Expiring indefinitely	44.459	44.459	-
	2.660.852	343.956	2.316.896

Recognition of deferred tax assets on unutilised tax losses is based on evidence available including management's projections of future income loan portfolio growth rate, loan impairment rate and profitability taking into account recoverability of the deferred tax asset within their expiry period.

The increase in the deferred tax asset relates mainly to the Laiki Bank tax losses transferred to the Company as a result of the acquisition (Note 54.2). The tax losses were transferred under 'The Credit Institutions Resolution Law' which states that any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. The tax losses transferred amounted to €7.378.801 thousand, are provisional and are subject to review and agreement with the Tax Authorities in Cyprus. The deferred tax asset recognised on acquisition amounted to €417.000 thousand and can be set off against the future profits of the Company for a period of 15 years at a tax rate of 12,5%.

No significant tax losses of prior years were utilised during 2013 and 2012.

The tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Following the disposal of Greek operations, no deferred tax liability will arise in case of distribution of the undistributed reserves of the Company's Greek overseas branch and Greek subsidiaries (2012: €2,3 billion).

17. Tax (continued)

Deferred tax

The net deferred tax asset arises from:

	2013	2012
	€000	€000
Difference between capital allowances and depreciation	**(10.604)**	(6.643)
Property revaluation	**26.951**	25.307
Investment revaluation	**(370)**	774
Unutilised tax losses carried forward	**(456.172)**	(32.063)
Value of in-force life insurance business	**13.483**	10.509
Other temporary differences	**(2.411)**	(3.481)
Net deferred tax asset	**(429.123)**	(5.597)

Deferred tax asset (Note 28)	**(479.060)**	(50.829)
Deferred tax liability (Note 34)	**49.937**	45.232
Net deferred tax asset	**(429.123)**	(5.597)

The movement of the net deferred tax asset is set out below:

	2013	2012
	€000	€000
1 January	**(5.597)**	(22.475)
Deferred tax recognised in the consolidated income statement – continuing operations	**(10.101)**	(1.964)
Deferred tax recognised in the consolidated income statement – discontinued operations	**-**	16.404
Deferred tax recognised in the consolidated statement of comprehensive income	**(3.145)**	(948)
Deferred tax related to assets held for sale	**-**	3.621
Deferred tax acquired through business combinations (Note 54)	**(411.871)**	-
Deferred tax on disposal of subsidiaries	**24**	-
Exchange adjustments	**1.567**	(235)
31 December	**(429.123)**	(5.597)

The Group offsets tax assets and liabilities if and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities.

17. **Tax** (continued)

Deferred tax (continued)

The analysis of the net deferred tax (income)/expense recognised in the consolidated income statement is set out below:

	2013	2012
	€000	€000
Difference between capital allowances and depreciation	**(5.656)**	(10.022)
Investment revaluation	**(1.104)**	51.096
Different tax treatment of finance leases	**-**	(1.944)
Unutilised tax losses carried forward	**(7.115)**	(12.221)
Value of in-force-life insurance business	**2.974**	319
Other temporary differences	**800**	(12.788)
	(10.101)	14.440
Continuing operations	**(10.101)**	(1.964)
Discontinued operations	**-**	16.404
	(10.101)	14.440

The analysis of the net deferred tax income recognised in the consolidated statement of other comprehensive income is set out below:

	2013	2012
	€000	€000
Timing differences on property revaluation	**(3.106)**	(5.573)
Available-for-sale-investment	**(39)**	2.239
Retirement benefits obligations	**-**	2.386
	(3.145)	(948)

18. Earnings per share

	2013	2012 (restated and represented)
Basic and diluted losses per share		
Loss after tax attributable to the owners of the Company (€ thousand)	**(2.049.502)**	(2.213.115)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**3.543.263**	15.427
Basic and diluted losses per share (€ cent)	**(57,8)**	(14.345,9)
Basic and diluted losses per share – continuing operations		
Loss after tax attributable to the owners of the Company – continuing operations (€ thousand)	**(593.898)**	(1.280.825)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**3.543.263**	15.427
Basic and diluted losses per share – continuing operations (€ cent)	**(16,8)**	(8.302,6)

18. Earnings per share (continued)

The weighted average number of shares in issue during the year 2012 was adjusted to reflect the action implemented (share consolidation) by the decrees issued by the Resolution Authority in 2013 with respect to the existing shareholders as at 29 March 2013 (Note 2.5).

The Convertible Bonds 2013/2018, the Convertible Capital Securities, the Convertible Enhanced Capital Securities and the Share Options 2008/2010 in issue at 31 December 2012 did not constitute potentially dilutive ordinary shares for the purposes of calculating the diluted earnings per share for the year 2012, as their conversion into ordinary shares would reduce losses per share.

Share transactions that occurred during 2013 are disclosed in Notes 2.5 and 36.

19. Cash, balances with central banks and placements with banks

	2013	2012
	€000	€000
Cash	**155.213**	263.771
Balances with central banks	**1.084.830**	1.008.653
	1.240.043	1.272.424
Placements with banks	**1.290.102**	1.768.836

Balances with central banks include obligatory deposits for liquidity purposes which amount to €686.752 thousand (2012: €943.645 thousand).

At 31 December 2013, cash and balances with central banks and placements with banks include balances amounting to €14.842 thousand and €14.049 thousand respectively, which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale (Note 54.9).

The analysis of balances with central banks and placements with banks by independent credit rating agencies is set out in Note 46.

Placements with banks earn interest based on the interbank rate of the relevant term and currency.

20. Investments

	2013	2012
	€000	€000
Investments		
Investments at fair value through profit or loss	**25.160**	21.818
Investments available-for-sale	**260.987**	402.547
Investments classified as loans and receivables	**2.573.437**	710.968
	2.859.584	1.135.333

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	2013	2012
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	**672.809**	694.287
Investments classified as loans and receivables	**-**	40.460
	672.809	734.747

20. **Investments** (continued)

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

Investments at fair value through profit or loss

	Trading investments		**Other investments at fair value through profit or loss**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**103**	96	**15.549**	13.955	**15.652**	14.051
Equity securities	**2.953**	2.557	**-**	-	**2.953**	2.557
Mutual funds	**6.555**	5.210	**-**	-	**6.555**	5.210
	9.611	7.863	**15.549**	13.955	**25.160**	21.818

Debt securities						
Cyprus government	**-**	-	**15.413**	13.042	**15.413**	13.042
Banks and other corporations	**103**	96	**136**	913	**239**	1.009
	103	96	**15.549**	13.955	**15.652**	14.051
Listed on the Cyprus Stock Exchange	**103**	96	**15.413**	13.042	**15.516**	13.138
Listed on other stock exchanges	**-**	-	**136**	449	**136**	449
Unlisted certificates of deposit, bank and local authority bonds	**-**	-	**-**	464	**-**	464
	103	96	**15.549**	13.955	**15.652**	14.051

Equity securities						
Listed on the Cyprus Stock Exchange	**2.505**	2.018	**-**	-	**2.505**	2.018
Listed on other stock exchanges	**227**	539	**-**	-	**227**	539
Unlisted	**221**	-	**-**	-	**221**	-
	2.953	2.557	**-**	-	**2.953**	2.557

The debt securities classified as other investments at fair value through profit or loss were originally classified as such, to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

Mutual funds are unlisted.

20. **Investments** (continued)

Investments available-for-sale

	2013	2012
	€000	€000
Debt securities	**733.658**	1.032.302
Equity securities	**103.928**	64.532
Mutual funds	**96.210**	-
	933.796	1.096.834

Debt securities		
Cyprus government	**1.423**	1.134
French government	**476.819**	505.890
Other governments	**191.739**	198.400
Banks and other corporations	**63.362**	326.603
Local authorities	**315**	275
	733.658	1.032.302
Listed on the Cyprus Stock Exchange	**7.256**	2.119
Listed on other stock exchanges	**726.086**	1.029.599
Unlisted certificates of deposit, bank and local authority bonds	**316**	584
	733.658	1.032.302
Geographic dispersion by country of issuer		
Cyprus	**7.571**	2.119
United Kingdom	**6.365**	9.867
France	**476.818**	509.745
Germany	**58.258**	59.688
Ukraine	**1**	3
Italy	**52.211**	51.536
Other European countries	**106.175**	102.572
Other countries	**2.052**	2.197
European Financial Stability Facility and European Investment Fund	**14.617**	284.787
Supranational organisations	**9.590**	9.788
	733.658	1.032.302

20. **Investments** (continued)

Investments available-for-sale (continued)

	2013	2012
	€000	€000
Equity securities		
Listed on the Cyprus Stock Exchange	**8.725**	7.837
Listed on other stock exchanges	**87.318**	55.395
Unlisted	**7.885**	1.300
	103.928	64.532

At 31 December 2013 the carrying value of available-for-sale investments in debt securities, which have been determined to be individually impaired, amounted to € nil (2012: €581 thousand).

Available-for-sale mutual funds are unlisted and issued in 'Other countries'.

Investments classified as loans and receivables

	2013	2012
	€000	€000
Debt securities	**2.573.437**	751.428
Cyprus government	**2.572.940**	749.981
Banks and other corporations	**300**	1.275
Local authorities	**197**	172
	2.573.437	751.428
Listed on the Cyprus Stock Exchange	**2.573.240**	630.052
Listed on other stock exchanges	**-**	121.204
Unlisted certificates of deposit, bank and local authority bonds	**197**	172
	2.573.437	751.428
Geographic dispersion by country of issuer		
Cyprus	**2.573.437**	751.428

Loans and receivables at 31 December 2013 include €169.073 thousand (2012: €1.275 thousand) of debt securities which have been determined to be individually impaired.

20. Investments (continued)

Reclassification of investments

Reclassification of trading investments to loans and receivables

On 1 April 2010, in light of the crisis prevailing in global markets, the Group identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables

On 1 October 2008 and 30 June 2011 the Group reclassified certain available-for-sale debt securities to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held–to-maturity investments to available-for-sale investments

On 1 November 2012, the Group reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Group's accounting policies and IFRSs, the Group is not allowed to classify any investments as held-to-maturity until November 2014.

There were no reclassifications during 2013.

20. **Investments** (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2013		31 December 2012		Year 2013		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the bonds not been reclassified	Additional loss in other comprehensive income had the bonds not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	38.059	32.204	39.650	28.105	4.098	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	163.407	164.875	145.171	167.461	131.292	-	(19.704)	4,6%-4,7%
- loans and receivables	30 June 2011	164.035	185.666	158.170	191.565	121.390	-	(27.496)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	103.067	105.698	105.698	104.252	104.252	-	-	0,4%-3,1%

20. **Investments** (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2012		31 December 2011		Year 2012		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional loss in the income statement had the bonds not been reclassified	Additional loss in other comprehensive income had the bonds not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	39.650	28.105	36.125	33.546	(5.441)	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	163.407	167.493	131.305	172.579	159.045	-	(36.188)	4,6%-4,7%
- loans and receivables	30 June 2011	250.839	280.570	203.585	258.922	221.202	-	(76.985)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	106.877	108.107	108.107	n/a	n/a	n/a	n/a	0,4%-3,1%

21. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2013			2012		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**139.847**	**109**	**2.674**	865.684	3.310	5.127
Currency swaps	**1.723.306**	**3.778**	**15.465**	4.989.311	11.128	27.350
Interest rate swaps	**517.264**	**4.203**	**11.407**	285.430	1.299	30.310
Currency options	**-**	**-**	**-**	40.408	363	363
Equity options	**4.295**	**1.591**	**1.485**	74.118	7.275	7.240
Interest rate caps/floors	**6.574**	**11**	**250**	15.040	3	405
GDP warrant securities	**1.622.997**	**19.073**	**-**	-	-	-
	4.014.283	**28.765**	**31.281**	6.269.991	23.378	70.795
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**674.888**	**-**	**47.090**	786.663	3.416	90.310
Fair value of net investments – forward exchange rate contracts	**126.936**	**-**	**5.523**	226.072	-	22.721
	801.824	**-**	**52.613**	1.012.735	3.416	113.031
Total	**4.816.107**	**28.765**	**83.894**	7.282.726	26.794	183.826

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

21. Derivative financial instruments (continued)

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

Commodity swaps are contractual agreements where a fixed-price contract for a commodity is exchanged for a floating (market) price contract at a specified future date.

GDP warrant securities are GDP-linked securities issued by the Greek government as part of the exchange offer of the Greek Government Bonds. The securities provide for annual payments of up to 1% of their notional amount, commencing in 2015, in the event that Greek GDP growth exceeds certain thresholds.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

Fair value hedges
The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Hedges of net investments
The Group's consolidated balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches and forward exchange rate contracts. As at 31 December 2013, deposits and forward exchange rate contracts amounting to €346.725 thousand (2012: €385.882 thousand) have been designated as hedging instruments and have given rise to a gain of €25.917 thousand (2012: loss of €12.063 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

22. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	2013		2012	
	Carrying value	**Fair value**	Carrying value	Fair value
	€000	**€000**	€000	€000
Financial assets				
Cash and balances with central banks	**1.240.043**	**1.240.043**	1.272.424	1.272.424
Placements with banks	**1.290.102**	**1.192.513**	1.768.836	1.768.836
Investments at fair value through profit or loss	**25.160**	**25.160**	21.818	21.818
Investments available-for-sale	**933.796**	**933.796**	1.096.834	1.096.834
Investments classified as loans and receivables	**2.573.437**	**2.593.941**	751.428	590.192
Derivative financial assets	**28.765**	**28.765**	26.794	26.794
Loans and advances to customers	**21.764.338**	**20.888.492**	24.374.531	24.374.531
Life insurance business assets attributable to policy holders	**430.119**	**430.119**	483.106	483.106
Other assets	**113.175**	**113.175**	53.275	53.275
	28.398.935	**27.446.004**	29.849.046	29.687.810
Financial liabilities				
Obligations to central banks and amounts due to banks	**11.152.699**	**11.152.699**	341.044	341.044
Repurchase agreements	**594.004**	**596.006**	607.773	607.773
Derivative financial liabilities	**83.894**	**83.894**	183.826	183.826
Customer deposits	**14.971.167**	**14.895.350**	28.442.152	28.442.152
Debt securities in issue	**841**	**841**	44.775	43.914
Subordinated loan stock	**4.676**	**4.101**	133.294	49.511
Other liabilities	**66.491**	**66.491**	168.840	168.840
	26.873.772	**26.799.382**	29.921.704	29.837.060

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

22. Fair value measurement (continued)

The following is a description of the determination of fair value for assets which are recorded at fair value on a recurring and on a non-recurring basis and for assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Investment properties
Investment properties are classified as residential, offices and other commercial properties, manufacturing and industrial, hotels, land and plots and under construction properties. Their fair value is based on valuations performed by external accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remaining of this section.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined by using valuations performed by external, accredited independent valuers and internal accredited valuers. Further information on techniques applied is disclosed in the remaining of this section.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and inflation curves.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss
Available-for-sale investments and investments at fair value through profit or loss which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data.

Loans to customers
The fair value of loans and advances to customers is based on the present value of expected cash flows. The expected cash flows have been based on the expected loss rates, therefore adjusting for expectations on the credit quality of the borrowers.

Customer deposits
The fair value of customer deposits is determined by discounting the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company.

Repurchase agreements
Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Group is greater than the amount borrowed, the fair value calculation of these repurchase agreement takes into account the time value of money only.

Placements with banks
Placements with maturity over 1 year are discounted using an appropriate risk free rate plus the government's credit spread, or plus the credit spread of each counterparty.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The non-observable inputs to the models for the valuation of unquoted equity include assumptions regarding liquidity and other instrument related discounts.

22. Fair value measurement (continued)

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	**Total**
2013	€000	€000	€000	**€000**
Assets measured at fair value				
Investment properties				
Residential	-	-	113.126	**113.126**
Offices and other commercial properties	-	-	142.511	**142.511**
Manufacturing and industrial	-	-	57.655	**57.655**
Hotels	-	-	57.640	**57.640**
Land and plots	-	-	124.107	**124.107**
Properties under construction	-	-	619	**619**
	-	-	495.658	**495.658**
Property and equipment				
Offices and other commercial properties	-	6.978	361.984	**368.962**
Trading derivatives				
Forward exchange rate contracts	-	109	-	**109**
Currency swaps	-	3.778	-	**3.778**
Interest rate swaps	-	4.203	-	**4.203**
Equity options	-	1.591	-	**1.591**
Interest rate caps/floors	-	11	-	**11**
GDP warrant securities	-	19.073	-	**19.073**
	-	28.765	-	**28.765**
Investments at fair value through profit or loss				
Trading investments	2.941	6.670	-	**9.611**
Other investments at fair value through profit or loss	136	15.413	-	**15.549**
	3.077	22.083	-	**25.160**
Investments available-for-sale	827.045	2.714	104.037	**933.796**
	830.122	60.540	961.679	**1.852.341**
Assets not measured at fair value				
Placements with banks	-	1.192.513	-	**1.192.513**
Loans and receivables - investments	-	2.394.977	-	**2.394.977**
Loans and advances to customers	-	-	20.888.492	**20.888.492**
	-	3.587.490	20.888.492	**24.475.982**

22. **Fair value measurement** (continued)

	Level 1	Level 2	Level 3	**Total**
2013	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	2.674	-	**2.674**
Currency swaps	-	15.465	-	**15.465**
Interest rate swaps	-	11.407	-	**11.407**
Equity options	-	1.485	-	**1.485**
Interest rate caps/floors	-	250	-	**250**
	-	31.281	-	**31.281**
Derivatives designated as fair value hedges				
Interest rate swaps	-	47.090	-	**47.090**
Derivatives for fair value of net investments				
Forward exchange rate contracts	-	5.523	-	**5.523**
	-	52.613	-	**52.613**
	-	83.894	-	**83.894**
Liabilities not measured at fair value				
Amounts due to banks	-	196.422	-	**196.422**
Repurchase agreements	-	596.006	-	**596.006**
Customer deposits	-	-	14.895.350	**14.895.350**
	-	792.428	14.895.350	**15.687.778**

The cash and balances with central banks, the funding from central banks and treasury bills are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

22. **Fair value measurement** (continued)

2012	Level 1	Level 2	Level 3	**Total**
Assets measured at fair value	€000	€000	€000	**€000**
Trading derivatives				
Forward exchange rate contracts	-	3.310	-	**3.310**
Currency swaps	-	11.128	-	**11.128**
Interest rate swaps	-	1.299	-	**1.299**
Currency options	-	363	-	**363**
Equity options	-	7.275	-	**7.275**
Interest rate caps/floors	-	3	-	**3**
	-	23.378	-	**23.378**
Derivatives designated as fair value hedges				
Interest rate swaps	-	3.416	-	**3.416**
		26.794		**26.794**
Investments at fair value through profit or loss				
Trading investments	7.863	-	-	**7.863**
Other investments at fair value through profit or loss	449	13.506	-	**13.955**
	8.312	13.506	-	**21.818**
Investments available-for-sale	1.068.688	27.650	496	**1.096.834**
	1.077.000	67.950	496	**1.145.446**

2012				
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	5.127	-	**5.127**
Currency swaps	-	27.350	-	**27.350**
Interest rate swaps	-	30.310	-	**30.310**
Currency options	-	363	-	**363**
Equity options	-	7.240	-	**7.240**
Interest rate caps/floors	-	405	-	**405**
	-	70.795	-	**70.795**
Derivatives designated as fair value hedges				
Interest rate swaps	-	90.310	-	**90.310**
Derivatives for fair value of net investment				
Forward exchange rate contracts	-	22.721	-	**22.721**
	-	113.031	-	**113.031**
	-	183.826	-	**183.826**

During years 2013 and 2012 there were no significant transfers from Level 1 to Level 2.

22. **Fair value measurement** (continued)

The movement in Level 3 assets which are measured at fair value is presented below:

	2013			2012			
	Investment properties	**Own use properties**	**Available-for-sale investments**	Other investments at fair value through profit or loss	Available-for-sale investments	Trading derivatives	
						Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000	€000
1 January	**316.378**	**412.198**	**496**	85	496	156	(1.432)
Acquired through business combinations	**184.732**	**103.198**	**135.426**	-	-	-	-
Unrealised losses recognised in the consolidated statement of comprehensive income	**-**	**-**	**(14.967)**	-	-	-	-
Realised (losses)/gains recognised in the consolidated income statement	**-**	**-**	**(795)**	(85)	-	(156)	726
Disposals	**(4.406)**	**(5.989)**	**(16.123)**	-	-	-	706
Disposals as a result of discontinued operations	**-**	**(73.750)**	**-**	-	-	-	-
Additions	**28.728**	**15.848**	**-**	-	-	-	-
Depreciation charge for the year– continued operations	**-**	**(4.548)**	**-**	-	-	-	-
Depreciation charge for the year – discontinued operations	**-**	**(80)**	**-**	-	-	-	-
Impairment charge for the year	**-**	**(4.947)**	**-**	-	-	-	-
Revaluation losses	**(78.203)**	**(16.418)**	**-**	-	-	-	-
Transfer from owned used properties to investment properties	**55.096**	**(55.096)**	**-**	-	-	-	-
Exchange adjustments	**(6.667)**	**(8.432)**	**-**	-	-	-	-
31 December	**495.658**	**361.984**	**104.037**	-	496	-	-

Level 3 valuation policy and sensitivity analysis

Financial instruments
The valuation policy for Level 3 financial instruments is defined by the ALCO committee.

The Group’s model for the Level 3 available-for-sale investments utilises the net asset value of the investee entity and a liquidity discount of 10%. An increase discount rate of the investments available-for-sale by 15% will lead to a fall in the carrying value of the investment by €15.606 thousand, with the relevant change in value reflected in the consolidated statement of comprehensive income.

22. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties

The valuation policy for properties is defined by the Group's property and valuations department. The valuation technique mainly applied by the Group is the market comparable approach, adjusted for market and property specific conditions. In certain cases the Group also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties and own use properties are presented in the tables below:

Analysis of investment properties

Type and area	Carrying value	Index change	Estimated rental value per m^2	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land area (m^2)	Building area (m^2)	Age of building
	€000										
Residential											
Cyprus	19.762	n/a	n/a	n/a	€300-€1.091	n/a	€455-€3.675	€55-€758	335-2.067	41-2.526	5-70
Greece	56.633	-7% to 10%	€4-€7	n/a	n/a	n/a	€595-€1.887	€50-€70	222-8.398	42-18.960	10-55
Romania	21.583	n/a	n/a	n/a	n/a	n/a	€476-€629	n/a	237-8.153	24.753	7
Russia	9.034	n/a	n/a	n/a	n/a	n/a	€6-€3.344	n/a	301-2.559	28-453	n/a
Ukraine	6.114	n/a	n/a	n/a	n/a	n/a	€779	n/a	137-2.445	28-1.117	6-74
Total	113.126										
Offices and other commercial properties											
Cyprus	41.062	n/a	€11-€353	n/a	€305-€1.140	4%-8%	€75-€7.059	€550-€4.400	175-1.591	54-6.395	10-144
Greece	50.769	-11% to 19%	€1-€80	n/a	€350-€1.200	6%-10%	€290-€9.000	€200-€6.844	100-8.582	69-24.786	8-55
Russia	7.367	n/a	n/a	n/a	n/a	n/a	€52-€2.169	€1-€4	270-5.307	18-2.212	n/a
Ukraine	43.313	n/a	n/a	n/a	€790-€821	n/a	n/a	n/a	392-2.274	34-30.608	5-49
Total	142.511										
Manufacturing and industrial											
Cyprus	10.371	n/a	€38-€54	n/a	€37-€550	n/a	€895-€900	€63-€1.350	1.155-24.881	1.134-5.250	30
Greece	43.538	-17% to 29%	€1-€5	n/a	€600	9%-11%	€185-€800	€25-€200	541-136.620	450-18.737	9-40
Russia	3.746	n/a	n/a	n/a	n/a	n/a	€15-€366	n/a	11.582	48-10.167	n/a
Total	57.655										
Hotels											
Cyprus	44.563	n/a	n/a	n/a	€518	n/a	€1.211	€170-€185	5.604-19.115	2.730-12.386	22-24
Greece	13.077	n/a	€16-€42	n/a	n/a	n/a	€335-€1.277	n/a	619-32.631	815-8.040	9-60
Total	57.640										

22. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties (continued)
Analysis of investment properties (continued)

Type and area	Carrying value	Index change	Estimated rental value per m²	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land area (m²)	Building area (m²)	Age of building
	€000										
Land and plots											
Cyprus	83.069	n/a	€72	n/a	€318-€1.000	5%-16%	€2-€3.163	€2-€3.163	90-67.225	n/a	n/a
Greece	8.428	-7% to 29%	n/a	n/a	n/a	n/a	€106	€15-€106	810-351.732	n/a	n/a
Romania	13.053	n/a	n/a	n/a	n/a	n/a	n/a	€8-€720	237-47.012	n/a	n/a
Russia	19.557	n/a	n/a	n/a	n/a	n/a	n/a	€1-€182	680-8.117.500	n/a	n/a
Total	124.107										
Under construction properties											
Cyprus	417	n/a	n/a	n/a	€400-€439	n/a	n/a	€47-€185	1.812	285	n/a
Russia	202	n/a	n/a	n/a	n/a	n/a	n/a	€10	735	45-182	n/a
Total	619										

22. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties (continued)
Analysis of own use properties

Type and area	Carrying value	Index change	Estimated rental value per m²	Rent growth per annum	Estimated building cost per m2	Yield	Estimated fair value per m²	Estimated land value per m²	Land area (m²)	Building area (m²)	Age of building
	€000										
Offices and other commercial properties											
Cyprus	292.452	n/a	€56-€245	n/a	€566-€2.076	5%-6%	€200-€8.917	€130-€7.257	390-51.947	98-15.805	8-84 years
Romania	4.357	n/a	n/a	n/a	n/a	n/a	n/a	1.579	660	2.284	7
Russia	65.175	n/a	€119-€2.325	n/a	n/a	n/a	€21-€21.310	€11-€417	580-2.212	40-9.511	n/a
UK	6.978	n/a	€45-€53	15%	n/a	6%-8%	€1.322-€5.487	n/a	173-2.520	121-2.415	Re-furbished in 2009
Total	368.962										

22. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties (continued)
The majority of investment properties of the Group are not utilised at their highest and best use, as the Group has acquired these assets either in debt satisfaction or as part of the Laiki Bank acquisition and is in the process of initiating an orderly disposal of these properties.

Sensitivity analysis
Most of the Group's property valuations have been classified as Level 3 Hierarchy. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income approach would result in a significantly higher/lower fair value of the properties.

23. Loans and advances to customers

	2013	2012
	€000	€000
Loans and advances to customers	**24.294.680**	26.520.517
Hire purchase and finance lease debtors (Note 24)	**545.928**	1.530.070
Gross loans and advances to customers	**24.840.608**	28.050.587
Provisions for impairment of loans and advances to customers (Note 46)	**(3.076.270)**	(3.676.056)
	21.764.338	24.374.531

Loans and advances include mortgage loans of €1.105 million (2012: €1.122 million) in Cyprus which were pledged as collateral for the issue of covered bonds by the Company in 2011 under its €5 billion Covered Bonds Programme (Note 33). At 31 December 2012, €620 million of mortgage loans in Greece were pledged as collateral under the same programme.

At 31 December 2013, loans and advances to customers also include loans amounting to €71 million (2012: €88 million) which were pledged as collateral in accordance with the terms of a Russian government programme to provide loans to support Russian small and medium sized enterprises.

At 31 December 2013, loans and advances to customers include loans of a carrying amount of €305.507 thousand, which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale (Note 54.9).

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 46.

24. Hire purchase and finance lease debtors

	2013	2012
	€000	€000
Gross investment in hire purchase and finance lease contracts	**562.281**	1.799.262
Unearned finance income	**(16.353)**	(269.192)
Present value of hire purchase and finance lease payments	**545.928**	1.530.070
Repayable		
- within one year	**259.514**	196.413
- between one and five years	**212.910**	509.036
- after five years	**73.504**	824.621
Present value of hire purchase and finance lease payments	**545.928**	1.530.070
Analysis by geographical area		
- Cyprus	**529.508**	356.209
- Greece	**-**	1.402.305
- Romania	**26.823**	29.155
- Russia	**5.950**	11.593
Gross investment in hire purchase and finance lease contracts	**562.281**	1.799.262
Repayable		
- within one year	**264.845**	238.189
- between one and five years	**222.719**	585.865
- after five years	**74.717**	975.208
Gross investment in hire purchase and finance lease contracts	**562.281**	1.799.262

Under hire purchase contracts generally the hirer: (a) pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase assets, (b) makes monthly payments which include hire purchase fees on all the amounts outstanding and (c) is responsible for any loss or damage incurred to the assets concerned.

This caption also includes contracts amounting to €381.710 thousand (2012: €385.364 thousand) on which interest is accrued using the effective interest rate and is not included in the gross investment.

Under finance lease contracts the item belongs to the Group and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the assets in good condition and to compensate the Group for any damage or loss incurred and (c) upon expiry of the contract can, either return the assets to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the assets.

25. Life insurance business assets attributable to policyholders

	2013	2012
	€000	€000
Equity securities	**32.118**	28.626
Debt securities	**68.329**	77.303
Mutual funds	**256.777**	260.900
Mortgages and other loans	**2.200**	2.935
Bank deposits	**70.695**	113.342
	430.119	483.106
Property	**13.460**	12.650
	443.579	495.756

Financial assets of life insurance business attributable to policyholders are classified as investments at fair value through profit or loss.

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level, is presented below:

	Level 1	Level 2	Level 3	**Total**
2013	€000	€000	€000	**€000**
Equity securities	30.302	-	1.816	**32.118**
Debt securities	15.619	52.710	-	**68.329**
Mutual funds	256.777	-	-	**256.777**
Mortgages and other loans	2.200	-	-	**2.200**
Bank deposits	70.695	-	-	**70.695**
	375.593	52.710	1.816	**430.119**
2012				
Equity securities	27.569	-	1.057	**28.626**
Debt securities	21.380	55.923	-	**77.303**
Mutual funds	260.900	-	-	**260.900**
Mortgages and other loans	2.935	-	-	**2.935**
Bank deposits	113.342	-	-	**113.342**
	426.126	55.923	1.057	**483.106**

25. Life insurance business assets attributable to policyholders (continued)

The movement of financial assets classified as Level 3 is presented below:

	2013	2012
	€000	€000
1 January	**1.057**	2.849
Unrealised gains/(losses) recognised in the consolidated income statement	**759**	(1.792)
31 December	**1.816**	1.057

During years 2013 and 2012, there were no significant transfers from Level 1 to Level 2.

26. Property and equipment

	Property	Equipment	**Total**
2013	€000	€000	**€000**
Net book value at 1 January	445.564	37.629	**483.193**
Acquired through business combination	105.165	11.135	**116.300**
Additions	19.643	12.954	**32.597**
Revaluation	(16.418)	-	**(16.418)**
Transfer to investment properties (Note 28)	(55.096)	-	**(55.096)**
Disposals as a result of discontinued operations	(87.692)	(9.539)	**(97.231)**
Other disposals and write-offs	(6.689)	(1.148)	**(7.837)**
Depreciation charge for the year – continuing operations	(9.845)	(14.466)	**(24.311)**
Depreciation charge for the year – discontinued operations	(1.477)	(486)	**(1.963)**
Impairment charge for the year	(4.947)	(218)	**(5.165)**
Exchange adjustments	(9.015)	(650)	**(9.665)**
Net book value at 31 December	**379.193**	**35.211**	**414.404**

1 January 2013			
Cost or valuation	552.199	210.760	**762.959**
Accumulated depreciation	(106.635)	(173.131)	**(279.766)**
Net book value	**445.564**	**37.629**	**483.193**

31 December 2013			
Cost or valuation	417.036	182.974	**600.010**
Accumulated depreciation	(37.843)	(147.763)	**(185.606)**
Net book value	**379.193**	**35.211**	**414.404**

26. **Property and equipment** (continued)

	Property	Equipment	**Total**
2012	€000	€000	**€000**
Net book value at 1 January	432.518	40.670	**473.188**
Additions	19.800	8.447	**28.247**
Revaluation	(15.732)	-	**(15.732)**
Transfer from non-current assets held for sale (Note 28)	26.500	-	**26.500**
Disposals and write-offs	(1.985)	(275)	**(2.260)**
Depreciation charge for the year – continuing operations	(6.592)	(9.506)	**(16.098)**
Depreciation charge for the year – discontinued operations	(7.431)	(1.941)	**(9.372)**
Impairment charge for the year	(3.237)	-	**(3.237)**
Exchange adjustments	1.723	234	**1.957**
Net book value at 31 December	**445.564**	**37.629**	**483.193**

1 January 2012			
Cost or valuation	532.734	203.966	**736.700**
Accumulated depreciation	(100.216)	(163.296)	**(263.512)**
Net book value	**432.518**	**40.670**	**473.188**

31 December 2012			
Cost or valuation	552.199	210.760	**762.959**
Accumulated depreciation	(106.635)	(173.131)	**(279.766)**
Net book value	**445.564**	**37.629**	**483.193**

The net book value of the Group’s property comprises of:

	2013	2012
	€000	€000
Freehold property	**368.962**	419.498
Improvements on leasehold property	**10.231**	26.066
	379.193	445.564

Freehold property includes land amounting to €133.205 thousand (2012: €143.003 thousand) for which no depreciation is charged.

26. Property and equipment (continued)

The Group's policy is to revalue its properties periodically (between 3 to 5 years). As a consequence of the prevailing economic conditions in Cyprus and in Greece and their impact on the real estate market in these countries, the fair value of properties in these countries was expected to be materially different to their carrying amounts as at the year end. As a result, property revaluations were performed as at 30 June 2013 which resulted in a net loss on revaluation of €16.418 thousand (2012: €15.732 thousand) which was recognised in the consolidated statement of comprehensive income and an impairment loss of €4.947 thousand (2012: €3.237 thousand) which was recognised in the consolidated income statement. The valuations are carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 22.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2013 would have amounted to €241.276 thousand (2012: €255.118 thousand).

27. Intangible assets

	Computer software	In-force life insurance business	**Total**
2013	€000	€000	**€000**
Net book value at 1 January	21.047	102.508	**123.555**
Acquired through business combination	13.479	-	**13.479**
Additions	8.314	-	**8.314**
Increase in value of in-force life insurance business	-	3.275	**3.275**
Disposals and write-offs	(4.065)	-	**(4.065)**
Amortisation charge for the year - continuing operations	(13.069)	-	**(13.069)**
Amortisation charge for the year - discontinued operations	(341)	-	**(341)**
Exchange adjustments	(568)	-	**(568)**
Net book value at 31 December	**24.797**	**105.783**	**130.580**
1 January 2013			
Cost	137.523	102.508	**240.031**
Accumulated amortisation and impairment	(116.476)	-	**(116.476)**
Net book value	**21.047**	**102.508**	**123.555**
31 December 2013			
Cost	132.821	105.783	**238.604**
Accumulated amortisation and impairment	(108.024)	-	**(108.024)**
Net book value	**24.797**	**105.783**	**130.580**

27. Intangible assets (continued)

	Computer software	Licence fees	In-force life insurance business	Customer relationships	Brands	Goodwill	**Total**
2012	€000	€000	€000	€000	€000	€000	**€000**
Net book value at 1 January	19.361	462	98.890	12.059	14.497	327.241	**472.510**
Additions	10.822	-	-	-	-	-	**10.822**
Increase in value of in-force life insurance business	-	-	3.618	-	-	-	**3.618**
Disposals and write-offs	(989)	-	-	-	-	-	**(989)**
Amortisation charge for the year – continuing operations	(6.661)	(462)	-	(3.037)	(3.017)	-	**(13.177)**
Amortisation charge for the year – discontinued operations	(1.532)	-	-	-	-	-	**(1.532)**
Impairment charge for the year	-	-	-	(9.434)	(12.065)	(338.247)	**(359.746)**
Exchange adjustments	46	-	-	412	585	11.006	**12.049**
Net book value at 31 December	**21.047**	**-**	**102.508**	**-**	**-**	**-**	**123.555**
1 January 2012							
Cost	127.464	6.162	98.890	20.959	23.196	327.241	**603.912**
Accumulated amortisation	(108.103)	(5.700)	-	(8.900)	(8.699)	-	**(131.402)**
Net book value	**19.361**	**462**	**98.890**	**12.059**	**14.497**	**327.241**	**472.510**
31 December 2012							
Cost	137.523	6.162	102.508	12.245	12.066	338.247	**608.751**
Accumulated amortisation and impairment	(116.476)	(6.162)	-	(12.245)	(12.066)	(338.247)	**(485.196)**
Net book value	**21.047**	**-**	**102.508**	**-**	**-**	**-**	**123.555**

Impairment testing of goodwill

The Group's policy is to test goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill impairment testing performed as at 31 December 2012 indicated that there was impairment of goodwill as the recoverable amount based on the present value of the expected future cash flows no longer exceeded the carrying amount including goodwill of these entities.

27. **Intangible assets** (continued)

Impairment testing of goodwill (continued)

The Group's cash generating units ('CGUs') for impairment test purposes were Kyprou Securities S.A., PJSB Bank of Cyprus and CB Uniastrum Bank LLC. The recoverable amount of these CGUs had been determined based on a value in use ('VIU') calculation using cash flow projections from financial budgets approved by management. The projected cash flows had been updated to reflect the funding and capital constraints which existed as at 31 December 2012, as well as those arising from the agreement between Cyprus and the Troika (Note 2). Previous plans to expand the operations had been severely curtailed, thus reducing the projected profitability of these entities and therefore their VIU.

Critical accounting estimates and judgements in relation to impairment test of goodwill are disclosed in Note 4. The calculation of VIU for the Group's CGUs used cash flow estimates based on management's projections, extrapolated in perpetuity using a nominal long-term growth rate based among others on current market assessment of GDP, inflation and foreign exchange rates, as well as specific sector penetration for the countries within which each entity operates.

- Discount factor: The discount factor represented the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and specific risks of the underlying assets that had been incorporated in the cash flow estimates. The discount factor was the Cost of Equity (Ke) of the specific CGU as this was derived using the Capital Asset Pricing Model (CAPM). The Ke was derived using the risk-free rate of the market that the CGU was operating in, adjusted to reflect the risk of cash flows in foreign currency and the risk premium of holding equity compared to the specific market returns over a period of time.

- Projected growth rates, GDP and local inflation rates: Rates were based on published market research.

- Interest margins: Interest margins were based on current fixed-interest yields, the risk profile of the CGU and inflation of the specific market that the CGU was operating in.

The key assumptions used for the calculation of VIU of the CGUs of the Group as at 31 December 2012 are presented in the table below:

	CB Uniastrum Bank LLC	PJSB Bank of Cyprus
Discount rate (after tax)	11,6%	16,6%
Cash flow growth rate	5,0%	5,0%
Terminal return on equity	11,8%	19,6%

As a result of the analysis, it was concluded that the VIU was less than the carrying amount and goodwill amounting to €28.862 thousand and €308.180 thousand for PJSB Bank of Cyprus and CB Uniastrum Bank LLC respectively, was fully written off and recorded within 'Impairment of goodwill and intangible assets' in the consolidated income statement.

Impairment testing of other intangibles

Following the impairment of goodwill relating to the acquisition of CB Uniastrum Bank LLC and PJSB Bank of Cyprus in 2012, an impairment charge was recognised on customer relationships and brands that arose on the acquisition of the above mentioned entities. This charge amounted to €9.434 thousand for customer relationships and €12.065 thousand for brands, thus reducing the carrying amounts of both intangibles to €nil as at 31 December 2012. The respective impairment charge was included within 'Impairment of goodwill and intangible assets' in the consolidated income statement.

27. Intangible assets (continued)

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance business relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force business are:

	2013	2012
Discount rate (after tax)	**10,0%**	10,0%
Return on investments	**5,5%**	5,5%
Expense inflation	**5,0%**	5,0%

28. Other assets

	2013	2012
	€000	€000
Debtors	**22.956**	26.400
Stock of property held for sale	**14.110**	11.624
Investment properties	**495.658**	316.378
Taxes refundable	**48.544**	41.459
Deferred tax asset (Note 17)	**479.060**	50.829
Retirement benefit plan assets (Note 13)	**1.319**	1.610
Reinsurers' share of insurance contract liabilities (Note 32)	**68.387**	65.927
Prepaid expenses	**2.840**	5.004
Receivable relating to acquisitions and disposals of operations	**90.219**	-
Other assets	**171.658**	94.529
	1.394.751	613.760

The increase in the deferred tax asset relates mainly to the Laiki Bank tax losses transferred to the Company as a result of the acquisition (Note 54).

Investment properties

The movement of investment properties is summarised below:

	2013	2012
	€000	€000
1 January	**316.378**	187.795
Acquired through business combination (Note 54.2)	**184.732**	-
Additions	**28.728**	160.411
Transfer from property and equipment (Note 26)	**55.096**	-
Disposals	**(4.406)**	(6.300)
Losses from revaluation	**(78.203)**	(24.851)
Exchange adjustments	**(6.667)**	(677)
31 December	**495.658**	316.378

28. **Other assets** (continued)

Investment properties (continued)

At 31 December 2013, investment property includes property amounting to €49.430 thousand, which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale (Note 54.9).

Fair value hierarchy and other disclosures have been provided in Note 22.

29. Amounts due to banks

	2013	2012
	€000	€000
Amounts due to banks	**196.422**	341.044

Amounts due to banks represent interbank takings and bear interest based on the interbank rate of the relevant term and currency.

30. Funding from central banks

Funding from central banks comprises of funding from the CBC under Eurosystem monetary policy operations, including standing facilities and Emergency Liquidity Assistance ('ELA'), as set out in the table below:

	2013	2012
	€000	€000
Emergency Liquidity Assistance	**9.556.035**	-
Monetary policy operations	**1.400.242**	-
	10.956.277	-

As at 31 December 2012 the Group had no funding under the ELA and the Company as at that date, had been suspended by the ECB from participation in monetary policy operations.

The amount of ELA funding as at 31 December 2013 includes €9,1 billion ELA funding which was acquired as part of the acquisition of assets and liabilities of Laiki Bank as at 29 March 2013 following a decision by the Resolution Authority. This ELA funding of Laiki Bank of €9,1 billion was effectively lower by €1,2 billion, as Laiki Bank had advanced to the Company on 26 March 2013 an amount of €1,2 billion to finance the sale of the Group's Greek operations (Note 54).

Since August 2013, the Company has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This enables the Company to resort to monetary policy operations which may be used for ELA repayment.

The funding under monetary policy operations bears interest at the ruling main refinancing operations ('MRO') rate of the Eurosystem. The Company's ELA funding bears interest at the rate equal to the ruling marginal lending facility rate ('MLF rate') of the Eurosystem, plus a margin.

31. Customer deposits

	2013	2012
	€000	€000
By type of deposit		
Demand	**3.492.789**	6.417.980
Savings	**925.549**	1.865.042
Time or notice	**10.552.829**	20.159.130
	14.971.167	28.442.152
By geographical area		
Cyprus	**12.705.254**	18.511.979
Greece	**-**	7.152.375
Russia	**918.491**	1.253.677
United Kingdom	**1.244.186**	1.215.207
Romania	**30.055**	214.149
Ukraine	**73.181**	94.765
	14.971.167	28.442.152

During the recapitalisation process through a bail-in of uninsured deposits of the Company in Cyprus (Note 2.5), uninsured deposits have been converted into shares of the Company.

The Cypriot authorities have introduced temporary restrictive measures, with respect to banking and cash transactions, as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provide for the compulsory partial renewal of maturing deposits. Since their introduction, these restrictive measures have been gradually relaxed and the Cyprus government has published a roadmap for the gradual liberalisation of the restrictions, taking into account investor confidence and financial stability indicators.

At 31 December 2013, customer deposits include deposits amounting to €73.462 thousand, which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale (Note 54.9).

32. Insurance liabilities

	2013			2012		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Life insurance	**€000**	**€000**	**€000**	€000	€000	€000
Life insurance contract liabilities	**480.085**	**(31.752)**	**448.333**	527.673	(29.561)	498.112
General insurance						
Provision for unearned premiums	**30.768**	**(15.478)**	**15.290**	36.283	(17.799)	18.484
Other liabilities						
Claims outstanding	**40.922**	**(21.157)**	**19.765**	39.703	(18.567)	21.136
Unexpired risks reserve	**16**	**-**	**16**	477	-	477
Equalisation reserve	**38**	**-**	**38**	34	-	34
General insurance contract liabilities	**71.744**	**(36.635)**	**35.109**	76.497	(36.366)	40.131
	551.829	**(68.387)**	**483.442**	604.170	(65.927)	538.243

Reinsurance balances receivable are included in 'Other assets' (Note 28).

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

	2013			2012		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
1 January	**527.673**	**(29.561)**	**498.112**	532.687	(27.693)	504.994
New business	**6.585**	**(945)**	**5.640**	5.335	(1.902)	3.433
Change in existing business	**(54.173)**	**(1.246)**	**(55.419)**	(10.349)	34	(10.315)
31 December	**480.085**	**(31.752)**	**448.333**	527.673	(29.561)	498.112

32. **Insurance liabilities** (continued)

General insurance liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

	2013			2012		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**36.283**	**(17.799)**	**18.484**	35.641	(16.292)	19.349
Premium income	**78.165**	**(45.979)**	**32.186**	80.646	(42.433)	38.213
Earned premiums	**(83.680)**	**48.300**	**(35.380)**	(80.004)	40.926	(39.078)
31 December	**30.768**	**(15.478)**	**15.290**	36.283	(17.799)	18.484

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relates to risks that have not yet expired at the reporting date.

	2013			2012		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Claims and adjustments for losses	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**39.703**	**(18.567)**	**21.136**	42.786	(20.206)	22.580
Amount paid for claims settled in the year	**(26.835)**	**10.295**	**(16.540)**	(33.852)	13.236	(20.616)
Increase in liabilities arising from claims	**28.054**	**(12.885)**	**15.169**	30.769	(11.597)	19.172
31 December	**40.922**	**(21.157)**	**19.765**	39.703	(18.567)	21.136

Reported claims	**37.775**	**(19.616)**	**18.159**	36.391	(17.009)	19.382
Incurred but not reported	**3.147**	**(1.541)**	**1.606**	3.312	(1.558)	1.754
	40.922	**(21.157)**	**19.765**	39.703	(18.567)	21.136

33. Debt securities in issue

	Contractual interest rate	2013	2012
Medium term senior debt		**€000**	€000
SEK 100 million 2010/2014	Return of specific shares	**-**	11.990
€2 million 2010/2016	DJ EUROSTOXX 50 index	**-**	1.897
USD 2 million 2010/2016	S&P 500 index	**-**	1.502
		-	15.389
Other debt securities in issue			
RUB Certificates of Deposit and Promissory Notes	11%	**349**	28.894
Interest-free loan from the European Development Bank	-	**492**	492
		841	29.386
		841	44.775

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Group.

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company have been bailed in and were converted into shares as presented in Note 2.

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2012: €4.000 million).

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2012: €1.000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted. No commercial paper is currently in issue.

Other debt securities in issue

The RUB Certificates of Deposits and Promissory Notes which were issued by CB Uniastrum Bank LLC at par, are unlisted and have maturities up to one year.

Covered Bonds

During 2011, a €5.000 million Covered Bonds Programme was set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the Central Bank of Cyprus.

Under the Programme, the Company issued in July and December 2011 covered bonds of €700 million and €1.000 million, respectively. The covered bonds issued have a maturity of 3 years with a potential extension of their repayment by one year, bear interest at the three month Euribor plus 1,25% annually and are traded on the Luxemburg Bourse.

33. Debt securities in issue (continued)

Covered Bonds (continued)

On 29 June 2012 and 25 March 2013, covered bonds of €150 million and €550 million respectively issued in July 2011, were cancelled.

Loans and advances pledged as collateral for covered bonds are disclosed in Note 48.

The liability from the issue of covered bonds is not presented in debt securities in issue in the consolidated balance sheet as all the bonds issued are held by the Company.

Additional information relating to the covered bonds issued by the Company is available on the Group's website under Investors Relations/Debt Securities.

Bonds guaranteed by the Cyprus government

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Company assumed the rights and obligations of Laiki Bank in its role as issuer of two bonds guaranteed by the Cyprus government of €500 million each. The bonds were issued by Laiki Bank on 14 November and 27 November 2012 respectively and had a maturity of 364 days. The maturity of the bonds was extended in November 2013 for a further period of one year. The bonds bear annual fixed interest rate at 5%. The bonds are guaranteed by the Cyprus government and are issued in accordance with the relevant legislation and decrees on the Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law. The liability from the issue of these bonds is not presented within debt securities in issue in the consolidated balance sheet as the bonds are held by the Company. The bonds are pledged as collateral for obtaining funding from central banks. The bonds are listed on the Cyprus Stock Exchange.

34. Other liabilities

	2013	2012
	€000	€000
Income tax payable	**13.247**	11.354
Special defence contribution payable	**12.382**	9.844
Deferred tax liability (Note 17)	**49.937**	45.232
Liability of retirement benefit plans (Note 13)	**9.139**	38.694
Provision for pending litigation or claims	**52.312**	10.042
Financial guarantees	**2.604**	4.459
Liabilities for investment-linked contracts under administration	**5.391**	6.232
Accrued expenses and other provisions	**32.759**	32.682
Deferred income	**8.761**	12.348
Shares subject to interim orders (Note 36)	**(58.922)**	-
Items in the course of settlement	**25.754**	94.431
Other liabilities	**99.289**	74.409
	252.653	339.727

34. Other liabilities (continued)

Provision for pending litigation or claims

The movement for the year in the provision for pending litigation or claims is as follows:

	2013	2012
	€000	€000
1 January	**10.042**	3.837
Increase of provision in the year	**45.419**	6.180
Utilisation of provision	**(1.089)**	-
Release of provision in the year	**(2.000)**	-
Exchange adjustments	**(60)**	25
31 December	**52.312**	10.042

The provision for pending litigation or claims does not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries.

The increase of provision in the year includes €36.000 thousand provision charge for cases in relation to operations that have been discontinued in the year.

35. Subordinated loan stock

	Contractual interest rate	**2013**	2012
		€000	€000
Subordinated Bonds in USD 2013/2014/2015	2,50%	**4.676**	6.922
Convertible Bonds 2013/2018 (€573 million)	Six-month Euribor plus 1,00%	**-**	27.103
Convertible Capital Securities (€645 million)	5,50%	**-**	76.775
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	**-**	22.494
		4.676	133.294

The subordinated loan stock is not secured and the rights and claims of their holders are subordinate to the claims of depositors and other creditors of the Company, but have priority over those of the shareholders of the Company.

As a result of the recapitalisation of the Company in 2013, the subordinated loan stock in issue by the Company on 29 March 2013, was converted into shares (except for the Subordinated Bonds in USD which are issued by CB Uniastrum Bank LLC).

Subordinated Bonds

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2012:€4.000 million). As at 31 December 2013, the Company does not have any subordinated loan stock in issue under the EMTN Programme.

Convertible Bonds

The Convertible Bonds, the Convertible Capital Securities and the Capital Securities have contributed to the recapitalisation of the Company in 2013 through their conversion into ordinary shares in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013. Additional information is presented in Note 2.5.

36. Share capital

	2013		2012	
	Shares (thousand)	**€000**	Shares (thousand)	€000
Authorised				
Ordinary shares of €1,00 each	**4.686.414**	**4.686.414**	3.000.000	3.000.000
Issued				
1 January	**1.795.141**	**1.795.141**	899.528	899.528
Issue of shares	**-**	**-**	159.683	159.683
Bonus issue	**-**	**-**	303.743	303.743
Conversion of Convertible Enhanced Capital Securities	**-**	**-**	432.187	432.187
Bail-in of deposits	**3.814.495**	**3.814.495**	-	-
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	**122.541**	**122.541**	-	-
Conversion of CECS into shares	**459.399**	**459.399**	-	-
Reduction in nominal value of share capital	**(2.353.349)**	**(2.353.349)**	-	-
Acquisitions (Note 54)	**845.758**	**845.758**	-	-
31 December 2013	**4.683.985**	**4.683.985**	1.795.141	1.795.141

Authorised share capital

During 2013 the authorised share capital of the Company was increased by 1.686.414 thousand shares by creating new ordinary shares of nominal value €1,00 each, which rank pari passu with the existing ordinary shares of the Company.

Issued share capital

2013
The Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits (Note 2.5). The holders of ordinary shares and debt securities as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree of 2013' (the 'Decree') issued on 29 March 2013, the 'Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013' (the 'Amended Decree') issued on 21 April 2013 and the 'Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013' (the 'Amended Decrees No. 2 and 3') issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the 'Bail-in Decrees').

According to the Amended Decrees No. 2 and 3 the following have been decided:
- Reduction of the nominal value of all ordinary shares from €1,00 each to ordinary shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.
- As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17.913 thousand.

36. Share capital (continued)

Issued share capital (continued)

2013 (continued)
Following the conversion of Class A, Class B, Class C and Class D shares to Ordinary Shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0,01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1,00 each. Any remaining ordinary shares of a nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

Following the changes in the share capital described in Note 2.5, the issued share capital of the Company as at the date of approval of these financial statements amounts to 4.683.985 thousandordinary shares of a nominal value of €1,00 each. All issued ordinary shares carry the same rights.

2012
In November 2011, the Group decided to increase its share capital through a pre-emptive rights offering amounting to €397.000 thousand and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600.000 thousand.

The Rights were issued and allotted to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of their respective at the time conversion price into shares, in the ratio of one Right for each existing ordinary share. Every three Rights exercised were converted into one New Share at the subscription price of €1,00 per share. In addition, for each New Share arising from the exercise of the Rights, the Company granted one fully paid Bonus Share.

The holders of CECS were given the option to exchange their CECS with one fully paid New Share. In addition, for every three New Shares arising from the conversion of the CECS, the Company granted one Bonus Share.

The periods for the exercise of the Rights and the acceptance of the offers to exchange the CECS expired on 19 March 2012. As a result, the Company issued 159.683 thousand new shares from the exercise of Rights, 432.187 thousand shares from the conversion of CECS and 303.743 thousand bonus shares.

Shares subject to interim orders

Following the issue of the Bail-in Decrees, a number of the affected depositors have filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. In some of the actions, interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The said actions are being contested by the Company and are pending before the District Courts.

The shares which as per the bail-in Decree correspond to the deposits which are subject to these interim orders amount to 58.922 thousand ordinary shares of a nominal value of €1,00 each. These shares are included in equity in the consolidated balance sheet as 'Shares subject to interim orders', with an equivalent debit balance included in 'Other liabilities' within total liabilities.

36. Share capital (continued)

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The shareholders' Annual General Meeting held on 19 June 2012 approved a special resolution for the reduction by an amount of €430.440 thousand of the credit balance of the Company's share premium account. During September 2012 the District Court of Nicosia by order approved the reduction of the share premium account. The reduction was effected by writing off accumulated losses in the 'Accumulated losses' reserve.

Pursuant to the Decrees issued by the Resolution Authority in 2013, the balance of the share premium reserve was reduced to zero and the reduction is applied to write off accumulated losses of the Company (Note 2.5).

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2013 was 20.767 thousand (2012: 73.331 thousand). Treasury shares include 298 thousand shares which resulted from the conversion of CECS of nominal value of €29.825 thousand, which were held by the Group. The total cost of acquisition of treasury shares was €88.051 thousand (2012: €38.595 thousand).

Part of these shares held by entities controlled by the Group resulted from the bail-in of deposits that these entities maintained with the Company and in accordance with the provisions of Company Law, these shares must be sold within one year from their acquisition.

In addition, the life insurance subsidiary of the Group held, as at 31 December 2013, a total of 16.031 thousand (2012: 16.031 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders (Note 25). The cost of acquisition of these shares was €21.463 thousand (2012: €21.463 thousand).

Share-based payments – Share Options

In 2008 the Company granted share options to Group employees and in 2009 it approved the granting of additional share options under the 2008 options scheme. The fair value of the 12,5 million Share Options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1,17 per share option. The main variables taken into account by the model are the share price (€8,56 on 28 May 2008), the exercise price (€9,41), the dividend yield (8,1%), the risk free interest rate (4,2%), the duration of the share options and the expected volatility of the share price (31,3% on an annual basis calculated using the historic volatility of the share).

The fair value of the additional 2.362 thousand Share Options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0,87 per share option. The main variables taken into account by the model are the share price (€4,10 on 9 July 2009), the exercise price (€5,50), the dividend yield (6,9%), the risk free interest rate (2,7%), the duration of the share options and the expected volatility of the share price (23,6% on an annual basis calculated using the historic volatility of the share).

The Share Options 2008/2010 were vested in full on 31 December 2010 and could be exercised by their holders from 1 January-31 March of years 2011-2013 and from 1 November-31 December of years 2012-2013. The Share Options 2008/2010 were not transferable and are unlisted.

In accordance with their issue terms, the exercise price of the Share Options was adjusted to reflect the sequence of corporate actions and changes pursuant to the relevant provisions and decisions of the Decrees issued by the Resolution Authority in 2013.

The Share Options 2008/2010 lapsed on 31 December 2013.

36. Share capital (continued)

Share-based payments – Share Options (continued)

The movement in the number of Share Options 2008/2010 is summarised below:

	2013	2012
	€000	€000
1 January	**12.585**	14.280
Share options lapsed	**(12.585)**	-
Share options forfeited	**-**	(1.695)
31 December	**-**	12.585

37. Convertible Enhanced Capital Securities

	2013	2012
	€000	€000
1 January	**428.835**	862.233
Conversion into shares	**(429.580)**	(432.187)
Exchange differences	**745**	(1.211)
31 December	**-**	428.835

The CECS were issued by the Company on 18 May 2011, following the approval by the Extraordinary General Meeting of shareholders on 23 March 2011. For the purposes of regulatory capital the CECS qualified as tier 1 capital.

The nominal value of the CECS issued consisted of €820.000 thousand in Euro and $95.000 thousand in US Dollars. The CECS issued in Euro bore a fixed interest rate of 6,50% per annum until 30 June 2016 and 6-month Euribor plus 3,00% per annum thereafter. The CECS issued in US Dollars bore a fixed interest rate of 6,00% per annum until 30 June 2016 and 6-month Libor plus 3,00% per annum thereafter. The Company could, at any time at its sole discretion, taking into account its specific financial and solvency condition, elect to cancel an interest payment on a non-cumulative basis. Any coupon not paid was no longer due and payable by the Company. The Company proceeded with a mandatory coupon cancellation for the period since 31 December 2011.

The CECS could be converted at the option of the holder during any conversion period. The conversion periods were: 1-15 September 2011, and then 1-15 March, 15-31 May, 1-15 September and 15-30 November of each subsequent year. The last conversion date was 31 May 2016.

The CECS were perpetual without a maturity date but the Company could elect to redeem all but not some of the CECS at their principal amount together with any accrued interest, on 30 June 2016 or on any other interest payment date thereafter, subject to the prior approval of the Central Bank of Cyprus.

If a Contingency Event or Viability Event occurred, the CECS would be mandatorily converted into ordinary shares of the Company. The conversion price was set at 80% of the weighted average market price of the shares during the previous five business days, with a ceiling price of €3,30 and a floor price equal to the nominal value of the ordinary shares (€1,00).

A Contingency Event occur if (i) the Company's core tier 1 ratio is below 5% or, on or after the implementation of the Basel III regulations, its common equity tier 1 ratio is below the required capital adequacy regulatory limits, or (ii) the Central Bank of Cyprus determines that the Company is in non-compliance with the required capital adequacy regulatory limits.

37. Convertible Enhanced Capital Securities (continued)

A Viability Event occurs if (i) the Central Bank of Cyprus determined that the conversion of the CECS was required to improve the capital adequacy and financial position of the Company to prevent insolvency, and/or (ii) the Central Bank of Cyprus determined that the Company required public sector support to prevent it from becoming (a) insolvent, (b) bankrupt, or (c) unable to pay a material amount of its debts, or (iii) other similar circumstances.

During 2012, the Group proceeded with the amendment of certain terms of the issue of the CECS in order to satisfy the requirements of the European Banking Authority (EBA) for inclusion of the remaining amount of the CECS (€429.000 thousand) as eligible for reducing the capital shortfall as determined by the EBA Capital Exercise.

The CECS were listed on the Cyprus Stock Exchange and the Athens Exchange.

During March 2012, CECS with nominal value of €432.000 thousand were converted into shares in the context of the Group's Capital Strengthening Plan.

The CECS have contributed to the recapitalisation of the Company in 2013 through their conversion into ordinary shares in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013. Additional information is presented in Note 2.5.

38. Dividends

During 2012 and 2013 no dividend was declared or paid.

39. Accumulated losses

Retained earnings are the only distributable reserve.

The companies, tax residents in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Cyprus Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 20% for tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-resident in Cyprus.

For the purpose of arriving at the profit subject to deemed distribution, any capital expenditure incurred in the acquisition of plant and machinery (excluding private saloon cars) and buildings during the years 2012 to 2014 is deducted from the after tax profits. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the Company on account of the shareholders.

40. Fiduciary transactions

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2013 amounted to €930.000 thousand (2012: €1.371.000 thousand).

41. Contingent liabilities and commitments

As part of the services provided to its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group (Note 46).

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2013 amount to €1.867 thousand (2012: €12.264 thousand).

Pending litigation and claims

The Group faces legal and regulatory challenges, many of which are beyond its control. The extent of the impact of these matters, in which the Group is or may in the future become involved, cannot always be predicted with certainty but may materially impact its operations, financial results and condition and prospects.

The recognition of provisions for litigation and claims is determined in accordance with the accounting policies set out in Note 3.33.

Apart from what is described below, the Group considers that none of these matters are material, either individually or in aggregate. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2013 (Note 34). It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Investigations and litigation on securities issued by the Company
A number of customers have filed actions against the Company alleging that they were misled into purchasing bonds and capital securities and claim various remedies including the return of the money they have paid. The Company is contesting the said claims, which are pending before the Court. In another development, the Central Bank of Cyprus has conducted an investigation and concluded that the Company breached certain regulatory requirements concerning the 2009 issue of Convertible Capital Securities, but not any regulatory requirements concerning the 2011 issue of CECS. The CBC imposed upon the Company a fine of €4 thousand. The Company has filed a recourse before the Supreme Court against the ruling and the imposition of a fine by the CBC.

CySEC investigation for non-disclosure of information
The Cyprus Securities and Exchange Commission (CySEC) has conducted an investigation against the Company concerning alleged non-disclosure of important information, specifically the information provided on the amount of the capital shortfall as determined by the European Banking Authority and the amount of requested state aid in June 2012. It was held that the Company was in breach of the law and the Commission has imposed an administrative fine upon the Company of €230 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company intends to file a recourse before the Supreme Court against the Commission's decision and the fine imposed upon it.

Bail-in related litigation
Following the issue of the Decrees in respect of the bailed-in depositors, a number of the affected depositors filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. Actions on the part of affected depositors are filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by the depositors as a result of the Law and the Decrees issued thereafter. In some of the actions interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The Company is taking active steps to obtain the discharge and cancellation of the said interim orders and is defending the actions of depositors vigorously. The said actions are being contested by the Company and are pending before the District Courts. This far, 48 court decisions regarding interim orders were issued and in all cases the interim order was cancelled.

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

Bail-in related litigation (continued)
The position of the Company is that the Resolution Law and the Decrees take precedence over all other Laws and management assesses that it is probable that the interim orders issued will be lifted and the said deposits will be eventually converted into equity.

There are also numerous claims filed by shareholders and holders of debt securities as of 29 March 2013 whose shares were applied for the absorption of losses of the Company. Such proceedings have been filed before the Supreme Court of Cyprus. The objective of these proceedings before the Supreme Court is to obtain the annulment (i.e. cancellation and setting aside) of the Decrees of the Resolution Authority as unconstitutional and/or unlawful and/or irregular. These proceedings are still at an early stage. The Company is appearing in these proceedings as an interested party. Both the Government of the Republic and the Resolution Authority are taking the view that the relevant Law and Decrees are lawful and constitutional. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by a Court of Law.

Bail-in related litigation - Ukraine
In May 2013, a bailed-in depositor had assigned his rights arising from the deposit to a third party which filed a claim in the Commercial Court of Kiev against the Company and its subsidiary in Ukraine. A judgment was issued against the Company and its subsidiary in Ukraine by the Court of first instance for the amount of €11 million. The Group had filed an Appeal against this judgment, which however has been rejected and dismissed.

On 9 December 2013 the Supreme Commercial Court of Ukraine annulled the lower court's decisions and terminated the proceedings against the Group for lack of jurisdiction and also lifted the injunctive relief measures.

Another case on collection of funds from a deposit account of the Company was pending at the Desnyanskiy District Court of Kiev. The claimant claimed USD 7.000 thousand. On 10 July 2013 the District Court issued injunctive relief measures and arrested all movable property of the Company as well as the shares of its Ukrainian subsidiary. The Company appealed and on 25 December 2013, the court received a written motion of the claimant regarding the abandonment of his claims and closing of proceedings in the case. The court granted claimant's motion, dismissed the proceedings and also lifted the injunctive relief.

CySEC ongoing investigations
The CySEC is carrying out investigations in respect of:

- The Group's exposure to Greek Government bonds. In this respect, the Commission has issued its decision for part of its investigation where it held that the Company was in breach of the law and it has imposed an administrative fine upon the Company of €160 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company has filed a recourse before the Supreme Court against the fine imposed upon it.
- The fact that the Group has not published its Annual Financial Statements for the year 2012 within the legally prescribed time limits.

The above investigations are in progress and therefore it is not practical at this stage for the Company to estimate reliably and possible liability that might arise.

Other
The Group is involved in a number of other litigations involving legal cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece. For one of these cases relating to the discontinued operations in Greece a provision of €36.000 thousand has been recognised (Note 34).

42. Net cash flow used in operating activities

	2013	2012
	€000	€000
Loss before tax from continuing operations	**(611.088)**	(1.334.191)
Loss before tax from discontinued operations	**(1.455.604)**	(875.749)
Adjustments for:		
Provisions for impairment of loans and advances	**1.126.253**	2.306.156
Depreciation of property and equipment	**26.274**	25.470
Amortisation of intangible assets	**13.410**	14.709
Impairment of property	**5.165**	3.237
Impairment of goodwill and intangible assets	**-**	359.746
Loss on disposal of discontinued operations	**1.365.624**	-
Amortisation of discounts/premiums of debt securities and subordinated loan stock	**(98.328)**	7.291
Losses on sale and write-off of property and equipment and intangible assets	**3.064**	2.691
Losses from revaluation of investment properties	**78.203**	24.851
Interest on debt securities	**(208.262)**	(126.651)
Dividend income	**(432)**	(241)
Net (gains)/losses on disposal of investments in equity securities	**(962)**	506
Net losses/(gains) on disposal of investments in debt securities	**11.530**	(88.570)
Share of profit of associates	**(1.885)**	(222)
Loss/(profit) on dissolution/disposal of subsidiaries	**1.361**	(45)
Loss/(profit) from revaluation of debt securities designated as fair value hedges	**28.168**	(56.384)
Impairment of GGBs and change in fair value of related hedging derivatives	**-**	143.573
Impairment of investments	**22.786**	4.741
Interest (reversal)/charge on subordinated loan stock	**(4.319)**	6.148
Interest on funding from central banks	**167.560**	-
Interest on senior debt	**629**	1.913
Change in present value of in-force life insurance business	**(3.275)**	(3.618)
	465.872	415.361
Change in:		
Placements with banks	**1.577.763**	(362.783)
Obligations to central banks and amounts due to banks	**(1.356.804)**	(2.724.712)
Obligatory balances with central banks	**422.212**	(162.531)
Customer deposits	**(6.080.246)**	(1.212.346)
Value of in-force life insurance policies and liabilities	**(164)**	1.729
Loans and advances to customers	**2.318.390**	532.336
Other assets	**224.680**	43.798
Accrued income and prepaid expenses	**(691)**	(43)
Other liabilities	**(93.559)**	(14.020)
Accrued expenses and deferred income	**(3.510)**	8.441
Derivative financial instruments	**(132.199)**	(137.345)
Investments at fair value through profit or loss	**(3.342)**	31.071
Repurchase agreements	**(13.769)**	(178.220)
Reverse repurchase agreements	**-**	215.936
Subordinated loan stock	**(129.574)**	(6)
	(2.804.941)	(3.543.334)
Tax paid	**(11.194)**	(31.620)
Net cash flow used in operating activities	**(2.816.135)**	(3.574.954)

42. Net cash flow used in operating activities (continued)

Net cash flow used in operating activities – interest and dividends

	2013	2012
	€000	€000
Interest paid	(811.421)	(1.012.744)
Interest received	1.714.437	2.148.559
Dividends received	421	216
	903.437	1.136.031

43. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2013	2012
	€000	€000
Cash and non-obligatory balances with central banks	446.143	328.779
Treasury bills repayable within three months	199.003	99.379
Placements with banks with maturity less than three months	818.097	909.798
	1.463.243	1.337.956

Cash and non-obligatory balances with central banks	446.143	328.779
Obligatory balances with central banks	793.900	943.645
Total cash and balances with central banks (Note 19)	1.240.043	1.272.424

Placements with banks with original maturity less than three months	818.097	909.798
Other restricted placements with banks (Note 48)	221.255	388.817
Other placements with banks	250.750	470.221
Total placements with banks (Note 19)	1.290.102	1.768.836

44. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December are presented below:

	2013	2012
	€000	€000
Within one year	3.803	14.239
Between one and five years	4.761	20.863
After five years	1.338	4.433
	9.902	39.535

The above mainly relate to property leases for the Group's branches and offices.

45. Analysis of assets and liabilities by expected maturity

	2013			2012		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€000	**€000**	**€000**	€000	€000	€000
Assets						
Cash and balances with central banks	**784.128**	**455.915**	**1.240.043**	753.454	518.970	1.272.424
Placements with banks	**734.578**	**555.524**	**1.290.102**	1.546.727	222.109	1.768.836
Investments	**321.568**	**3.210.825**	**3.532.393**	390.226	1.479.854	1.870.080
Derivative financial instruments	**25.045**	**3.720**	**28.765**	16.041	10.753	26.794
Life insurance business assets attributable to policyholders	**17.323**	**426.256**	**443.579**	18.901	476.855	495.756
Loans and advances to customers	**6.006.000**	**15.758.338**	**21.764.338**	5.770.991	18.603.540	24.374.531
Property, equipment and intangible assets	**1.025**	**543.959**	**544.984**	5.973	600.775	606.748
Other assets	**390.346**	**1.004.405**	**1.394.751**	230.844	382.916	613.760
Investments in associates	**-**	**103.402**	**103.402**	-	3.107	3.107
	8.280.013	**22.062.344**	**30.342.357**	8.733.157	22.298.879	31.032.036
Liabilities						
Amounts due to banks	**117.219**	**79.203**	**196.422**	260.695	80.349	341.044
Funding from central banks	**157.000**	**10.799.277**	**10.956.277**	-	-	-
Repurchase agreements	**13.928**	**580.076**	**594.004**	31.813	575.960	607.773
Derivative financial instruments	**16.027**	**67.867**	**83.894**	65.043	118.783	183.826
Customer deposits	**5.579.459**	**9.391.708**	**14.971.167**	11.126.769	17.315.383	28.442.152
Insurance liabilities	**97.394**	**454.435**	**551.829**	101.322	502.848	604.170
Debt securities in issue	**841**	**-**	**841**	29.386	15.389	44.775
Other liabilities	**145.213**	**107.440**	**252.653**	294.195	45.532	339.727
Subordinated loan stock	**2.598**	**2.078**	**4.676**	-	133.294	133.294
	6.129.679	**21.482.084**	**27.611.763**	11.909.223	18.787.538	30.696.761

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

In accordance with the Group's approved restructuring plan, nearly all of the funding from central banks has been included in the over one year time band, since it is expected that it will continue to be required and available. It is noted however, that contractual maturity is under one year.

The liquid bonds used as collateral for the ECB funding are also placed in the over one year time band, since their encumbrance will be terminated once the ECB funding is repaid.

Investments have been classified in the relevant time band based on expectations as to their realisation, taking into consideration whether investments are pledged as collateral and other conditions.

Loans and advances to customers in Cyprus are classified based on the contractual repayment schedule with the exception of the overdraft accounts which are classified in the over one year time band.

45. Analysis of assets and liabilities by expected maturity (continued)

A percentage of customer deposits in Cyprus maturing within one year was transferred in the over one year time band, based on the observed actual customer behaviour given the restrictive measures.

Loans and advances to customers and customer deposits in Russia are classified based on historic behavioural data, with the exception of demand deposits which are classified in the less than one year time band. In the United Kingdom, Romania, Ukraine and Channel Islands they are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year column.

The expected maturity of all other assets and liabilities is the same as their contractual maturity.

46. Risk management – Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms at all companies of the Group in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group.

The Group Credit Risk Management Unit sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line (consumer, business and corporate) and the quality of the Group's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The credit policies are combined with modern methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate. The portfolio is regularly reviewed by a specialist Unit of Group Internal Audit.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Group Credit Risk Management Unit determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in Note 3 'Accounting Policies'.

The Group Market Risk Management Unit assesses the credit risk relating to investments in liquid assets (mainly placements with banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the Group Assets and Liabilities Committee (ALCO) for approval.

Following the March 2013 events relating to the Group's recapitalisation and restructuring, the Group has applied stricter lending criteria and has significantly reduced the approval limits of the various credit authorities.

46. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	2013	2012
On-balance sheet	**€000**	€000
Cyprus	**23.438.280**	16.620.681
Greece	**253.996**	8.324.201
Russia	**1.259.494**	2.008.588
United Kingdom	**1.936.330**	1.326.359
Romania	**619.311**	560.007
Ukraine	**336.591**	323.615
	27.844.002	29.163.451

Off-balance sheet		
Cyprus	**3.629.580**	2.484.945
Greece	**335.073**	1.567.365
Russia	**154.901**	199.749
United Kingdom	**18.995**	23.428
Romania	**3.466**	23.349
Ukraine	**586**	423
	4.142.601	4.299.259

Total on and off balance sheet		
Cyprus	**27.067.860**	19.105.626
Greece	**589.069**	9.891.566
Russia	**1.414.395**	2.208.337
United Kingdom	**1.955.325**	1.349.787
Romania	**622.777**	583.356
Ukraine	**337.177**	324.038
	31.986.603	33.462.710

46. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers

The Group Credit Risk Management Unit determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group include real estate mortgages on properties, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments

Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

46. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							**Net exposure to credit risk**
		Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	
2013	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 19)	**1.084.830**	-	-	-	-	-	-	-	**1.084.830**
Placements with banks	**1.290.102**	915	-	-	-	-	-	915	**1.289.187**
Trading investments - debt securities	**103**	-	-	-	-	-	-	-	**103**
Debt securities at fair value through profit or loss	**15.549**	-	-	-	-	-	-	-	**15.549**
Debt securities classified as available-for-sale and loans and receivables	**3.307.095**	-	-	-	-	-	-	-	**3.307.095**
Derivative financial instruments	**28.765**	10.291	-	-	-	-	-	10.291	**18.474**
Loans and advances to customers	**21.764.338**	816.977	699.086	1.129.167	26.555.058	778.019	(10.141.702)	19.836.605	**1.927.733**
Debtors (Note 28)	**22.956**	-	-	-	-	-	-	-	**22.956**
Reinsurers' share of insurance contract liabilities (Note 28)	**68.387**	-	-	-	-	-	-	-	**68.387**
Other assets	**261.877**	-	-	-	-	-	-	-	**261.877**
On-balance sheet total	**27.844.002**	**828.183**	**699.086**	**1.129.167**	**26.555.058**	**778.019**	**(10.141.702)**	**19.847.811**	**7.996.191**
Contingent liabilities									
Acceptances and endorsements	**20.467**	1.094	80	3.760	11.225	1.011	(5.805)	11.365	**9.102**
Guarantees	**1.207.501**	22.324	1.929	9.321	384.327	16.982	(167.442)	267.441	**940.060**
Commitments									
Documentary credits	**10.919**	27	-	-	-	-	-	27	**10.892**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.903.714**	-	-	14.440	-	-	-	14.440	**2.889.274**
Off-balance sheet total	**4.142.601**	**23.445**	**2.009**	**27.521**	**395.552**	**17.993**	**(173.247)**	**293.273**	**3.849.328**
Total credit risk exposure	**31.986.603**	**851.628**	**701.095**	**1.156.688**	**26.950.610**	**796.012**	**(10.314.949)**	**20.141.084**	**11.845.519**

46. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							**Net exposure to credit risk**
		Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	
2012	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 19)	**1.008.653**	-	-	-	-	-	-	-	**1.008.653**
Placements with banks	**1.768.836**	-	-	-	-	-	-	-	**1.768.836**
Trading investments - debt securities	**96**	-	-	-	-	-	-	-	**96**
Debt securities at fair value through profit or loss	**13.955**	-	-	-	-	-	-	-	**13.955**
Debt securities classified as available-for-sale and loans and receivables	**1.783.730**	-	-	-	-	-	-	-	**1.783.730**
Derivative financial instruments	**26.794**	1.310	-	-	-	-	-	1.310	**25.484**
Loans and advances to customers	**24.374.531**	1.820.535	363.821	294.388	24.544.975	3.270.589	(7.741.127)	22.553.181	**1.821.350**
Debtors (Note 28)	**26.400**	-	-	-	-	-	-	-	**26.400**
Reinsurers' share of insurance contract liabilities (Note 28)	**65.927**	-	-	-	-	-	-	-	**65.927**
Other assets	**94.529**	-	-	-	-	-	-	-	**94.529**
On-balance sheet total	**29.163.451**	**1.821.845**	**363.821**	**294.388**	**24.544.975**	**3.270.589**	**(7.741.127)**	**22.554.491**	**6.608.960**
Contingent liabilities									
Acceptances and endorsements	**12.970**	27	-	-	5.029	-	(3.037)	2.019	**10.951**
Guarantees	**1.546.572**	688.503	3.199	17.546	128.019	12.318	(68.517)	781.068	**765.504**
Commitments									
Documentary credits	**15.879**	-	-	-	-	-	-	-	**15.879**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.723.838**	1.026	-	-	31.899	-	(18.475)	14.450	**2.709.388**
Off-balance sheet total	**4.299.259**	**689.556**	**3.199**	**17.546**	**164.947**	**12.318**	**(90.029)**	**797.537**	**3.501.722**
Total credit risk exposure	**33.462.710**	**2.511.401**	**367.020**	**311.934**	**24.709.922**	**3.282.907**	**(7.831.156)**	**23.352.028**	**10.110.682**

46. Risk management – Credit risk (continued)

Credit risk concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of the shareholders' equity to a single customer group.

In addition to the above, the Group's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

46. Risk management – Credit risk (continued)

Credit risk concentration (continued)

Geographical and industry concentrations of Group loans and advances to customers are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**
2013	€000	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
By economic activity									
Trade	2.471.968	-	261.518	48.816	16.239	34.571	**2.833.112**	**(187.369)**	**2.645.743**
Manufacturing	829.327	-	99.790	33.608	22.701	13.631	**999.057**	**(63.157)**	**935.900**
Hotels and catering	1.610.289	-	-	165.499	105.434	6.610	**1.887.832**	**(112.051)**	**1.775.781**
Construction	4.101.528	-	64.096	44.746	26.252	12.028	**4.248.650**	**(383.290)**	**3.865.360**
Real estate	2.846.007	-	172.732	802.346	217.191	162.905	**4.201.181**	**(350.743)**	**3.850.438**
Private individuals	8.030.587	542	399.116	43.476	3.809	61.585	**8.539.115**	**(392.344)**	**8.146.771**
Professional and other services	1.675.402	-	404.403	56.638	70.692	99.628	**2.306.763**	**(179.998)**	**2.126.765**
Other sectors	1.399.096	171.465	27.506	88.620	30.665	10.257	**1.727.609**	**(233.759)**	**1.493.850**
	22.964.204	**172.007**	**1.429.161**	**1.283.749**	**492.983**	**401.215**	**26.743.319**	**(1.902.711)**	**24.840.608**
By customer sector									
Corporate	9.882.891	171.465	773.340	634.572	448.642	330.703	**12.241.613**	**(1.033.886)**	**11.207.727**
Small and medium-sized enterprises (SMEs)	5.201.416	-	256.705	592.048	40.695	24.838	**6.115.702**	**(517.716)**	**5.597.986**
Retail									
- housing	5.281.389	-	41.792	34.809	1.767	14.909	**5.374.666**	**(121.036)**	**5.253.630**
- credit cards	170.552	-	102.025	-	-	11	**272.588**	**(21.281)**	**251.307**
- consumer and other	2.427.956	542	255.299	22.320	1.879	30.754	**2.738.750**	**(208.792)**	**2.529.958**
	22.964.204	**172.007**	**1.429.161**	**1.283.749**	**492.983**	**401.215**	**26.743.319**	**(1.902.711)**	**24.840.608**

46. Risk management – Credit risk (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2012	€000	€000	€000	€000	€000	€000	**€000**
By economic activity							
Trade	1.621.879	1.337.611	398.902	55.489	27.278	21.462	**3.462.621**
Manufacturing	518.754	1.197.493	179.067	15.525	28.226	12.956	**1.952.021**
Hotels and catering	914.486	1.130.222	-	115.327	108.375	8.534	**2.276.944**
Construction	2.420.212	1.013.129	78.885	56.583	25.504	15.538	**3.609.851**
Real estate	1.715.884	651.750	183.669	484.948	223.221	91.777	**3.351.249**
Private individuals	5.323.545	2.611.578	521.945	53.594	42.515	78.660	**8.631.837**
Professional and other services	1.425.792	503.640	614.806	51.883	81.185	98.938	**2.776.244**
Other sectors	932.384	992.254	47.250	657	13.850	3.425	**1.989.820**
	14.872.936	**9.437.677**	**2.024.524**	**834.006**	**550.154**	**331.290**	**28.050.587**
By customer sector							
Corporate	7.082.512	3.470.307	1.199.608	321.927	453.600	242.810	**12.770.764**
Small and medium-sized enterprises (SMEs)	2.276.659	2.739.550	366.649	472.642	53.292	29.558	**5.938.350**
Retail							
- housing	3.740.856	1.634.263	58.976	33.584	18.739	20.792	**5.507.210**
- credit cards	120.658	155.727	102.966	-	-	7	**379.358**
- consumer and other	1.652.251	1.437.830	296.325	5.853	24.523	38.123	**3.454.905**
	14.872.936	**9.437.677**	**2.024.524**	**834.006**	**550.154**	**331.290**	**28.050.587**

At 31 December 2012 in Greece, the 'Corporate' sector and 'Other sectors' include loans to government-controlled businesses amounting to €252.588 thousand, which according to the European Banking Authority are classified as sovereign debt (Note 50).

46. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

The following table presents the credit quality of the Group's loans and advances to customers:

	2013			2012
	Gross loans before fair value on initial recognition	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**	Gross loans
	€000	**€000**	**€000**	€000
Neither past due nor impaired	**11.855.363**	**(226.207)**	**11.629.156**	17.402.119
Past due but not impaired	**6.732.583**	**(417.169)**	**6.315.414**	5.752.371
Impaired	**8.155.373**	**(1.259.335)**	**6.896.038**	4.896.097
	26.743.319	**(1.902.711)**	**24.840.608**	28.050.587

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

Fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the Laiki Bank acquisition (Note 54.2). In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

46. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are neither past due nor impaired
The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	Grade 1	Grade 2	Grade 3	Total
2013	**€000**	**€000**	**€000**	**€000**
Cyprus	5.778.486	1.699.580	2.371.052	**9.849.118**
Greece	542	-	-	**542**
Russia	717.522	201.890	-	**919.412**
United Kingdom	717.551	44.832	47.214	**809.597**
Romania	71.500	98.070	25.402	**194.972**
Ukraine	46.226	266	35.230	**81.722**
	7.331.827	**2.044.638**	**2.478.898**	**11.855.363**

2012				
Cyprus	7.249.180	993.674	1.109.151	**9.352.005**
Greece	3.534.245	89.121	1.680.195	**5.303.561**
Russia	1.124.666	389.162	-	**1.513.828**
United Kingdom	602.863	60.638	25.716	**689.217**
Romania	418.337	3.523	-	**421.860**
Ukraine	88.494	5.136	28.018	**121.648**
	13.017.785	**1.541.254**	**2.843.080**	**17.402.119**

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

46. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are past due but not impaired

	2013	2012
	€000	€000
Past due:		
- up to 30 days	**822.037**	1.102.785
- 31 to 90 days	**1.063.243**	1.854.459
- 91 to 180 days	**1.316.042**	873.830
- 181 to 365 days	**2.099.424**	798.306
- over one year	**1.431.837**	1.122.991
	6.732.583	5.752.371

The fair value of the collateral that the Group holds (to the extent that they mitigate credit risk) in respect of loans and advances to customers that are past due but not impaired as at 31 December 2013 is €5.133.851 thousand (2012: €4.601.146 thousand).

Impaired loans and advances to customers on an individual basis

	2013		2012	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**7.110.927**	**4.111.343**	2.877.827	1.822.899
Greece	**171.465**	**-**	1.519.603	753.377
Russia	**284.869**	**191.672**	279.518	178.137
United Kingdom	**163.979**	**128.734**	57.351	30.229
Romania	**256.612**	**126.046**	76.480	51.570
Ukraine	**167.521**	**132.015**	85.318	61.996
	8.155.373	**4.689.810**	4.896.097	2.898.208

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

46. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers

The movement of provisions for impairment of loans and advances to customers is as follows:

	Cyprus	Greece	Russia	Other countries	**Total**
2013	€000	€000	€000	€000	**€000**
1 January	1.779.343	1.528.224	238.472	130.017	**3.676.056**
Disposal of Greek operations	-	(1.572.512)	-	-	**(1.572.512)**
Exchange adjustments	1.266	-	(25.452)	(2.561)	**(26.747)**
Applied in writing off impaired loans and advances	(1.816)	(7.781)	(4.848)	(23.231)	**(37.676)**
Interest accrued on impaired loans and advances	(80.565)	(6.633)	(602)	(4.834)	**(92.634)**
Collection of loans and advances previously written off	429	-	-	3.101	**3.530**
Charge for the year – continuing operations	876.013	(17)	78.796	112.553	**1.067.345**
Charge for the year - discontinued operations	-	58.908	-	-	**58.908**
31 December	**2.574.670**	**189**	**286.366**	**215.045**	**3.076.270**
Individual impairment	**1.916.985**	**189**	**142.700**	**185.395**	**2.245.269**
Collective impairment	**657.685**	**-**	**143.666**	**29.650**	**831.001**

2012					
1 January	649.025	632.012	148.430	76.045	**1.505.512**
Exchange adjustments	(988)	-	4.837	2.669	**6.518**
Applied in writing off impaired loans and advances	(9.276)	(41.087)	(1.996)	(9.569)	**(61.928)**
Interest accrued on impaired loans and advances	(47.866)	(29.588)	(1.687)	(3.402)	**(82.543)**
Collection of loans and advances previously written off	2.338	-	-	3	**2.341**
Charge for the year - continuing	1.186.110	-	88.888	64.271	**1.339.269**
Charge for the year - discontinued operations	-	966.887	-	-	**966.887**
31 December	**1.779.343**	**1.528.224**	**238.472**	**130.017**	**3.676.056**
Individual impairment	**1.425.220**	**1.045.187**	**130.113**	**115.371**	**2.715.891**
Collective impairment	**354.123**	**483.037**	**108.359**	**14.646**	**960.165**

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. For example, it has been assumed that where the most recent valuation took place more than 9 months ago, then an indexation factor was used to reach open market values. The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by the Recoveries Division for more than 2 years and 4 years for loans that have been managed by the Recoveries Division for less than 2 years. For all other loans, the period is 5 years immediately after their classification into non-performing loans.

46. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers (continued)

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

Indicatively, if the actual recoverable amount from collateral of impaired loans in Cyprus is lower than the amount estimated as at 31 December 2013 by 5% and 10%, then provisions for impairment of loans and advances would increase by €139.127 thousand and €296.988 thousand respectively. Alternatively, if the collateral value in Cyprus increased by 5% and 10% then the provisions for impairment of loans and advances would decrease by €78.092 thousand and €143.832 thousand respectively.

Collateral and other credit enhancements obtained

The carrying value of assets obtained during the year by taking possession of collateral held as security, was as follows:

	2013	2012
	€000	€000
Residential property	**6.958**	6.712
Commercial and other property	**36.067**	156.936
	43.025	163.648

The total carrying value of the assets obtained by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2013 amounted to €472.176 thousand (2012: €280.065 thousand). Included in assets acquired from Laiki Bank (Note 54) are assets amounting to €170.423 thousand which relate to collateral obtained by Laiki Bank prior to the acquisition by the Group.

The repossessed assets are subsequently disposed of and the net proceeds are used to recover the balance due from the customer. Any excess proceeds are either returned to the customer or are credited to the consolidated income statement, depending on the underlying agreement with the customers. The disposals of repossessed assets during the year amounted to €3.759 thousand (2012: €7.395 thousand).

46. Risk management – Credit risk (continued)

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

Rescheduled loans and advances are those facilities for which the Group has modified the repayment programme (extension of the grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess. Loans repaid by monthly instalments for which the elimination or suspension of maximum two monthly instalments per year is part of the original loan terms or is part of the documented policies of the Group, and accordingly no specific approval is required for the said elimination or suspension, but is up to the borrower’s discretion to exercise this right, are not considered as rescheduled loan facilities.

For an account to qualify for rescheduling it must meet certain criteria including that the client’s business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Rescheduled loans are monitored by the Credit Risk Department. For example, the trends of re-default are closely monitored and analysed in order to identify the drivers for the re-defaults.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower’s financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than five years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed 3 years.

46. Risk management – Credit risk (continued)

Forbearance (continued)

Short-term restructuring solutions can include the following:
- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.

The below table presents the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2013	€000	€000	€000	€000	€000	€000	**€000**
1 January	3.394.783	1.657.988	113.217	58.264	63.039	64.336	**5.351.627**
Disposal of Greek operations	-	(1.302.984)	-	-	-	-	**(1.302.984)**
New loans and advances rescheduled in the year	2.657.226	-	106.959	61.825	76.323	26.519	**2.928.852**
Assets no longer rescheduled (including repayments)	(1.126.560)	(355.004)	(24.411)	(16.775)	(17.381)	(29.092)	**(1.569.223)**
Applied in writing off rescheduled loans and advances	(11)	-	-	-	-	-	**(11)**
Interest accrued on rescheduled loans and advances	214.094	-	9.401	4.668	3.452	3.201	**234.816**
Exchange adjustments	(3.886)	-	(18.135)	(358)	(1.121)	(2.913)	**(26.413)**
31 December	**5.135.646**	**-**	**187.031**	**107.624**	**124.312**	**62.051**	**5.616.664**
2012							
1 January	1.843.527	1.099.737	54.266	94.855	66.609	58.875	**3.217.869**
New loans and advances rescheduled in the year	1.895.156	1.497.983	107.045	1.335	26.174	21.341	**3.549.034**
Assets no longer rescheduled (including repayments)	(540.332)	(945.395)	(53.312)	(37.989)	(32.611)	(15.523)	**(1.625.162)**
Applied in writing off rescheduled loans and advances	-	-	-	(5.022)	-	-	**(5.022)**
Interest accrued on rescheduled loans and advances	197.500	3.912	3.025	2.428	3.360	1.476	**211.701**
Exchange adjustments	(1.068)	1.751	2.193	2.657	(493)	(1.833)	**3.207**
31 December	**3.394.783**	**1.657.988**	**113.217**	**58.264**	**63.039**	**64.336**	**5.351.627**

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount on 31 December 2013 of €1.938.114 thousand which were rescheduled prior to the acquisition date (29 March 2013).

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2013	€000	€000	€000	€000	€000	€000	**€000**
Neither past due nor impaired	2.659.066	-	154.721	89.549	16.586	6.128	**2.926.050**
Past due but not impaired	1.428.549	-	18.529	10.425	22.598	22.221	**1.502.322**
Impaired	1.048.031	-	13.781	7.650	85.128	33.702	**1.188.292**
	5.135.646	**-**	**187.031**	**107.624**	**124.312**	**62.051**	**5.616.664**
2012							
Neither past due nor impaired	2.200.463	871.475	97.446	40.642	25.694	19.390	**3.255.110**
Past due but not impaired	773.395	672.857	3.939	5.086	34.796	16.268	**1.506.341**
Impaired	420.925	113.656	11.832	12.536	2.549	28.678	**590.176**
	3.394.783	**1.657.988**	**113.217**	**58.264**	**63.039**	**64.336**	**5.351.627**

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2013	€000	€000	€000	€000	€000	€000	**€000**
Neither past due nor impaired	2.290.950	-	151.815	89.444	14.052	6.127	**2.552.388**
Past due but not impaired	1.218.052	-	18.206	12.236	16.544	20.699	**1.285.737**
Impaired	789.767	-	9.509	5.639	57.430	20.369	**882.714**
	4.298.769	**-**	**179.530**	**107.319**	**88.026**	**47.195**	**4.720.839**
2012							
Neither past due nor impaired	1.837.569	619.427	40.263	40.504	9.183	19.389	**2.566.335**
Past due but not impaired	642.094	552.064	3.580	5.086	8.047	14.675	**1.225.546**
Impaired	303.889	78.111	8.162	9.365	2.282	18.774	**420.583**
	2.783.552	**1.249.602**	**52.005**	**54.955**	**19.512**	**52.838**	**4.212.464**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

	Cyprus	Russia	United Kingdom	Romania	Ukraine	**Total**
2013	€000	€000	€000	€000	€000	**€000**
By economic activity						
Trade	454.872	46.834	593	8.062	4.721	**515.082**
Manufacturing	186.322	4.417	1.204	1.348	994	**194.285**
Hotels and catering	371.577	-	11.410	6.314	6.232	**395.533**
Construction	993.812	9.773	16.124	17.512	10.738	**1.047.959**
Real estate	700.093	-	70.691	68.019	25.398	**864.201**
Private individuals	1.815.870	-	1.693	119	8.665	**1.826.347**
Professional and other services	379.664	126.007	5.909	21.644	4.740	**537.964**
Other sectors	233.436	-	-	1.294	563	**235.293**
	5.135.646	**187.031**	**107.624**	**124.312**	**62.051**	**5.616.664**
By customer sector						
Corporate	2.428.050	165.286	58.069	101.904	53.553	**2.806.862**
Small and medium-sized enterprises (SMEs)	937.341	18.592	49.310	22.289	5.501	**1.033.033**
Retail						
- housing	1.396.739	2.340	64	110	263	**1.399.516**
- credit cards	382	153	-	-	-	**535**
- consumer and other	373.134	660	181	9	2.734	**376.718**
	5.135.646	**187.031**	**107.624**	**124.312**	**62.051**	**5.616.664**

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2012	€000	€000	€000	€000	€000	€000	**€000**
By economic activity							
Trade	263.551	113.294	17.901	369	210	10.462	**405.787**
Manufacturing	63.668	89.909	7.219	75	1.488	379	**162.738**
Hotels and catering	239.384	296.273	-	11.229	971	4.951	**552.808**
Construction	937.094	205.160	10.282	12.144	3.966	10.560	**1.179.206**
Real estate	615.446	154.365	-	27.975	18.821	24.394	**841.001**
Private individuals	839.420	530.828	-	1.117	1.823	8.492	**1.381.680**
Professional and other services	249.147	128.241	77.815	5.355	26.867	3.868	**491.293**
Other sectors	187.073	139.918	-	-	8.893	1.230	**337.114**
	3.394.783	**1.657.988**	**113.217**	**58.264**	**63.039**	**64.336**	**5.351.627**
By customer sector							
Corporate	1.995.147	603.348	97.686	35.832	50.413	55.865	**2.838.291**
Small and medium-sized enterprises (SMEs)	589.460	499.786	12.986	22.357	10.803	5.802	**1.141.194**
Retail							
- housing	635.409	396.576	2.322	71	881	172	**1.035.431**
- credit cards	327	-	-	-	-	-	**327**
- consumer and other	174.440	158.278	223	4	942	2.497	**336.384**
	3.394.783	**1.657.988**	**113.217**	**58.264**	**63.039**	**64.336**	**5.351.627**

46. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
2013	€000	€000	€000	€000	€000	€000	**€000**
Individual impairment	410.690	-	2.628	2.893	17.938	14.577	**448.726**
Collective impairment	176.223	-	11.465	-	3.044	-	**190.732**
	586.913	**-**	**14.093**	**2.893**	**20.982**	**14.577**	**639.458**
2012							
Individual impairment	280.682	57.344	3.324	3.170	541	11.097	**356.158**
Collective impairment	98.965	-	3.457	50	277	-	**102.749**
	379.647	**57.344**	**6.781**	**3.220**	**818**	**11.097**	**458.907**

46. **Risk management – Credit risk** (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - Analysis by rating agency designation

Balances with central banks and placements with banks
Balances with central banks and placements with banks are analysed by Moody’s rating as follows:

	2013	2012
	€000	€000
Aaa – Aa3	**790.806**	1.102.312
A1 – A3	**509.754**	786.184
Baa1 – Baa3	**68.735**	190.429
Ba1 – Ba3	**9.505**	10.495
B1 – B3	**10.269**	373.186
Caa - C	**483.035**	84.882
Unrated	**468.896**	179.054
Other receivables from banks	**33.933**	50.947
	2.374.933	2.777.489

Band Caa-C above includes an amount of €394.255 thousand, which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus. Placements with banks include €278.164 thousand, which were acquired from Laiki Bank (Note 54.2) and which were considered to be impaired upon acquisition.

46. Risk management – Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - Analysis by rating agency designation (continued)

Debt securities

Investments in debt securities are analysed by Moody's rating, their issuer and classification, as follows:

	2013	2012
	€000	€000
Aaa – Aa3	**617.262**	893.381
A1 – A3	**5.443**	26.639
Baa1 – Baa3	**54.508**	58.385
Ba1 – Ba3	**49.008**	51.064
B1 – B3	**-**	764.395
Caa – C	**2.595.036**	1.133
Unrated	**1.490**	2.784
	3.322.747	1.797.781
Issued by:		
- Cyprus government	**2.589.776**	764.157
- other governments	**668.558**	704.290
- banks and other corporations	**63.901**	328.887
- local authorities	**512**	447
	3.322.747	1.797.781
Classified as:		
- trading investments	**103**	96
- investments at fair value through profit or loss	**15.549**	13.955
- available-for-sale investments	**733.658**	1.032.302
- investments classified as loans and receivables	**2.573.437**	751.428
	3.322.747	1.797.781

No investments listed above are past due or impaired except as described in Note 50.

47. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management Unit is responsible for monitoring compliance with the various market risk policies and procedures.

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. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to calculate the annual impact on net interest income of any changes in interest rates for every currency.

The interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euro	US Dollars	British Pounds	Other currencies	Total
Change in interest rates	**€000**	**€000**	**€000**	**€000**	**€000**
2013					
+0,5% for all currencies	**8.531**	**2.862**	**594**	**71**	**11.133**
-0,25% for Euro, US Dollars and Japanese Yen, 0% for Swiss Franc and -0,5% for all other currencies	**(4.265)**	**(1.431)**	**(594)**	**(516)**	**(6.275)**
2012					
+1% for all currencies	(11.197)	23.276	4.876	(833)	27.699
-0,25% for Euro, US Dollars and Japanese Yen, -0,1% for Swiss Franc and -0,5% for all other currencies	7.640	(2.905)	(1.281)	280	7.576

47. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)
The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

In addition to the above fluctuations in net interest income, the Group results are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments including investments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's loss before tax and equity (excluding the effect on equity from the impact on loss) as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on loss before tax	Impact on equity
Change in interest rates	**€000**	**€000**
2013		
+0,5% for all currencies	**3.549**	**(1.392)**
-0,25% for Euro, US Dollars and Japanese Yen, 0% for Swiss Franc and -0,5% for all other currencies	**(1.776)**	**705**
2012		
+1% for all currencies	15.024	(3.455)
-0,25% for Euro, US Dollars and Japanese Yen, -0,1% for Swiss Franc and -0,5% for all other currencies	(3.802)	878

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.

In order to manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for the total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

47. Risk management – Market risk (continued)

Currency risk (continued)

The table below sets out the Group's currency risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on historical price fluctuations. The impact on loss after tax and on equity includes the change in net interest income that arises from the change of currency rate and also the impact on results from the open currency position.

	Change in exchange rate	Impact on loss after tax and equity
2013	**%**	**€000**
US Dollar	+8	647
Russian Rouble	+8	299
Romanian Lei	+8	(2.584)
Ukrainian Hryvnia	+8	2.593
Swiss Franc	+8	3.342
British Pounds	+8	2.233
Japanese Yen	+15	768
Other currencies	+8	1.390
US Dollar	-8	(551)
Russian Rouble	-20	(573)
Romanian Lei	-8	2.202
Ukrainian Hryvnia	-30	(6.882)
Swiss Franc	-8	(2.847)
British Pounds	-8	(1.902)
Japanese Yen	-15	(568)
Other currencies	-8	(1.184)

47. Risk management – Market risk (continued)

Currency risk (continued)

	Change in exchange rate	Impact on loss after tax and equity
2012	**%**	**€000**
US Dollar	+8	1.787
Russian Rouble	+8	(3.603)
Romanian Lei	+8	(2.126)
Ukrainian Hryvnia	+5	2.671
Swiss Franc	+8	2.616
British Pounds	+8	713
Australian Dollar and Japanese Yen	+10	375
Other currencies	+8	2.493
US Dollar	-8	(1.522)
Russian Rouble	-8	3.068
Romanian Lei	-8	1.811
Ukrainian Hryvnia	-20	(8.459)
Swiss Franc	-8	(2.228)
British Pounds	-8	(607)
Australian Dollar and Japanese Yen	-10	(307)
Other currencies	-8	(2.121)

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity securities in the trading book and other restrictions, such as maximum amount invested in a specific issuer, specific industry, etc.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below shows the impact on the loss before tax and on equity (excluding the effect on equity from the impact on loss) of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

47. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

	Change in index	Impact on loss before tax	Impact on equity
2013	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+30**	**716**	**3.789**
Athens Exchange	**+25**	**-**	**115**
Moscow Exchange	**+20**	**-**	**194**
Bucharest Stock Exchange	**+20**	**-**	**16.226**
Cyprus Stock Exchange	**-30**	**(2.629)**	**(1.875)**
Athens Exchange	**-25**	**(77)**	**(38)**
Moscow Exchange	**-20**	**(72)**	**(122)**
Bucharest Stock Exchange	**-20**	**(16.226)**	**-**
2012			
Cyprus Stock Exchange	+50	2.671	3.931
Athens Exchange	+30	-	301
Moscow Exchange	+20	-	140
Bucharest Stock Exchange	+20	-	10.885
Other Stock Exchanges	+15	421	-
Cyprus Stock Exchange	-50	(6.171)	(430)
Athens Exchange	-30	-	(301)
Moscow Exchange	-20	-	(140)
Bucharest Stock Exchange	-20	(10.885)	-
Other Stock Exchanges	-15	(421)	-

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers changes. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2013 was B3 (2012: Baa1).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below indicates how the loss before tax and shareholders equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

47. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)

	Impact on loss before tax	Impact on equity
Change in market prices	**€000**	**€000**
2013		
+7%	**1.050**	**50.610**
-7%	**(1.050)**	**(50.610)**
2012		
+7%	885	71.501
-7%	(885)	(71.501)

48. Risk management – Liquidity risk and funding

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

To limit this risk, management aims to achieve diversified funding sources in addition to the Group's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management structure

Local Treasury centres at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by Market Risk Management ('MRM'). MRM is an independent department responsible to ensure compliance at the level of individual units, as well as at Group level, with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates. MRM reports to ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. It also provides the results of various stress tests to ALCO.

The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. The ALCO is responsible for setting the policies for the effective management and monitoring of the liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. After the March 2013 events, the ALCO monitors mostly the stock of liquid assets and the cash outflows of the bank in Cyprus, since these are considered to be of utmost importance.

48. Risk management – Liquidity risk and funding (continued)

Management structure (continued)

The Board of Directors, through its Risk Committee, approves the Liquidity Policy statement and reviews almost at every meeting, the liquidity of the Group. Information on inflows/outflows is also provided.

Restriction on withdrawal of deposits

Following the bail-in, various capital controls have been put in place, that prohibit customers from withdrawing their deposits, even if placed in instant access accounts. There are limits on the maximum cash that can be withdrawn per day. There are also limits on the maximum amount that can be transferred to banks abroad and to other local banks. These limits apply per month and are different for physical and legal persons. Moreover, on the maturity of a fixed deposit, there were limits as to the amount that could be transferred to an instant access account until 24 February 2014 when this measure was abolished.

Monitoring process

Daily
Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Group's activities. MRM prepares a report for submission to the CBC, indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash (both banknote balances, nostro balances and any overnight money market balances). This information is also sent to members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly
Currently MRM prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC. Group Treasury prepares projections of expected inflows and outflows covering a two month period. Group Treasury prepares and submits a liquidity report to the Board of Directors and EXCO on a weekly basis.
Until March 2013 MRM prepared a weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report was submitted to the CBC and then to the European Banking Authority ('EBA').

Monthly
MRM prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer. The fixed deposit renewal rates and the actual flows compared to maximum withdrawal limits, given the restrictive measures, are also calculated and presented to ALCO.

Quarterly
Until March 2013, the Board of Directors was informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis. Since May 2013, the Board is informed about the liquidity position of the Group on a monthly basis.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the Funding Crisis Committee. The plan sets out the members of this Committee and a series of possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the CBC.

48. Risk management – Liquidity risk and funding (continued)

Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by MRM and monitored by ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months.

The Group's liquidity ratio was as follows:

	2013	2012
	%	%
31 December	**12,28**	8,79
Average ratio	**11,16**	14,99
Highest ratio	**14,42**	23,93
Lowest ratio	**8,69**	7,08

The minimum liquidity ratios for Cyprus Operations as set by the CBC are 20% for Euro and 70% for foreign currencies.

During 2013, the liquidity ratio remained at low levels due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

The ratio of loans and advances to customer deposits is presented below:

	2013	2012
	%	%
31 December	**145,38**	85,70
Average ratio	**128,84**	91,65
Highest quarter ratio	**145,95**	93,85
Lowest quarter ratio	**85,70**	85,70

Sources of funding

Currently and following the bail-in of the Group's long term debt securities, the Group's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through Emergency Liquidity Assistance ('ELA').

As a result of further deterioration in the economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group obtained funding from the CBC in February 2013.

The acquisition of certain operations of Laiki Bank by the Group as a result of the agreement between Cyprus and the Eurogroup of 25 March 2013 resulted in an amount of approximately €9,1 billion ELA funding as at the date of acquisition to be assumed by the Group. The Group currently has limited access to interbank and wholesale markets which combined with a reduction in deposits in Cyprus has resulted in increased reliance on central bank funding. As at 31 December 2013, the funding from the ELA amounted to €9,56 billion (Note 30).

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for repayment. The subsidiaries of the Company, Bank of Cyprus UK Ltd and Bank of Cyprus Channel Islands Ltd cannot place funds with the Group in excess of maximum limits set by the local regulators.

The subsidiaries can proceed with dividend distribution in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

48. Risk management – Liquidity risk and funding (continued)

Sources of funding (continued)

The carrying values of the Group's encumbered assets as at 31 December 2013 and 2012 respectively are summarised below:

	2013	2012
	€000	€000
Cash and other liquid assets	**367.080**	707.749
Other investments	**3.289.810**	853.617
Loans and advances	**15.136.002**	1.830.000
Property	**90.181**	-
	18.883.073	3.391.366

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under CSA and repurchase agreements, and (ii) for trade finance transactions and guarantees issued.

Securities are mainly used as collateral for repurchase transactions, as well as for covered bonds while loans are mainly used as collateral for funding from the Central Bank of Cyprus and for covered bonds.

Cash and other liquid assets include amounts placed with banks as collateral under ISDA agreements of €221.255 thousand (2012: €388.817 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

Loans and advances indicated as encumbered as at 31 December 2013 are mainly used as collateral for funding from the CBC. As at 31 December 2012 they comprised of loans and advances used as collateral for the two covered bonds issued by the Company and retained by the Group (Note 33).

In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand are pledged as collateral for obtaining funding from CBC (Note 33).

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets

The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Placements with banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

48. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial assets (continued)
Investments in debt securities and other financial assets which are considered by the CBC to be eligible as collateral (for the purposes of open market operations for monetary policy) and highly liquid assets that can be accepted as collateral by other banks for the purposes of providing financing, are classified in the first maturity time band at their fair value less haircut (as determined by the CBC) when unencumbered. When encumbered, they are placed in the time band according to when the encumbrance is expected to be terminated. The amounts deducted as haircut are presented in the time band of the maturity of the related asset. All other investments are placed in the relevant time bands according to the number of days remaining from 31 December until their contractual maturity date.

Financial liabilities
All financial liabilities for the repayment of which notice is required, were included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands, based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits. It should be noted that following the March 2013 events, various restrictions have been imposed on depositors through the various decrees (Note 2). Consequently, the ability of depositors to withdraw deposits, even on the maturity date, is restricted by the provisions of the decrees.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivables and payables amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

48. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances at central banks	1.008.366	85.324	108.759	37.594	-	**1.240.043**
Placements with banks	697.352	24.391	17.782	446.226	104.351	**1.290.102**
Investments at fair value through profit or loss	18.895	136	2	5.447	680	**25.160**
Loans and advances to customers	7.225.421	1.025.327	2.661.803	4.522.387	6.329.400	**21.764.338**
Fair value of net settled derivative assets	534	6	1.778	3.019	19.591	**24.928**
Non trading investments	682.740	1.200.239	707.866	442.982	499.048	**3.532.875**
Other assets	9.602	7.068	3.878	2.392	-	**22.940**
Total undiscounted financial assets	**9.642.910**	**2.342.491**	**3.501.868**	**5.460.047**	**6.953.070**	**27.900.386**
Financial liabilities						
Amounts due to banks	117.454	5.174	6.237	92.045	-	**220.910**
Funding from central banks	9.956.041	1.000.236	-	-	-	**10.956.277**
Repurchase agreements	13.928	-	-	330.482	249.594	**594.004**
Customer deposits	6.728.526	3.140.210	4.389.362	805.170	1.034	**15.064.302**
Debt securities in issue	15	492	359	-	-	**866**
Fair value of net settled derivative liabilities	7.098	24	1.721	22.124	29.256	**60.223**
Subordinated loan stock	-	-	2.598	2.078	-	**4.676**
Other liabilities	68.318	4.296	2.560	502	-	**75.676**
Total undiscounted financial liabilities	**16.891.380**	**4.150.432**	**4.402.837**	**1.252.401**	**279.884**	**26.976.934**

48. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2012	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances at central banks	1.074.653	111.726	66.237	19.808	-	**1.272.424**
Placements with banks	1.284.825	13.790	248.249	134.617	87.355	**1.768.836**
Investments at fair value through profit or loss	8.327	128	191	13.172	-	**21.818**
Loans and advances to customers	6.352.506	997.135	3.259.916	6.399.813	7.365.161	**24.374.531**
Fair value of net settled derivative assets	14.064	96	3.647	5.416	3.571	**26.794**
Non trading investments	306.257	99.876	24.547	952.857	464.725	**1.848.262**
Other assets	38.095	7.666	2.410	3.371	1.733	**53.275**
Total undiscounted financial assets	**9.078.727**	**1.230.417**	**3.605.197**	**7.529.054**	**7.922.545**	**29.365.940**
Financial liabilities						
Amounts due to banks	253.679	33.438	5.778	79.436	-	**372.331**
Repurchase agreements	-	-	32.006	355.009	266.964	**653.979**
Customer deposits	15.854.142	6.714.733	5.391.883	797.595	53.940	**28.812.293**
Debt securities in issue	27.612	566	1.208	15.389	-	**44.775**
Fair value of net settled derivative liabilities	-	2	4.523	41.853	73.138	**119.516**
Subordinated loan stock	-	-	2.130	4.792	148.347	**155.269**
Other liabilities	179.422	7.971	7.854	29.555	778	**225.580**
Total undiscounted financial liabilities	**16.314.855**	**6.756.710**	**5.445.382**	**1.323.629**	**543.167**	**30.383.743**

48. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	294.082	1.027	291	2.179	-	**297.579**
Contractual amounts payable	(295.360)	(1.020)	(291)	(2.116)	-	**(298.787)**
	(1.278)	**7**	**-**	**63**	**-**	**(1.208)**
Financial liabilities						
Contractual amounts receivable	1.523.551	49.866	20.470	152.866	-	**1.746.753**
Contractual amounts payable	(1.516.711)	(48.760)	(20.033)	(176.668)	-	**(1.762.172)**
	6.840	**1.106**	**437**	**(23.802)**	**-**	**(15.419)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	15.564	4.086	817	-	-	**20.467**
Guarantees	148.978	68.305	220.796	647.612	121.810	**1.207.501**
Commitments						
Documentary credits	1.645	2.638	6.580	56	-	**10.919**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.662.564	21.551	44.135	101.209	74.255	**2.903.714**
	2.828.751	**96.580**	**272.328**	**748.877**	**196.065**	**4.142.601**

48. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2012	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	2.749.877	147.622	85.980	6.271	-	**2.989.750**
Contractual amounts payable	(2.735.903)	(146.359)	(85.392)	(6.100)	-	**(2.973.754)**
	13.974	**1.263**	**588**	**171**	**-**	**15.996**
Financial liabilities						
Contractual amounts receivable	3.105.174	72.218	28.227	213.981	-	**3.419.600**
Contractual amounts payable	(3.139.982)	(75.815)	(28.651)	(230.657)	-	**(3.475.105)**
	(34.808)	**(3.597)**	**(424)**	**(16.676)**	**-**	**(55.505)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	3.180	4.051	5.695	44	-	**12.970**
Guarantees	56.872	44.625	309.736	339.742	795.597	**1.546.572**
Commitments						
Documentary credits	-	2.752	5.467	7.437	223	**15.879**
Undrawn formal standby facilities, credit lines and other commitments to lend	1.699.682	820.107	46.475	58.279	99.295	**2.723.838**
	1.759.734	**871.535**	**367.373**	**405.502**	**895.115**	**4.299.259**

49. Risk management – Other risks

Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their financial strength and credit rating.

Life insurance contracts
The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

	2013	2012
Change in embedded value	**€000**	€000
Change in interest rates +0,25%	**531**	565
Change in expenses +10%	**(3.201)**	(3.683)
Change in lapsation rates +10%	**(1.075)**	(610)
Change in mortality rates+10%	**(11.681)**	(8.505)

49. Risk management – Other risks (continued)

Insurance risk (continued)

Life insurance contracts (continued)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non–economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non–economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with–profit business versus non–profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

General insurance contracts

The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The main risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative development in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

Operational risk

Operational risk arises from inadequate or failed internal processes, people (eg. internal fraud) systems and external events (eg. external fraud and natural disasters). It includes legal risk and excludes strategic or reputational risk or other risks leading to indirect losses or opportunity costs.

The Group recognises that the control of operational risk is concerned with good management practices. To that effect, the overall Group strategy is geared towards risk prevention, as well as, the adequacy of capital charges. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives. During 2013, an enterprise-wide Operational Risk Management software was implemented to streamline and further automate operational risk management activities.

49. Risk management – Other risks (continued)

Operational risk (continued)

The operational risk management framework adopted by the Group is based on the three lines of defence model, governance and risk ownership structure, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the Internal Audit function and the Audit Committee of the Board of Directors, which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

Year 2013 was extremely challenging from an operational risk management perspective due to the occurrence of several events, which gave rise to a number of important operational risk drivers. These risk drivers impinged upon a wide spectrum of the Group's operations.

More specifically, following the Eurogroup decisions in March 2013, IT-related operational risks emerged due to the complexity and tight deadlines faced in the process of the timely and effective application of IT systems in relation to the Decrees issued by the Resolution Authority for the bail-in of deposits and the capital controls. These risks did not materialise in any loss incidents. Several operational risks have emerged on the day-to-day operations of the Group due to the absorption of the operations of Laiki Bank in Cyprus and in relation to the process of integrating the IT systems and procedures of the Group with those of ex Laiki Bank. Operational Risk Management is monitoring and assessing the potential risks and measures are taken to control and mitigate them.

Risks relating to the potential loss of significant human capital and valuable executives of the Company arose due to the process of downsizing of the Group and the Voluntary Retirement Scheme that had been offered to employees, which was completed in August 2013. This risk did not materialise and was effectively controlled by appropriate organisational restructuring.

During the year, a number of regulatory changes were put in effect. From these new regulations emanate demands for new software and procedures development that give rise to operational risks related to data integrity and data aggregation for non-compliance with new regulatory provisions. Group Operational Risk is involved in the management of these risks as a matter of priority in collaboration with other control functions, such as Group Compliance.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, corrective action and statistical analysis. In 2013, 434 loss events with gross loss over €1.000 were recorded (2012: 495).

The Group aims to increase awareness of its employees on operational risk issues through ongoing staff training.

The Group also has insurance policies to cover unexpected operational losses through a number of insurers and reinsurers.

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the Group operates to ensure continuity and timely recovery after a catastrophic event.

Regulatory risk

The Group's operations in Cyprus and overseas, are supervised by the CBC. In carrying out its supervisory duties, the CBC follows, inter alia, the European Union's underlying legal framework as well as closely observing and monitoring ongoing developments and emerging risks and appropriately adjusting its monitoring and regulatory procedures and operations. The overseas subsidiaries and branches of the Group are similarly supervised by the corresponding regulatory authorities in the countries where they operate.

49. Risk management – Other risks (continued)

Regulatory risk (continued)

The continuing and increasing regulatory obligations imposed on the Group may have both a positive as well as an adverse impact on its operations. Basel III has been adopted by the EU through the revised Directive for Capital Requirements (CRD IV). The revised Directive has come into effect on 1 January 2014 and provides for a phasing period, during which the new rules will be gradually applied.

The operations of Cyprus insurance companies are supervised by the Insurance Companies Control Service (Ministry of Finance). Solvency II, the updated set of regulatory requirements for insurance companies that operate in the EU, is expected to come into effect on 1 January 2016 and establishes a revised set of market consistent EU-wide capital requirements and risk management standards. Solvency II requirements are expected to have an impact on the capital requirements of the Group's insurance undertakings and their implementation involves more complex calculations of factor-based formulas, stress testing and financial models.

The investment banking and the mutual fund management companies of the Group are supervised by the relevant capital market commissions, in the countries in which they operate.

Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus the competition primarily originates from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The Group's competitive position in Cyprus was drastically altered by the events described in Note 2. Following the acquisition of certain operations of Laiki Bank, the Group's market share in loans and deposits in Cyprus was significantly boosted, even though depositor psychology led to substantial deposit outflows from the Cyprus banking system. In this sense, the Group was rendered the biggest and most systemically important local banking organisation in Cyprus.

The accession of Cyprus to the EU and the introduction of the Euro in 2008 facilitate the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 41) and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

Political risk

External factors which are beyond the control of the Group, such as political developments and government actions in Cyprus, Greece, the EU and other countries may adversely affect the operations of the Group, its strategy and prospects. As described in Note 2, during March 2013 the Republic of Cyprus and the Eurogroup reached an agreement on the package of measures intended to restore the viability of the financial sector and sound public finance over the coming years which had a material impact on the Group's financial standing and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in the Eurozone which might lead to a Euro exit of a Eurozone member state, the ongoing unresolved political issue of the Turkish occupied areas, and political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas.

Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

49. Risk management – Other risks (continued)

Political risk (continued)

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Furthermore, between 1 January 2014 and 27 March 2014, the Ukrainian Hryvnia devalued to major currencies and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much higher credit conditions where credit is available.

50. Sovereign exposure

The Group's sovereign exposure and non-sovereign exposure in countries which have entered or have applied to the European Support Mechanism or whose Moody's credit rating is below Aa1 and the total Group exposure exceeds €100.000 thousand, is presented below. These counties are: Cyprus, Greece, Ireland, Italy, Russia, Romania, Ukraine, Portugal and Spain. No information is disclosed for Ireland as at 31 December 2013 since Ireland exited the European Mechanism during 2013.

The Group had no exposure to Greek government bonds as at 31 December 2013 or 31 December 2012. The sovereign exposure to the other countries, other than Cyprus, was not considered to be impaired as at 31 December 2013 and 31 December 2012, despite the financial difficulties of these countries, as the situation is not severe enough to impact the future cash flows of these countries' sovereign securities, except in relation to exchanged Cyprus government bonds as described below.

Cyprus Government Bonds (CyGBs)

In June 2013, the Republic of Cyprus offered to exchange a number of existing government bonds with a total nominal value of €1 billion, which matured during the economic adjustment programme period (March 2013 - March 2016), with five new bonds with corresponding equal coupon rates (on a series-by-series basis) and 5-10 year maturities. The Group accepted the above offer and participated in the exchange with bonds of total nominal value of €180.000 thousand. The exchange constituted a modification of terms, rather than resulting in the derecognition of the CyGBs being exchanged.

For the CyGBs offered for exchange, there is objective evidence of impairment, as in addition to other indicators (i.e. financial difficulties of the issuer, downgrades and decline in the fair value), there is a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, during the year 2013, the Group has recognised impairment losses of €6.927 thousand relating to the exchanged bonds.

The CyGBs held by the Group that were not subject to the offer for exchange as at 30 June 2013 are not considered as impaired as at 31 December 2013, for the following reasons:

- There has not been any breach of contract or delinquency in interest of principal payments.
- Although the issuer has financial difficulties, this is sufficiently mitigated by the fact that Cyprus has entered into an economic adjustment programme.
- The economic adjustment programme is progressing as planned and the terms of the MoU are being fulfilled.
- Cyprus is expected to be able to return to markets and raise necessary financing by the end of the economic adjustment programme.

Credit risk

The Group's sovereign exposure includes government bonds and other assets owned by governmental, semi-governmental, local authorities and other organisations in which the state holds more than 50%.

50. Sovereign exposure (continued)

Credit risk (continued)
The Group's exposure to sovereign debt securities and other assets in the countries above is analysed below:

	Cyprus	Greece	Italy	Russia	Romania	Ukraine
2013	€000	€000	€000	€000	€000	€000
Deposits with central banks	456.069	-	-	51.593	5.695	9.969
Placements with banks	51.374	19.799	428	103.976	222.417	9.458
Investments in sovereign debt securities						
- available-for-sale	1.423	-	52.211	2.051	-	-
- loans and receivables	2.572.940	-	-	-	-	-
- fair value through profit or loss	15.413	-	-	-	-	-
Investments in debt securities of banks and other corporations						
- available-for-sale	6.148	290	-	-	-	1
- loans and receivables	497	-	-	-	-	-
- fair value through profit or loss	103	-	-	-	-	-
Loans and advances to customers (before provisions)	21.173.769	97.124	-	1.429.161	483.541	395.051
Total on balance sheet	**24.277.736**	**117.213**	**52.639**	**1.586.781**	**711.653**	**414.479**
Contingent liabilities	880.984	335.073	-	7.206	100	50
Commitments	2.748.596	-	-	147.695	3.366	536
Total off balance sheet	**3.629.580**	**335.073**	**-**	**154.901**	**3.466**	**586**
Total exposure to credit risk	**27.907.316**	**452.286**	**52.639**	**1.741.682**	**715.119**	**415.065**

50. **Sovereign exposure** (continued)

Credit risk (continued)

	Cyprus	Greece	Ireland	Italy	Russia	Romania	Ukraine
2012	€000	€000	€000	€000	€000	€000	€000
Deposits with central banks	363.170	82.459	-	-	122.669	23.855	6.595
Placements with banks	60.500	5.538	-	7.071	144.825	35.039	3.450
Investments in sovereign debt securities							
- available-for-sale	1.134	-	47.602	51.536	2.197	6.603	-
- loans and receivables	749.981	-	-	-	-	-	-
- fair value through profit or loss	13.042	-	-	-	-	-	-
Investments in debt securities of banks and other corporations							
- available-for-sale	985	-	-	-	-	-	3
- loans and receivables	1.447	-	-	-	-	-	-
- fair value through profit and loss	96	-	-	-	-	-	464
Loans and advances to customers (before provisions)	14.872.936	9.437.677	-	-	2.024.524	550.154	331.290
Derivative financial assets	259	-	-	-	-	-	-
Total on balance sheet	**16.063.550**	**9.525.674**	**47.602**	**58.607**	**2.294.215**	**615.651**	**341.802**
Contingent liabilities	779.089	757.992	-	-	15.685	2.033	33
Commitments	1.705.856	809.373	-	-	184.064	21.316	390
Total off balance sheet	**2.484.945**	**1.567.365**	**-**	**-**	**199.749**	**23.349**	**423**
Total exposure to credit risk	**18.548.495**	**11.093.039**	**47.602**	**58.607**	**2.493.964**	**639.000**	**342.225**

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advanes acquired from Laiki Bank (Note 46).

On 31 December 2013 the revaluation reserve of available-for-sale investments includes losses amounting to €5.851 thousand (2012: €10.822 thousand) relating to the above sovereign debt securities and losses amounting to €142 thousand (2012: €359 thousand) relating to debt securities of banks and other corporations.

50. Sovereign exposure (continued)

Credit risk (continued)

The analysis of loans and advances to customers for the countries above is set out in Note 46.

In Cyprus, loans and advances to customers include loans to local authorities, semi-governmental organisations and government-controlled businesses of €139.733 thousand (2012: €118.000 thousand). In addition, contingent liabilities and commitments include an amount of €56.389 thousand for these entities (2012: €25.502 thousand). At 31 December 2012 loans and advances to customers in Greece included loans of €118.025 thousand which were secured by Greek government guarantees. There were no loans secured by Greek government guarantees at 31 December 2013.

Liquidity risk

The table below presents the Group's sovereign debt securities exposure to countries which have entered or have applied to the European Support Mechanism (Greece, Ireland, Portugal, Spain and Cyprus), based on the remaining contractual maturity of the financial assets.

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Cyprus						
- available-for-sale	-	-	-	1.423	-	**1.423**
- loans and receivables	-	199.003	1.749.757	327.267	296.913	**2.572.940**
- at fair value through profit or loss	-	-	-	15.413	-	**15.413**
	-	**199.003**	**1.749.757**	**344.103**	**296.913**	**2.589.776**
2012						
Cyprus						
- available-for-sale	1.009	-	-	125	-	**1.134**
- loans and receivables	-	99.377	12.607	510.974	127.023	**749.981**
- at fair value through profit or loss	-	-	-	13.042	-	**13.042**
	1.009	**99.377**	**12.607**	**524.141**	**127.023**	**764.157**
Ireland						
- available-for-sale	**-**	**-**	**-**	**-**	**47.602**	**47.602**

The Cyprus Government Bond of carrying value €1,6 billion is due on 1 July 2014 and has a unilateral roll-over option by the Cyprus Government up to July 2017.

As at 31 December 2013 and 31 December 2012 the Group had no sovereign debt security exposure to Spain, Portugal or Greece.

51. Capital management

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus through its Directive for the Calculation of the Capital Requirements and Large Exposures.

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

In July 2011, the CBC amended its Directive for capital requirements, introducing a new ratio for Core Tier 1 capital. The minimum level of the new ratio was set at 8% for the period until 30 December 2012. After that date, the minimum level of the ratio increased gradually based on the percentage of Group assets over the gross domestic product of the Republic of Cyprus. The Directive had also set the minimum level of Tier 1 capital as the minimum level of Core Tier 1 ratio plus 1,5%. In addition, it had set the minimum total capital ratio as the Tier 1 ratio plus 2,0%. As a result, the minimum required ratios for Tier 1 and total capital as at 31 December 2012 were 10,2% and 12,2%, respectively. The minimum Core Tier 1, Tier 1 and total capital ratios throughout the period and until 30 December 2013 were set at 8,7%, 10,2% and 12,2% respectively. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio from 8% to 9% and the minimum requirements for Tier 1 and total capital ratios have been abolished.

Before recapitalisation date (29 March 2013) the Group's Core Tier 1, Tier 1 and total capital ratios did not comply with minimum capital ratios.

Following recapitalisation, the Group's Core Tier 1 and Tier 1 ratios at 30 June and 30 September 2013 were 10,2% and complied with the minimum Core Tier 1 ratio (8,7%) required by the CBC until 30 December 2013.

The total capital ratio at 30 June and 30 September 2013 was 10,7% and 10,4% respectively and did not comply with the minimum total capital ratio (12,2%) required by the CBC until 30 December 2013.

As at 31 December 2013 the Group complies with the minimum capital requirements.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC will set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

In addition, the CBC may also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II adds-ons).

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance, including the minimum solvency ratio.

51. **Capital management** (continued)

The capital adequacy ratios of the Group at 31 December are presented below:

	2013	2012
Regulatory capital	**€000**	€000
Core original own funds (Core Tier 1)	**2.281.513**	(407.284)
Original own funds (Tier 1)	**2.281.513**	119.695
Additional own funds (Tier 2)	**75.581**	248.892
Carrying value of insurance companies	**-**	(171.680)
Total regulatory capital	**2.357.094**	196.907
Risk weighted assets – credit risk	**20.380.360**	19.318.362
Risk weighted assets – market risk	**3.398**	3.014
Risk weighted assets – operational risk	**2.057.687**	2.258.476
Total risk weighted assets	**22.441.445**	21.579.852
	%	%
Core tier 1 ratio	**10,2**	(1,9)
Tier 1 ratio	**10,2**	0,6
Tier 2 ratio	**0,3**	1,2
Total capital ratio	**10,5**	0,9

Minimum ratios per the Central Bank of Cyprus Directive		
Core tier 1 ratio	**9,0**	8,7
Tier 1 ratio	**n/a**	10,2
Total capital ratio	**n/a**	12,2

On 25 March 2013, the Cyprus Government and the Eurogroup reached an agreement for a financial assistance facility of up to €10 billion, which is conditional upon the implementation of an extensive programme of policy reforms. The Eurogroup agreement provided that the Group would be recapitalised through a bail-in of its uninsured depositors and the absorption of losses by its shareholders and bondholders.

The Company was under resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with the decrees issued by the CBC in its capacity as Resolution Authority, in accordance with the Resolution of Credit Institutions and Other Institutions Law of 2013.

The total capital during the year ended 31 December 2013 was positively affected the recapitalisation (Note 36) and negatively affected by the losses for the period. The recapitalisation was implemented via the bail-in of uninsured depositors (through the conversion of 47,5% of uninsured deposits and structured products into equity) and the conversion of debt security holders into equity holders.

The regulatory capital as at 31 December 2013 includes 'Shares subject to interim orders' (Note 36) which amounted to €58.922 thousand.

52. Related party transactions

	2013	2012	2013	2012
	Number of directors		€000	€000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Group's net assets per director	-	1	-	9.893
- less than 1% of the Group's net assets per director	15	16	302	23.356
	15	17	302	33.249
Loans and advances to other key management personnel and connected persons			3.448	832
Total loans and advances as at 31 December			3.750	34.081
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			3.224	5.028
- connected persons			526	29.053
			3.750	34.081
Interest income for the year			929	9.511

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			1.881	19.260
- connected persons			36.536	21.948
			38.417	41.208
Interest expense on deposits for the year			1.115	3.452

Debt securities in issue, subordinated loan stock and CECS:				
- members of the Board of Directors and other key management personnel			-	56
- connected persons			-	2
			-	58

The above table does not include year end balances for members of the Board of Directors and their connected persons who resigned during the year.

52. Related party transactions (continued)

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €231 thousand (2012: €16.124 thousand). As at 31 December 2013 there were no directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the Group per director (2012: €13.813 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €743 thousand (2012: €77 thousand). The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 December 2013 amounted to €1.439 thousand (2012: €4.191 thousand).

Transactions with connected persons of the current members of the Board of Directors
Mr Xanthos Vrachas who was appointed on the Board on 10 September 2013 is a director of Universal Insurance Agency Ltd to which the Group paid €119 thousand relating to insurance transactions.

Transactions with connected persons of the Directors who resigned during 2013
During 2013 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €56 thousand (2012: €205 thousand) paid to companies of the Commercial General Insurance Group in which Mr Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €1 thousand (2012: €274 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous holds an indirect interest; purchases of equipment amounting to €89 thousand (2012: €513 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand (2012: €144 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis and rents amounting to €71 thousand (2012: €310 thousand) paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the director Mr Elias Neocleous is a partner, amounted to €14 thousand (2012: €324 thousand).

In addition, the Group had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr Andreas Poetis is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr Philippos Mannaris is a partner.

During 2012, immovable property amounting to €185 thousand was acquired by a company that is being influenced by connected persons of Mr Vassilis G. Rologis.

Connected persons include spouses, minor children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	2013	2012
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**452**	1.191
Termination benefits	**84**	-
Employer's contributions	**27**	77
Retirement benefit plan costs	**31**	134
	594	1.402
Non-executives		
Fees	**352**	578
Emoluments of a non-executive director who is also an employee of the Company	**100**	151
Total directors' emoluments	**1.046**	2.131
Other key management personnel emoluments		
Salaries and other short term benefits	**943**	584
Termination benefits	**667**	-
Employer's contributions	**84**	44
Retirement benefit plan costs	**117**	65
Total other key management personnel emoluments	**1.811**	693
Total	**2.857**	2.824

Fees and emoluments of executive directors

The salaries and other short term benefits of the executive directors are analysed as follows:

	2013	2012
	€000	€000
Andreas Eliades (resigned on 10 July 2012)	**-**	315
Yiannis Pehlivanidis (resigned on 29 March 2013)	**104**	488
Yiannis Kypri (resigned on 29 March 2013)	**127**	388
Dinos Christofides (Special Administrator - 25 March 2013 to 21 June 2013)	**20**	-
Christos Sorotos (Interim Chief Executive Officer - 29 May 2013 to 10 September 2013)	**60**	-
John Patrick Hourican (Chief Executive Officer - appointed on 1 November 2013)	**141**	-
	452	1.191

For the years 2012 and 2013 no bonus was recommended or paid to the executive directors.

The termination benefits of the executive directors relate to payment to an executive director who left the Group on 29 March 2013. The termination benefits include notice period paid in accordance with his employment contract.

The retirement benefit plan costs for 2013 amounting to €31 thousand relate to: Mr John Patrick Hourican €18 thousand and Mr Yiannis Kypri €13 thousand. The retirement benefit plan costs for 2012 amounting to €134 thousand related to: Mr Andreas Eliades €51 thousand, Mr Yiannis Pehlivanidis €30 thousand and Mr Yiannis Kypri €53 thousand.

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees of non-executive directors

	2013	2012
	€000	€000
Andreas Artemis	**20**	75
Evdokimos Xenophontos	**15**	39
Theodoros Aristodemou	**-**	82
Vassilis G. Rologis	**8**	32
Costas Z. Severis	**10**	40
Chistakis G. Christofides	**5**	20
Anna Diogenous	**5**	31
George M. Georgiades	**2**	42
Andreas J. Jacovides	**-**	20
Christos Mouskis	**-**	39
Manthos Mavrommatis	**-**	29
Costas Hadjipapas	**12**	26
Nikolas P. Tsakos	**1**	23
Stavros J. Constantinides	**2**	32
Irene Karamanou	**6**	25
Elias Neocleous	**4**	15
Symeon Matsis	**4**	8
Sophocles Michaelides	**25**	-
Erol Riza	**19**	-
Constantinos Damtsas	**9**	-
Takis Taousianis	**11**	-
Lenia Georgiadou	**11**	-
Philippos Mannaris	**9**	-
Lambros Papadopoulos	**8**	-
Andreas Persianis	**6**	-
Andreas Poetis	**8**	-
Panikos Pouros	**15**	-
Savvakis Savvides	**8**	-
Georgios Theocharides	**9**	-
Michalis Zannetides	**7**	-
Takis Arapoglou	**6**	-
Christis Hassapis	**21**	-
Vladimir Strzhalkovskiy	**16**	-
Anjelica Anshakova	**6**	-
Dmitry Chichikashvili	**5**	-
Marinos Gialeli	**6**	-
Marios Kalochoritis	**6**	-
Konstantinos Katsaros	**7**	-
Eriskhan Kurazov	**4**	-
Adonis Papaconstantinou	**6**	-
Anton Smetanin	**4**	-
Xanthos Vrachas	**6**	-
Marios Yiannas	**6**	-
Andreas Yiasemides	**7**	-
Ioannis Zographakis	**7**	-
	352	578

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees of non-executive directors (continued)
The fees of the non-executive directors include fees as members of the Board of Directors of the Company and its subsidiaries as well as of committees of the Board of Directors.

Mr Costas Hadjipapas, who is an employee of the Company and was also a non-executive director up until 23 October 2013, had emoluments for 2013 up to the date of resignation, amounting to €81 thousand (2012: €123 thousand). Employer's contributions amounted to €8 thousand (2012: €11 thousand) and retirement benefit plan costs amounted to €11 thousand (2012: €17 thousand).

Emoluments of other key management personnel
The other key management personnel emoluments include the emoluments of the Senior Group Executive Management up to 29 March 2013 and the remuneration of the members of the Executive Committee of the Group for the period that each employee served as member of the Executive Committee.

The termination benefits relate to payments to four key management personnel who left during 2013. The termination benefits include notice period paid in accordance with their employment contracts and voluntary retirement compensation.

For the year 2012 and 2013 no bonus was recommended or paid to other key management personnel.

53. Group companies

The main companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Kermia Hotels Ltd	Cyprus	Hotel business	100
BOC Ventures Ltd	Cyprus	Management of venture capital investments	100
Tefkros Investments Ltd	Cyprus	Investment fund	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	55
Diners Club (Cyprus) Ltd	Cyprus	Club credit card facilities	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80
Finerose Properties Ltd	Cyprus	Financing services	100
Hydrobius Ltd	Cyprus	Special purpose entity	-
Laiki Capital Public Co Ltd	Cyprus	Holding company	67
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	67
Laiki Factors Ltd	Cyprus	Factoring and invoice discounting	100
Paneuropean Ltd	Cyprus	Investment company	100
Philiki Ltd	Cyprus	Investment company	100
Cyprialife Ltd	Cyprus	Investment company	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Commercial bank	N/A
Kyprou Leasing SA	Greece	Leasing	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100
Kyprou Securities SA	Greece	Investment banking	100
Kyprou Properties SA	Greece	Property management	100

53. Group companies (continued)

Company	Country	Activities	Percentage holding (%)
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100
Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	100
Misthosis Funding Plc	United Kingdom	Special purpose entity	-
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	-
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80
Leasing Company Uniastrum Leasing	Russia	Leasing	80
MC Investment Assets Management LLC	Russia	Special purpose entity	-
PJSB Bank of Cyprus	Ukraine	Commercial bank	100
LLC Ikos Finance	Ukraine	Financing services	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

In addition to the above companies, at 31 December 2013 the Company had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Limestone Properties Ltd, Samarinda Navigation Co. Ltd, Turnmill Properties Ltd, Fairford Properties Ltd, Inverness Properties Ltd, Dinmont Properties Ltd, Lendrick Properties Ltd, Sunnybridge Properties Ltd, Caraway Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Ikosia Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Drysdale Properties Ltd, Snowfield Properties Ltd, Medaland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properies Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd and Gosman Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

53. Group companies (continued)

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd and Salecom Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

All Group companies are accounted for as subsidiaries using the full consolidation method.

54. Acquisitions, disposals and non-current assets held for sale

54.1 Disposal of Greek operations

As per the MoU for the financial sector and through a Decree issued on 26 March 2013, the banking and leasing operations of the Group in Greece were sold to Piraeus Bank S.A., which was selected for this transaction by the Hellenic Financial Stability Fund.

The results from the Greek operations disposed until the date of the disposal are presented as discontinued operations (Note 5). The loss on disposal of the Greek operations is presented in the table below.

	€000
Assets	
Property and equipment	**97.231**
Loans and advances	**7.769.075**
	7.866.306
Liabilities	
Customer deposits	**7.653.682**
Net assets disposed	**212.624**
Cash paid	**1.153.000**
Loss on disposal	**1.365.624**

54.2 Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd

As part of the agreement with Eurogroup, the Company acquired all of the insured deposits and the majority of the loans and assets of Cyprus Popular Bank Public Co Ltd (Laiki Bank). All employees of Laiki Bank in Cyprus have been transferred to the Company. This was effected through the 'Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd' Decree issued on 29 March 2013 and subsequent decrees which provided for the acquisition of assets and liabilities, mainly insured deposits and ELA funding of Laiki Bank by the Company. These assets included all assets of Laiki Bank in Cyprus, the loans of the Laiki Bank in UK and selected assets of Laiki Bank in Greece. The results of Laiki Bank are fully consolidated from the date of acquisition.

As prescribed by the Decree issued on 29 March 2013, the Resolution Authority was required to perform a valuation of the assets and liabilities transferred from Laiki Bank to the Company and to determine a fair compensation for Laiki Bank with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of assets and liabilities transferred by Laiki Bank to the Company. The consideration transferred for this transaction (being shares of the Company) was determined and enforced by the Resolution Authority pursuant to the Decree for the 'Issue of Bank of Cyprus Share Capital to compensate Laiki Bank' issued on 30 July 2013. In accordance with the above Decree, this was set at 18,1% of the total share capital of the Company with no further right for additional compensation. Accordingly, 845.758 thousand shares were issued to Laiki Bank.

54. Acquisitions, disposals and non-current assets held for sale (continued)

54.2 Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd (continued)

In accordance with the Company's accounting policy, business combinations are accounted for using the acquisition method.

Consideration transferred
In accordance with IFRS 3 'Business Combinations', the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Due to the specific conditions under which this transaction took place, i.e. the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of acquisition, the ongoing discussions and negotiations with the Troika and the non-availability of up to date financial information as at the date of acquisition, the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction.

IFRS 3 does not provide any guidance for cases where the fair value of the consideration cannot be reliably measured. Hence the Company has referred to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', which provides that in the absence of an IFRS that specifically applies to a transaction, event or condition, management shall use its judgement in developing and applying an accounting policy.

By analogy to other standards that deal with the exchange of assets, the Company has concluded that it is appropriate to determine the fair value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established.

As a result of applying the above accounting treatment, no goodwill or bargain purchase arises on this transaction.

Fair value of identifiable assets and liabilities
For the determination of the fair value of the identifiable assets and liabilities and contingent liabilities, which is currently in progress, the Company is using the services of an independent international firm.

Provisional accounting for the business combination
As of the date of approval of these consolidated financial statements, the Company was still in the process of obtaining all the information necessary to identify and measure all of the various components of the business combination as of the acquisition date in accordance with the standard. Therefore, at the date of these financial statements, the Company has included provisional amounts and any adjustments arising will later be recognised retrospectively as if the accounting recognition of the business combination was completed on the acquisition date.

54. Acquisitions, disposals and non-current assets held for sale (continued)

54.2 Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd (continued)

Provisional fair values acquired

The table below sets out the provisional fair values of the identifiable assets and liabilities acquired from Laiki Bank and its subsidiaries that are incorporated in the Republic of Cyprus and have been transferred to the Company through the Decree issued on 29 March 2013.

Provisional fair values recognised on acquisition	**€000**
Assets	
Cash and balances with central banks	**406.685**
Placements with banks	**1.294.458**
Amount receivable from the Company	**1.153.000**
Investments	**2.560.156**
Loans and advances to customers	**8.659.000**
Property, plant and equipment and intangible assets	**129.779**
Deferred tax asset	**417.002**
Investments in associates	**106.865**
Other assets	**367.001**
Total assets	**15.093.946**
Liabilities	
Amounts due to banks	**1.233.564**
Funding from central banks	**9.102.528**
Customer deposits	**4.177.445**
Other liabilities	**127.149**
Deferred tax liability	**5.131**
Total liabilities	**14.645.817**
Non-controlling interests	**5.324**
Total identifiable net assets at fair value	**442.805**
Fair value of consideration transferred (comprising of 845.758 thousand shares of nominal value €1,00 each)	**442.805**

Analysis of cash flows on acquisition	
Total cash flows acquired of which:	**2.854.143**
Cash and cash equivalents	**1.126.302**
Consideration paid in cash	**-**

The fair value of loans and advances to customers amounts to €8.659.000 thousand. The gross amount of loans and advances to customers before fair value adjustment on initial recognition is €10.688.905 thousand. Of the total gross amount, €3.902.593 thousand were considered to be impaired as at the acquisition date. The fair value of these impaired loans amounts to €2.420.228 thousand.

The contribution to losses for the year by the acquired operations of Laiki Bank in the consolidated income statement and in the consolidated statement of comprehensive income amounted to losses of €49.290 thousand and losses of €6.030 thousand respectively. From the date of acquisition, operations of Laiki Bank have contributed €334.867 thousand to net interest income.

The impact on the consolidated income statement and the consolidated statement of comprehensive income had Laiki Bank operations been consolidated from 1 January 2013 is unavailable and not representative.

54. Acquisitions, disposals and non-current assets held for sale (continued)

54.3 Acquisition of certain assets and liabilities of Laiki (UK Branch) by Bank of Cyprus UK Ltd

On 1 April 2013, in accordance with a Decree issued by the Resolution Authority, the customer deposits of the Laiki UK Branch amounting to €325.209 thousand and certain liquid assets were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Group.

54.4 Disposal of certain assets and liabilities of Bank of Cyprus Romania

On 25 April 2013, in accordance with a decree issued by the Resolution Authority, the Company's Romanian Branch disposed to Marfin Bank (Romania) SA assets amounting to €82.000 thousand on which include certain customer loans and related collateral, cash and other liquid assets and customer deposits amounting to €77.000 thousand. The loss on disposal amounts to €4.482 thousand and is included in net losses on financial instrument transactions, in the consolidated income statement.

54.5 Step acquisition

Following the acquisition of certain operations of Laiki Bank, the Company's holding in JCC Payment Systems Ltd ('JCC') which provides card processing transaction services has increased from 45% to 75%. As a result, the Company fully consolidates JCC from 29 March 2013. Up to the date of becoming a subsidiary, the Company used proportional consolidation to account for JCC.

54.6 Dissolution and liquidation of subsidiaries

In 2012 the subsidiaries Katoikia I Holdings Ltd, Katoikia I Mortgage Finance Plc and Kyprou Insurance Services Ltd were dissolved. The net profit from the process of dissolution amounted to €45 thousand.

On 20 December 2012 the relevant procedures started for the liquidation of S.C. ONT Carpati S.A. and the dissolution was completed in 2013.

54.7 Transfer of banking business of subsidiary

On 25 June 2012 the banking business carried out by the UK branch (Bank of Cyprus UK) was transferred to a wholly owned banking subsidiary of the Group, Bank of Cyprus UK Ltd. Bank of Cyprus UK Ltd is registered in the UK.

54.8 Disposal of subsidiary

On 11 October, 2013 the Company sold 100% of its subsidiary Kyprou Asset Management AEDAK. The company's net asset value totalled €2.100 thousand and the sale consideration amounted to €1.900 thousand. The transaction, as well as the loss incurred, does not have any significant financial or operational impact on the Group.

54.9 Non-current assets held for sale

At 31 December 2013, the Ukrainian operations of the Group were classified as a disposal group held for sale.

The carrying value of major classes of assets and liabilities of the disposal group as at 31 December 2013 is set out below.

	€000
Cash and balances with central banks	**14.842**
Placements with banks	**14.049**
Loans and advances to customers	**305.507**
Investment properties	**49.430**
Property and equipment	**-**
Other assets	**1.067**
Customer deposits	**(73.462)**

54. Acquisitions, disposals and non-current assets held for sale (continued)

54.9 Non-current assets held for sale (continued)

Immediately before the classification of the Group's Ukrainian operations as a disposal group held for sale, the recoverable amount was estimated for property and equipment and intangible assets and no impairment loss was identified. Loans and advances to customers were measured at amortised cost and are stated net of impairment provisions.

Following the classification of the disposal group as held for sale, an impairment of €9.579 thousand was recognised, to reduce the carrying amount of the scoped-in non-current assets, namely the property and equipment and other assets of the disposal group to fair value less cost to sell. This impairment loss was recognised within 'Operating expenses' in the consolidated income statement.

In accordance with the Group's accounting policy, the excess loss being the difference of the fair value less cost to sell of the disposal group and the carrying amount of scoped-in non-current assets is not recognised.

55. Investments in associates

Share of profit / (loss) of associates

	2013	2012
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**1.993**	-
Interfund Investments Plc	**83**	32
Rosequeens Properties SRL	**(191)**	190
	1.885	222

Carrying value of the investments in associates

	2013	2012
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**98.324**	-
Interfund Investments Plc	**3.000**	2.917
Aris Capital Management LLC	**2.078**	-
Rosequeens Properties SRL	**-**	190
Grand Hotel Enterprises Society Ltd	**-**	-
	103.402	3.107

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Laiki Bank, 49,9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group.

The Group's interest in the main financial highlights of the company is presented as follows:

	2013	2012
	€000	€000
Total assets	**351.489**	-
Liabilities	**(253.165)**	-
Net assets, including value of in-force business	**98.324**	-

55. **Investments in associates** (continued)

Carrying value of the investments in associates (continued)

CNP Cyprus Insurance Holdings Ltd (continued)
CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €42.040 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	2013	2012
	€000	€000
Interest expense paid by the Group	**1.589**	-
Other expenses paid by the Group	**1.207**	-
Other income received by the Group	**312**	-

Interfund Investments Plc
The Group has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the Cyprus Stock Exchange.

The Group's interest in the main financial highlights of the company is presented as follows:

	2013	2012
	€000	€000
Total assets	**3.051**	2.992
Liabilities	**(51)**	(75)
Net assets	**3.000**	2.917
Market value of the investment on the Cyprus Stock Exchange	**1.516**	640
Share of associate's income and profit		
Operating profit	**83**	32
Profit after tax	**83**	32

During the year, there were no material transactions between the Group and the associate.

Grand Hotel Enterprises Society Ltd
As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010, the Group acquired 35,20% of the share capital of the company Grand Hotel Enterprises Society Ltd (GHES), which is incorporated in Romania and owns a hotel in Romania. The Group's share of the associate at 31 December 2013 and 2012 had nil accounting value as the net assets of the associate had a negative balance.

S.C. ONT Carpati S.A. was liquidated during 2013 and Unknownplan Properties Ltd acquired from S.C. ONT Carpati S.A. for a value of €13,9 million, the subordinated receivable from GHES and the 35,20% shareholding in GHES previously owned by S.C. ONT Carpati S.A.

The Group had granted a loan to GHES of €97.734 thousand, which was secured by a mortgage on the hotel owned by GHES. In addition, GHES owed an amount of €2.021 thousand to the Group. The Group's income statement for 2013 includes interest income of €5.284 thousand from GHES (2012: €5.706 thousand).

55. Investments in associates (continued)

Carrying value of the investments in associates (continued)

Rosequeens Properties SRL

The Group owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of due balances amounting to approximately €21 million. The Group's share of the associate at 31 December 2013 had nil accounting value as the net assets of the associate had a negative balance.

Aris Capital Management LLC

The Group's holding in Aris Capital Management LLC of 30% was transferred to the Group following the acquisition of certain operations of Laiki Bank. During the year, there were no material balances or transactions between the Group and the associate.

56. Events after the reporting date

56.1 Disposal of Group's Ukrainian business

On 31 January 2014 the Group entered in a preliminary agreement to sell its Ukrainian operations to ABH Ukraine Limited, a member of the Alfa Group. The sale is subject to approvals from the relevant regulatory authorities in Cyprus and Ukraine.

The sale consideration is €225.000 thousand, subject to adjustments made upon completion. The impact on the Group's capital is estimated to be approximately €49.000 thousand or 0,2% negative on the Group's Core Tier 1 ratio.

The accounting loss from the sale is approximately €126.000 thousand and represents the difference of the consideration received and the carrying value of the disposal group held for sale at 31 December 2013, as well as the unwinding of the related foreign currency reserves of €41.000 thousand.

56.2 Release of the six-month time deposits

On 31 January 2014 the Group after witnessing improved liquidity positions and the stabilising signs of its deposit base released the six-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013 and matured on 31 January 2014. The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

56.3 Transfer of business of Laiki Factors Ltd to the Company

In 2014, the Group decided the transfer of the operations and the assets and liabilities of the Group subsidiary company Laiki Factors Ltd to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership, of the subsidiary.

Building a better working world

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Independent Auditor's Report to the members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 17 to 190, which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for qualified opinion

As discussed in note 3.2.2 to the consolidated financial statements, in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority, the Company when accounting for its recapitalisation was not able to measure the shares issued at their fair value as required by International Financial Reporting Standards ('IFRS') relating to extinguishment of financial liabilities due to the specific conditions and uncertainties that existed at the time of the transaction. Had the Company been able to apply the requirements of IFRS and measure the shares issued at their fair value it would recognise any difference with the carrying amount of the liabilities extinguished in profit or loss.

Furthermore, as described in note 54.2 to the consolidated financial statements relating to the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Company Ltd ('Laiki Bank'), pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, the Company was not able to establish a reliable fair value of the shares issued and has therefore determined the value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired, for which a reliable fair value could be established.

Due to the nature of the above mentioned transactions and the circumstances that existed at the date these transactions took place, we were unable to obtain sufficient and appropriate audit evidence to conclude on the reliability of the measurement of the value of the shares issued at the time of these transactions and on any adjustments to the Group's consolidated income statement that could have been determined to be necessary because of the adopted treatments. The Group's equity and financial position are not affected by the above accounting treatments.

Qualified opinion

In our opinion, except for the matter described in the first paragraph under the "Basis for qualified opinion" above and any adjustments that could have been determined to be necessary had we been able to satisfy ourselves as to the fair value of the shares issued for the Group's recapitalisation through a bail-in of uninsured deposits and debt securities and for the consideration transferred for the Laiki Bank acquisition, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Emphasis of matter

We draw your attention to note 4.1 'Going concern' to the consolidated financial statements which indicates the significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 16 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Directors' Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 March 2014

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the Board of Directors and the Company officials responsible for the drafting of the financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2013, the names of which are listed below confirm that, to the best of our knowledge:

(a) the Company's financial statements on pages 195 to 329

(i) have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union and the requirements of the Cyprus Companies Law,

(ii) have been audited by the independent auditors of the Company in accordance with the International Standards on Auditing.

The qualification included in the independent auditor's report to the members of the Company relates exclusively to the accounting treatment afforded under IFRS (the 'Accounting Treatment') of the effect of the decrees of the Central Bank of Cyprus ('CBC') in its capacity as Resolution Authority concerning the bail-in of the Company and its taking over of certain assets and liabilities from Cyprus Popular Bank Public Co Ltd (the 'Decrees'), and in particular to the value assigned to the new shares issued pursuant to the Decrees. It is considered appropriate to underline the fact that the value assigned to these shares has no impact on the value of the assets, the liabilities and the shareholders' equity reported in these Financial Statements of the Company as further explained and elaborated on in the notes to the Financial Statements of the Company and in particular notes 2, 3.2.2 and 22,

(iii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the financial statements taken as a whole, subject to the qualification included in the Report to the Board of Directors of the Company on the Audit of the Financial Statements, which as explained above, does not affect the Company's equity and financial position, and

(b) the Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the Financial Statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis	Chairman
Vladimir Strzhalkovskiy	Vice Chairman
Anjelica Anshakova	Non-executive Director
Dmitry Chichikashvili	Non-executive Director
Marinos Gialelis	Non-executive Director
Marios Kalochoritis	Non-executive Director
Konstantinos Katsaros	Non-executive Director
Eriskhan Kurazov	Non-executive Director
Adonis Papaconstantinou	Non-executive Director
Anton Smetanin	Non-executive Director
Xanthos Vrachas	Non-executive Director
Marios Yiannas	Non-executive Director
Andreas Yiasemides	Non-executive Director
Ioannis Zographakis	Non-executive Director
John Patrick Hourican	Chief Executive Officer
Christodoulos Patsalides	Finance Director
Eliza Livadiotou	Chief Financial Officer

27 March 2014

FINANCIAL STATEMENTS

Income Statement

for the year ended 31 December 2013

		2013	2012 (restated and represented)
	Notes	**€000**	€000
Continuing operations			
Turnover		**1.552.541**	1.362.426
Interest income	5	**1.416.319**	1.170.481
Interest expense	6	**(533.985)**	(588.947)
Net interest income		**882.334**	581.534
Fee and commission income	7	**141.051**	145.123
Fee and commission expense	7	**(18.941)**	(12.048)
Net foreign exchange gains	8	**15.319**	27.196
Dividends from subsidiary companies and joint ventures		**25.532**	31.179
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	9	**15.211**	(25.975)
Other (expenses)/income	10	**(14.384)**	695
		1.046.122	747.704
Staff costs	11	**(348.695)**	(199.588)
Other operating expenses	12	**(179.498)**	(166.987)
Profit before impairment of loans and advances		**517.929**	381.129
Provisions for impairment of loans and advances	43	**(929.635)**	(1.248.532)
Provisions for impairment on intercompany balances		**(28.816)**	(2.811)
Impairment of investments in subsidiary companies and disposal group held for sale	22	**(306.129)**	(412.655)
Loss before tax		**(746.651)**	(1.282.869)
Tax	14	**4.911**	37.109
Loss after tax		**(741.740)**	(1.245.760)
Discontinued operations			
Loss after tax from discontinued operations	22	**(1.327.603)**	(1.018.300)
Loss for the year		**(2.069.343)**	(2.264.060)

Basic and diluted losses per share– continuing operations (cent)	15	**(20,8)**	(8.061,7)
Basic and diluted losses per share (cent)	15	**(58,2)**	(14.651,3)

		2013	2012 (restated)
		€000	€000
	Notes		
Loss for the year		**(2.069.343)**	(2.264.060)
Other comprehensive income (OCI)			
OCI to be reclassified in the Income Statement in subsequent periods			
Foreign currency translation reserve			
Profit on translation of net investment in overseas branches		**35**	10.161
Profit/(loss) on hedging of net investments	18	**2.356**	(6.243)
		2.391	3.918
Available-for-sale investments			
Gains on revaluation before tax		**13.176**	60.221
Transfer to the income statement on impairment		**16.662**	3.096
Transfer to the income statement on sale		**1.527**	75.234
Tax		**60**	(2.254)
		31.425	136.297
		33.816	140.215
OCI not to be reclassified in the Income Statement in subsequent periods			
Actuarial loss for the defined benefit plans			
Remeasurement losses on defined benefit plans		**(707)**	(9.355)
Tax		**-**	(2.391)
		(707)	(11.746)
Property revaluation			
Fair value loss before tax	24	**(13.447)**	(15.461)
Tax		**3.205**	6.023
		(10.242)	(9.438)
		(10.949)	(21.184)
Other comprehensive income after tax		**22.867**	119.031
Total comprehensive loss for the year		**(2.046.476)**	(2.145.029)

		2013	2012 (restated)	2011 (restated)
	Notes	**€000**	€000	€000
Assets				
Cash and balances with central banks	16	**550.740**	655.254	1.242.705
Placements with banks	16	**1.064.654**	1.553.587	2.425.778
Reverse repurchase agreements		**-**	-	215.936
Investments	17	**2.822.057**	1.093.961	2.566.223
Investments pledged as collateral	17	**672.809**	734.747	938.070
Derivative financial assets	18	**28.723**	26.785	193.734
Loans and advances to customers	20	**19.714.705**	20.873.053	24.145.674
Group intercompany accounts		**1.115.708**	2.088.659	3.321.270
Investments in Group companies, acquisitions and disposals and assets held for sale	22	**442.335**	665.380	808.714
Investments in associates	23	**105.048**	8.009	7.722
Property and equipment	24	**243.908**	287.169	322.226
Intangible assets	25	**16.975**	16.339	18.266
Other assets	26	**897.425**	130.723	314.930
Total assets		**27.675.087**	28.133.666	36.521.248
Liabilities				
Amounts due to banks	27	**124.152**	256.831	898.914
Funding from central banks	28	**10.956.277**	-	2.100.556
Repurchase agreements		**594.004**	607.773	785.993
Derivative financial liabilities	18	**83.957**	183.802	488.102
Customer deposits	29	**12.745.743**	25.880.056	28.223.101
Group intercompany accounts		**563.579**	759.467	1.503.851
Debt securities in issue	30	**-**	15.389	20.319
Other liabilities	31	**155.623**	244.505	252.072
Subordinated loan stock	32	**-**	126.372	121.452
Total liabilities		**25.223.335**	28.074.195	34.394.360
Equity				
Share capital	33	**4.683.985**	1.795.141	899.528
Shares subject to interim orders	33	**58.922**	-	-
Share premium reserve		**-**	428.271	1.164.903
Convertible Enhanced Capital Securities	34	**-**	428.835	862.233
Revaluation and other reserves		**36.499**	63.227	(17.442)
Accumulated losses	36	**(2.327.654)**	(2.656.003)	(782.334)
Total equity		**2.451.752**	59.471	2.126.888
Total liabilities and equity		**27.675.087**	28.133.666	36.521.248

Chr. Hassapis Chairman
V. Strzhalkovskiy Vice-Chairman
I. Zographakis Director

J. P. Hourican Chief Executive Officer
Chr. Patsalides Finance Director
E. Livadiotou Chief Financial Officer

Statement of Changes in Equity

for the year ended 31 December 2013

	Share Capital (Note 33)	Shares subject to interim orders (Note 33)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Treasury shares	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2013	**1.795.141**	**-**	**428.271**	**428.835**	**(2.656.003)**	**96.028**	**2.073**	**6.059**	**5.251**	**(10.510)**	**(35.674)**	**59.471**
Loss for the year	-	-	-	-	(2.069.343)	-	-	-	-	-	-	**(2.069.343)**
Other comprehensive (loss)/income net of tax	-	-	-	-	(707)	(10.242)	31.425	-	-	2.391	-	**22.867**
Total comprehensive (loss)/income for the year	-	-	-	-	(2.070.050)	(10.242)	31.425	-	-	2.391	-	**(2.046.476)**
Bail-in of deposits and structured products	3.814.495	-	-	-	-	-	-	-	-	-	-	**3.814.495**
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	122.541	-	-	-	-	-	-	-	-	-	(6)	**122.535**
Conversion of CECS into shares	459.399	-	-	(429.580)	-	-	-	-	-	-	(29.819)	**-**
Reduction of nominal value of share capital and utilisation of share premium	(2.353.349)	-	(428.271)	-	2.786.871	-	-	-	(5.251)	-	-	**-**
Shares subject to interim orders	-	58.922	-	-	-	-	-	-	-	-	-	**58.922**
Acquisitions (Note 22)	845.758	-	-	-	(402.953)	-	-	-	-	-	-	**442.805**
Exchange difference on CECS	-	-	-	745	(745)	-	-	-	-	-	-	**-**
Transfer of realised profits on sale of property	-	-	-	-	15.226	(15.226)	-	-	-	-	-	**-**
31 December 2013	**4.683.985**	**58.922**	**-**	**-**	**(2.327.654)**	**70.560**	**33.498**	**6.059**	**-**	**(8.119)**	**(65.499)**	**2.451.752**

Statement of Changes in Equity

for the year ended 31 December 2012

	Share Capital (Note 33)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Revaluation reserve of investments in Group companies	Treasury shares	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2012	**899.528**	**1.164.903**	**862.233**	**(715.515)**	**111.525**	**(134.224)**	**-**	**5.251**	**828**	**63.597**	**(822)**	**2.257.304**
Change in accounting policy (Note 3)	-	-	-	(66.819)	-	-	-	-	-	(63.597)	-	**(130.416)**
1 January 2012 (restated)	**899.528**	**1.164.903**	**862.233**	**(782.334)**	**111.525**	**(134.224)**	**-**	**5.251**	**828**	**-**	**(822)**	**2.126.888**
Loss for the year	-	-	-	(2.264.060)	-	-	-	-	-	-	-	**(2.264.060)**
Other comprehensive (loss)/income net of tax	-	-	-	(11.746)	(9.438)	136.297	-	-	3.918	-	-	**119.031**
Total comprehensive (loss)/income for the year	-	-	-	(2.275.806)	(9.438)	136.297	-	-	3.918	-	-	**(2.145.029)**
Purchase of shares of the Company	-	-	-	-	-	-	-	-	-	-	(38.060)	**(38.060)**
Disposal of shares of the Company	-	-	-	(1.016)	-	-	-	-	-	-	3.208	**2.192**
Capitalisation of reserves on conversion of branch to subsidiary	-	-	-	-	(6.059)	-	6.059	-	-	-	-	**-**
Issue of shares	159.683	-	-	-	-	-	-	-	-	-	-	**159.683**
Issue costs	-	(2.449)	-	-	-	-	-	-	-	-	-	**(2.449)**
Issue of bonus shares	303.743	(303.743)	-	-	-	-	-	-	-	-	-	**-**
Conversion of CECS	432.187	-	(432.187)	-	-	-	-	-	-	-	-	**-**
Defence contribution on deemed dividend distribution	-	-	-	(28.498)	-	-	-	-	-	-	-	**(28.498)**
Reduction of share premium	-	(430.440)	-	430.440	-	-	-	-	-	-	-	**-**
Exchange difference due to conversion of branch to subsidiary	-	-	-	-	-	-	-	-	(15.256)	-	-	**(15.256)**
Exchange difference on CECS	-	-	(1.211)	1.211	-	-	-	-	-	-	-	**-**
31 December 2012 (restated)	**1.795.141**	**428.271**	**428.835**	**(2.656.003)**	**96.028**	**2.073**	**6.059**	**5.251**	**(10.510)**	**-**	**(35.674)**	**59.471**

Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 €000	2012 (restated and represented) €000
Net cash flow used in operating activities	39	**(3.078.013)**	(3.478.702)
Cash flows from investing activities			
Purchases of investments:			
- debt securities and treasury bills		**-**	(1.633.888)
- equity securities		**-**	(3.248)
Proceeds on disposal/redemption of investments:			
- debt securities and treasury bills		**1.047.598**	3.464.166
- equity securities		**22.465**	987
Interest received from debt securities and treasury bills		**219.044**	172.553
Dividends		**25.862**	31.289
Cash consideration paid net of cash acquired		**1.126.302**	-
(Amounts paid on disposal)/net proceeds on disposal of subsidiary companies		**(1.140.984)**	103.137
Investment in subsidiary companies		**-**	(190.297)
Purchase of property and equipment		**(6.203)**	(13.666)
Proceeds on disposal of property and equipment and intangible assets		**2.152**	424
Purchase of intangible assets		**(2.751)**	(6.099)
Proceeds on disposal of investment properties		**-**	495
Net cash flow from investing activities		**1.293.485**	1.925.853
Cash flows from financing activities			
Issue of share capital net of issue costs		**-**	157.234
Funding from central banks		**1.853.749**	-
Redemption of senior debt		**-**	(4.930)
Interest reversal/(charge) on subordinated loan stock		**4.442**	(6.023)
Interest on funding from central banks		**(167.560)**	-
Acquisition of own shares		**-**	(35.869)
Net cash flow from financing activities		**1.690.631**	110.412
Net decrease in cash and cash equivalents for the year		**(93.897)**	(1.442.437)
Cash and cash equivalents			
1 January		**993.410**	2.435.409
Exchange adjustments		**668**	438
Net decrease in cash and cash equivalents for the year		**(93.897)**	(1.442.437)
31 December	40	**900.181**	993.410

1. Corporate information

Bank of Cyprus Public Company Ltd is the holding company of the Bank of Cyprus Group. The principal activities of the Company during the year continued to be the provision of banking and financial services.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Stock Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 15 March 2013, the shares of the Company have been suspended from trading on the Cyprus and Athens Stock Exchanges.

Financial statements

The financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2013 were authorised for issue by a resolution of the Board of Directors on 27 March 2014.

2. Cyprus-Eurogroup agreement and the operating environment thereafter

Following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected. As a result, in June 2012 the Cyprus government applied to the European Union and the International Monetary Fund for financial assistance. This led to negotiations with the European Commission, the European Central Bank ('ECB') and the International Monetary Fund ('IMF') (collectively referred to as the 'Troika') for a comprehensive programme of financial assistance.

Cyprus and the Eurogroup reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years.

The stability support granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding ('MoU') has been agreed between Cyprus and the Troika which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. The financial assistance that Cyprus will receive is up to €10 billion and is subject to a restructuring programme. The memorandum was approved on 12 April 2013 and the first two tranches of funds have already been received by the Republic of Cyprus.

Although the economic situation in Cyprus remains challenging, the economic recession has been less severe than expected and the economy is proving relatively resilient. The third quarterly review mission of Troika has concluded that the Cyprus adjustment programme remains on track, with the macro-fiscal outturn better than expected. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector, with the sector showing signs of stabilisation. As a result, the Eurogroup has endorsed in principle the disbursement of the next tranche of financial assistance to Cyprus, and it is expected early in April 2014.

The package of measures aims to restore the soundness of the Cypriot banking sector, to correct the general government deficit, to increase the efficiency of public spending, to improve the functioning of the public sector, to support competiveness and to restore sustainable and balanced growth and it includes the following:

2.1 Restructuring of the financial sector

The main terms of the MoU for the financial sector were:

- Based on a decision by the Central Bank of Cyprus ('CBC') in its capacity as Resolution Authority and in compliance with Cyprus' adopted Bank Resolution Framework, Cyprus Popular Bank Public Co Ltd ('Laiki Bank') was subjected to immediate resolution. Laiki Bank, including mostly uninsured depositors and assets outside Cyprus, is expected to be run down over time. The assets in Cyprus of Laiki Bank, the majority of Laiki Bank liabilities, mainly the insured deposits, €9 billion of Emergency Liquidity Assistance ('ELA') funding, and certain assets and liabilities of the UK and Greek operations of Laiki Bank were acquired by the Company. Additional information is presented in Note 22.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.1 Restructuring of the financial sector (continued)

- The Company was recapitalised through a deposit-to-equity conversion of 47,5% of deposits subject to bail-in in accordance with the relevant decrees issued by the Resolution Authority ('uninsured deposits') with full contribution of equity shareholders and debt holders as discussed in Note 2.5 below.

- The Greek branches of the Company, Laiki Bank and Hellenic Bank, were acquired by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Financial Stability Fund (HFSF). Piraeus Bank acquired assets of €20 billion and liabilities of €14 billion of these branches.

The Eurogroup also commented that the ECB would provide liquidity to the Company in line with applicable rules. The programme financing earmarked for Cyprus of up to €10 billion, would not be used in the recapitalisations of Laiki Bank and the Company.

The Eurogroup noted the Cypriot authorities' decision to introduce capital controls for a swift reopening of the domestic banks, noting that these measures would be temporary, proportionate, non-discriminatory and subject to strict monitoring in terms of scope and duration in line with the European Treaty.

2.2 Tax and other fiscal measures

Pursuant to the implementation of the decision of the Eurogroup, the House of Representatives of Cyprus voted a number of bills regarding direct and indirect taxes, the most important of which are:

Increase of corporation tax rate
The corporate tax rate was increased from 10% to 12,5% as of 1 January 2013.

Carry forward of tax losses
As from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under The Credit Institutions' Resolution Law, any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to fifteen years from the end of the year during which the transfer took place.

Increase in special defence contribution on interest
The special defence contribution rate on interest is increased from 15% to 30% as of 29 April 2013. The special defence contribution on interest is payable only by tax residents of Cyprus and applies to physical persons as well as legal persons which receive interest which is not associated with the ordinary activities of the company.

Assessment and Collection of Taxes Law
The law has been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced in the Companies Law.

Immovable property taxes
The immovable property tax rates have been increased for 2013 (legislation passed in April 2013) at rates which range from 0,6% to 1,9% of the value of the property as at 1 January 1980.

Annual levy on bank deposits
The special levy paid by banking institutions on deposits was increased from 0,11% to 0,15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant drop in bank deposits, specifically for the year 2013 the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% (Note 12).

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.3 Temporary restrictions on money transfers

The Cypriot authorities have introduced temporary restrictive measures, with respect to banking and cash transactions as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provided for the compulsory partial renewal of maturing deposits.

Since their introduction, these restrictive measures have been gradually relaxed and the government has published a road map for the gradual liberalisation of the restrictions, taking into account investor confidence and financial stability indicators.

2.4 Restructuring of the Group as a result of the programme

The Group underwent significant restructuring in order to meet the conditions for the implementation of the MoU, as summarised below:

Sale of the Group's Greek operations to Piraeus Bank
The Resolution Authority decided the sale of the loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece to Piraeus Bank through a Decree issued on 26 March 2013.

The loss on disposal of the Greek operations is presented in Note 22. As a result of this transaction, the Group has written off in 2012 a deferred tax asset of €0,3 billion in Greece as this was no longer considered as recoverable.

Acquisition of certain operations of Cyprus Popular Bank by the Company
The 'Sale of Certain Operations of the Group of Cyprus Popular Bank Public Co Ltd Decree' issued on 29 March 2013, provided for the acquisition of the insured deposits and the majority of assets and loans of the Laiki Bank by the Company. The Company serves all Laiki Bank customers in Cyprus based on existing terms and all employees of Laiki Bank in Cyprus have been transferred to the Company.

Pursuant to the provisions of this Decree, the Resolution Authority was required to perform a valuation of the transferred assets and liabilities of Laiki Bank and to determine a fair compensation for Laiki Bank. By a further Decree issued on 30 July 2013, the Resolution Authority required the Company to issue to Laiki Bank a number of Class A shares, to compensate Laiki bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares (Note 2.5). The Decree issued by the Resolution Authority required that the shares issued to Laiki Bank should constitute 18,1% of the issued share capital of the Company after the recapitalisation. Accordingly 845.758 thousand shares were issued to Laiki Bank.

The provisional fair values of the identifiable assets and liabilities acquired from Laiki Bank are presented in Note 22.

Laiki UK operations
On 1 April 2013, the customer deposits of the UK Branch of Laiki Bank were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Group.

Romanian operations
On 25 April 2013, in accordance with a relevant Decree issued by the Resolution Authority, the Company's Romanian Branch has transferred to Marfin Bank (Romania) SA assets amounting to €82.000 thousand which include certain customer loans and related collateral and cash and other liquid assets and customer deposits amounting to €77.000 thousand.

Sale of subsidiaries
On 18 July 2013, the Company agreed the sale of the subsidiary, Kyprou Asset Management AEDAK, to Alpha Trust Mutual Fund Management S.A., subject to the approval of the relevant regulatory authorities. The transaction was completed on 7 October 2013 and the loss on transaction did not have any significant impact on the Company results.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.4 Restructuring of the Group as a result of the programme (continued)

Sale of subsidiaries (continued)
On 29 August 2013, the Company appointed financial advisors to explore and review strategic alternatives available for the Company's shareholding in its Ukrainian subsidiary, PJSC Bank of Cyprus. The Company currently holds a 99,7% stake in the share capital of PJSC Bank of Cyprus, which it acquired in 2008. On 31 January 2014 the Company reached an agreement to sell its Ukrainian business (Note 50).

2.5 Recapitalisation of the Company

The Company has been recapitalised through a bail-in (deposit-to equity conversion) of uninsured deposits. The holders of ordinary shares and debt securities as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree of 2013' (the 'Decree') issued on 29 March 2013, the Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013 (the 'Amended Decree ') issued on 21 April 2013 and the Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013 (the 'Amended Decrees No. 2 and 3') issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the 'Bail-in Decrees').

Pursuant to Article 6(4) of the Resolution of Credit and Other Institutions Law of 2013, the implementation of resolution measures under the Bail-in Decrees shall not activate any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event which may be considered as a credit event or an event equivalent to insolvency.

Bail-in of deposits and structured products as at 26 March 2013
As per the provisions of the Decree, 37,5% of the uninsured deposits of the Company as of 26 March 2013 were converted to Class A shares of the Company, 22,5% remained frozen and were subject to partial or total conversion to Class A shares of the Company, and 30% remained frozen and were subject to partial or total conversion to a time deposit.

On 30 July 2013, the Central Bank of Cyprus in its capacity as Resolution Authority, issued a decision whereby an additional 10% of the uninsured deposits has been converted to equity, revising the total percentage of eligible deposits converted to equity to 47,5%. On 30 July 2013, the Resolution Authority issued Amended Decree No. 2 whereby it required the conversion of the structured products which were in issue, into Class A shares. As a result of the bail-in, the Company issued 3.814.495 thousand new Class A shares of a nominal value €1,00 each. These shares were subsequently converted into 1 ordinary share of a nominal value €0,01 each.

Holders of debt securities as of 29 March 2013
The Bail-in Decrees provided that the subordinated debt and claims of the Company included subordinated debt and claims up to Tier 2 capital, including Tier 1 capital. In this respect, the following securities were included:
- Convertible Bonds 2013/2018 (Note 32)
- Capital Securities 12/2007 (Note 32)
- Convertible Capital Securities (Note 32)
- Convertible Enhanced Capital Securities (Note 34)

According to the Decrees:
- The subordinated debt and claims have been converted to Class D shares at a conversion rate of 1 share of €1,00 nominal amount for each €1,00 of principal amount of such subordinated debt and claims.
- The subordinated debt and claims issued in foreign currency and in particular the Convertible Enhanced Capital Securities issued in US Dollars have been converted to Class D shares with a conversion rate 1 share of €1,00 nominal value for each equivalent of €1,00 principal amount of Convertible Enhanced Capital Securities calculated based on the exchange rate €:$ 1:1,2861 as contained in the reference exchange rates published by the European Central Bank on 26 March 2013.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.5 Recapitalisation of the Company (continued)

Holders of debt securities as of 29 March 2013 (continued)
According to the Amended Decrees No. 2 and 3, the following have been effected:
- Reduction of the nominal value of all Class D shares from €1,00 each to Class D shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital, as a result of the reduction in the nominal value of the issued Class D shares, was utilised for the reduction of accumulated losses of the Company.
- Each Class D share of nominal value of €0,01 was converted to an Ordinary Share of €0,01 each.

As a result of the above, the Convertible Bonds 2013/2018, the Capital Securities 12/2007, the Convertible Capital Securities and the Convertible Enhanced Capital Securities in issue as of 29 March 2013 were converted to 581.941 thousand Class D shares of €1,00 nominal value each. The nominal value of these shares was reduced to €0,01 per share and the reduction was applied for the absorption of losses of the Company. These shares were subsequently consolidated and converted to 5.819 thousand ordinary shares of nominal value €1,00 each.

Holders of ordinary shares as of 29 March 2013
According to the Decree, all shareholder rights in relation to the ordinary shares were suspended from the entry into force of the relevant Decree until the Class D reconversion date.

According to the Amended Decrees No. 2 and 3 the following have been effected:
- Reduction of the nominal value of all ordinary shares from €1,00 each to ordinary shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.

As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17.913 thousand.

Following the conversion of Class A, Class B, Class C and Class D shares to Ordinary Shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0,01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1,00 each. Any remaining ordinary shares of a nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

All Ordinary Shares resulting from the above corporate actions comprise the sole class of shares of the Company and each share ranks pari passu and has the same voting and dividend rights with the other ordinary shares.

Issue of shares on acquisition of Laiki Bank
The Resolution Authority, pursuant to Decrees issued, required the Company to issue shares to Laiki Bank equal to 18,1% of the total issued share capital of the Company, representing consideration for the assets and liabilities acquired by the Company on 29 March 2013. Accordingly, 845.758 thousand ordinary shares of €1,00 nominal value each, were issued to Laiki Bank.

Following the above-mentioned changes in share capital, as well as the issue of shares to Laiki Bank, the issued share capital of the Company as at the date of approval of these financial statements amounts to €4.683.985 thousand divided into 4.683.985 thousand ordinary shares of a nominal value of €1,00 each.

All issued ordinary shares carry the same rights.

Share premium reserve
Pursuant to the Bail-in Decrees, the balance of the share premium reserve was reduced to zero and the reduction was applied to write off accumulated losses of the Company.

2. Cyprus-Eurogroup agreement and the operating environment thereafter (continued)

2.5 Recapitalisation of the Company (continued)

Uninsured deposits not converted to equity
In accordance with Amended Decrees No. 2 and 3 and relevant announcement by the Resolution Authority on 30 July 2013, 37,4% of uninsured deposits have been converted into three equal new fixed term deposits with a term of 6, 9 and 12 months. The Company is allowed unilaterally to renew these for a further equal term.

2.6 Exit from resolution

Following the completion of the recapitalisation of the Company, the Central Bank of Cyprus, in its capacity as the Resolution Authority, announced that as of 30 July 2013, the Company was no longer under resolution.

The duties of the Board of Directors were exercised by the members of the interim Board of Directors until the Annual General Meeting of shareholders held on 10 September 2013 when the new Board of Directors was elected.

On 1 August 2013, the Company was reinstated as an eligible counterparty by the ECB for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus as collateral resulted in a reduction of the funding from ELA, as the Company has access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is under improved terms, given that the rate for main refinancing operations currently stands at 0,25%.

3. Accounting policies

3.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Presentation of financial statements
The financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

The Company presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 42.

These are the financial statements of the holding company Bank of Cyprus Public Company Ltd and include branches of the Company in Cyprus, Greece and Romania.

Statement of compliance
The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures

The accounting policies applied in preparing the financial statements of the Company are consistent with those applied in preparing the consolidated financial statements of the Group. In addition, the following policies have been implemented:

Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures are measured at cost less impairment.

Share-based payments
Where the Company grants rights to its equity instruments to the employees of its subsidiaries, the cost is recognized in "Investments in subsidiaries" and credited to retained earnings. If the subsidiary finances the share-based payments, the investment in the subsidiary is reduced by the fair value of the equity instruments granted.

The accounting policies adopted are consistent with those of the previous financial year except for the accounting policy for the bail-in of uninsured deposits and debt securities which was adopted in the current year (Note 3.2.2) and the change in accounting policy in respect of investments in subsidiaries, associates and joint ventures and the adoption of new and amended standards and interpretations (Note 3.2.1) as explained below.

3.2.1 New and amended standards and interpretations

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements and additional disclosures in the financial statements. These include IAS 19 Employee Benefits (Revised 2011), IFRS 13 Fair Value Measurement, amendments to IFRS 7 Financial Instruments Disclosures, and amendments to IAS 1 Presentation of Financial Statements.

Several other amendments also apply for the first time in 2013. However, they do not impact the financial statements of the Company.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. IFRS 13 applies prospectively.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in Other Comprehensive Income (‘OCI’). Items that will be reclassified (‘recycled’) to profit or loss at a future point in time (e.g. net loss or gain on available-for-sale-financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company’s financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Company), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. These amendments affect presentation only and have no impact on the Company’s financial position or performance.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.1 New and amended standards and interpretations (continued)

IAS 19 Employee Benefits (Revised 2011)
The Company applied IAS 19 (Revised 2011) retrospectively in the current year in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated. IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Company include the following:

- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.
- The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

The effect of the adoption of the IAS 19 (Revised 2011) on the Company's financial position, performance and cash flows is disclosed in Note 3.2.3 below. IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 11.

IAS 19 (Revised 2011) has been applied retrospectively, with the following permitted exceptions: sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment did not have a significant impact on the Company's financial position.

3.2.2 Recapitalisation of the Company through a bail-in of uninsured deposits and debt securities

As described in Note 33, during the year the Company has been recapitalised partly through a bail-in of uninsured deposits and conversion of debt securities in accordance with the provisions of the relevant decrees and enforced by the Resolution Authority. Up to the date of this transaction, the Company did not a have an accounting policy with respect to the accounting treatment of such transactions.

In accordance with IFRS (more specifically IAS 39 Financial Instruments: Recognition and Measurement and related interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments), the difference between the carrying amount of a financial liability (uninsured deposits) extinguished and the consideration paid (shares issued in this case), including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Due to the specific conditions under which this transaction took place, i.e. the fact that the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of extinguishment as the discussions and negotiations with the Troika were on-going, the non-availability of up to date financial information as at the date of extinguishment due to the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction. Similarly, the fair value of the deposits and debt securities, due to the same uncertainties described above, cannot be reliably measured either.

The Company has therefore accounted for this transaction by reference to the carrying value of deposits and debt securities extinguished and has set the value of shares issued to equal the carrying amount of the liabilities derecognised.

As a result of the above accounting treatment, no profit or loss arises from this transaction. Had the Company been able to determine a fair value for the shares, any difference would be recognised in profit or loss. Therefore the Company's total equity is unaffected by the way this transaction is accounted for.

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.3 Adoption of IAS 19 (Revised 2011) and impact on accounting for employee retirement benefits

In 2012 the Company changed its accounting policy with respect to the recognition of actuarial gains and losses arising from defined benefit plans. As a result, actuarial gains and losses are recognised in full in the period in which they occur, in the income statement. The change in accounting policy in 2012 conforms with the provisions of the IAS 19 (Revised 2011) and as a result the impact on the Company's financial performance and position from the adoption of the IAS 19 (Revised 2011) in 2013 was not material.

3.2.4 Changes in accounting policy for investments in subsidiaries and associates

The Company has changed its accounting policy with respect to IAS 27 'Consolidated and Separate Financial Statements' and IAS 28 'Investments in Associates' to account for investments in subsidiaries, jointly controlled entities and associates at cost rather as investments available for sale.

The Company decided to change this accounting policy as it considers that the revised policy provides more relevant information to the users about the cost of the investments to the Company. Relevant information as to the financial performance and position of the Group is available in the consolidated financial statements in the disclosure note of operating segments.

The aforementioned change in accounting policy has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' resulting in the restatement of financial information for prior periods.

3.2.5 Impact from change of accounting policy of investments in subsidiaries and associates and adoption of IAS 19 (Revised 2011)

As a result of the changes described in 3.2.3. and 3.2.4, the following adjustments were made to the financial results and position of the Company for comparative periods:

	2012	2011
Income Statement	€000	€000
Loss for the year		
Before the change in accounting policy	(2.215.931)	(1.368.930)
Decrease in staff costs – mainly attributable to replacement of expected return on assets with net interest income/expense	673	382
Ineffectiveness of hedge relationship as a result of change in accounting policy	9.436	9.065
Impairment of investments in subsidiaries and associates	(58.238)	(75.321)
After the change in accounting policy	**(2.264.060)**	**(1.434.804)**

	2012	2011
Statement of OCI	€000	€000
Before the change in accounting policy	125.204	200.115
Impact from remeasurements – expected return on plan assets excluding interest income	(534)	(945)
Reversal of revaluation gains/(losses) of investments in subsidiaries and associates	(5.639)	(28.130)
After the change in accounting policy	**119.031**	**171.040**

3. Accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

3.2.5 Impact from change of accounting policy of investments in subsidiaries and associates adoption of IAS 19 (Revised 2011) (continued)

	2012	2011
Balance Sheet	€000	€000
Investment in subsidiaries and associates		
Before the change in accounting policy	872.939	946.289
Impairment of investments in subsidiaries and associates	(199.550)	(129.853)
After the change in accounting policy	**673.389**	**816.436**
Other liabilities		
Before the change in accounting policy	244.081	251.509
Increase in net liability of plans	424	563
After the change in accounting policy	**244.505**	**252.072**

	2012	2011
Total equity	€000	€000
Before the change in accounting policy	259.445	2.257.304
Change in accounting policy – IAS 19	(424)	(563)
Change in accounting policy – subsidiaries and associates	(199.550)	(129.853)
	59.471	**2.126.888**

4. Significant judgements, estimates and assumptions

The preparation of the financial statements requires the Company's Board of Directors and management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the financial statements and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

4.1 Going concern

The Board of Directors has made an assessment of the Company's and Group's ability to continue as a going concern.

The conditions that existed during the year ended 31 December 2013 that have been considered in management's going concern assessment, include amongst others, the following:

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.1 Restructuring plan

The Company has prepared a Restructuring Plan ('Plan') which has been approved by the CBC in November 2013. The Restructuring Plan defines the Company's strategy, business model and risk appetite.

The Plan defines the strategic objectives and actions the Company should take to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy by:
- Rebuilding trust and confidence of both depositors and investors.
- Preserving the Company's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating the operations of ex Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Company by internally generating capital through profitability, deleveraging and disposal of non-core assets.

The Plan aims to enable the Company and the Group to overcome its current difficulties and gradually normalise its performance. The Plan sets specific medium-term financial targets that prioritise the stability and viability of the Company. One of the more important targets is the compliance with the minimum capital adequacy requirements set forth by the CBC, with Core Tier 1 remaining above the CBC's target of 9% throughout the Restructuring Plan period. The Company considers the achievement of a superior Core Tier 1 capital ratio as a more important target than profitability, shielding the Bank from further shocks and eventually enabling the Company's credit rating to improve, facilitating access to capital markets for funding in the medium term.

4.1.2 Macroeconomic environment in Cyprus

As the Company is the largest financial institution in Cyprus and given its very high credit exposure to the Cypriot businesses and households, the Company's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus.

Although the economic situation remains challenging, the economic recession has been less pronounced than expected and the economy is proving relatively resilient. Real GDP contracted by 5,4% in 2013. The actual decline in real GDP in 2013 is some three percentage points lower than initial estimates for an 8,7% contraction. The better than anticipated performance of the economy reflects a number of self-reinforcing factors that reveal important underlying strengths. Some sectors, particularly tourism and business services, proved more resilient. Private consumption also proved more resilient reflecting smoothing effects and the drawing down of past savings. Unemployment has, however, risen to 17% in the fourth quarter of the year. Wages and prices dropped significantly in the year thus supporting a higher employment level than would otherwise be possible. Going forward, the Troika expects the economy to contract by about 4,8% in 2014 and to recover gradually starting in 2015, driven by non-financial services.

The Troika has recently concluded the third quarterly review of Cyprus' economic programme. The Troika has commented that the Cyprus programme is on track. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution, and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector, with the sector showing signs of stabilisation. This has allowed further relaxation of payment restrictions, in line with the government's milestone-based roadmap.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.3 Regulatory capital ratios

During the year ended 31 December 2013, the Company has suffered significant losses due to the disposal of its Greek operations and significant provisions for impairment of loans and advances.

As part of the agreement reached between the Troika and the Cyprus government in March 2013, the Company was recapitalised through a bail-in of uninsured depositors (a deposit-to-equity conversion) which was completed in July 2013 and the absorption of accumulated losses by the holders of ordinary shares and debt securities as of 29 March 2013. The Group, as also confirmed by the Resolution Authority, has been capitalised to a level which can sustain expected losses on its loans portfolio.

The Core Tier 1 ratio of the Group at 31 December 2013 stands at 10,2% and the Company at 9,0%. Going forward, the Company aims to preserve its capital adequacy by retaining internally generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC will set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

Following its recapitalisation, the Group and the Company are in compliance with the minimum requirement for Core Tier 1 ratio.

During the year and up to 31 December 2013, the Company was not in compliance with the minimum requirement for total capital ratio. However this requirement has been abolished, effective from 31 December 2013.

4.1.4 Liquidity

The Company currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding. The transfer of certain operations of Laiki Bank to the Company resulted in an amount of €9 billion of ELA funding at the acquisition date to be transferred to the Company.

Since August 2013, the Company has been reinstated by the ECB as an eligible counterparty for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus resulted in a reduction in funding from ELA, as the Company has access to funding from the ECB under monetary policy operations. Furthermore, ECB funding is provided at a lower rate than the rate for borrowing from ELA.

The level of central bank funding (ELA and ECB funding) of the Company as at 31 December 2013 amounts to €10,96 billion, comprising €1,40 billion of ECB funding and €9,56 billion of ELA funding.

Although the Company has received no specific guarantees, the Board of Directors expects that the Company will continue to have access to the central bank liquidity facilities in line with applicable rules. In this respect, the House of Representatives has approved on 27 January 2014 the issuance of additional government guarantees of up to €2,9 billion as contingency collateral in case of need.

The Cypriot authorities in March 2013 have introduced certain temporary restrictive measures and capital controls with respect to banking and cash transactions. These measures are allowing the Company some headroom to deal with the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals and capital movements.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.4 Liquidity (continued)

Following the third quarterly review in February 2014, the Troika has stated that 'with key milestones in the authorities' roadmap now completed, payment restrictions will need to continue to be relaxed in line with the published milestone-based roadmap, while safeguarding financial stability'.

With key milestones in the authorities' roadmap now completed, the second phase of gradual relaxations of restrictions is expected to start shortly.

4.1.5 Exposure to Greece

The sale of the Company's banking and leasing operations in Greece to Piraeus Bank in March 2013, in line with the provisions of the Cyprus–Eurogroup agreement, largely eliminated the Company's exposure to the prevailing uncertainties of the Greek economy.

As a result, the Company does not expect any material impact on its capital or liquidity position from continued adverse economic conditions or any further deterioration of the economic environment in Greece.

4.1.6 Litigation and claims

The Board and management have also considered the impact of litigation and claims against the Company relating mainly to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Company has obtained legal advice in respect of these claims.

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the Board and management consider that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Company.

4. Significant judgements, estimates and assumptions (continued)

4.1 Going concern (continued)

4.1.7 Profitability

The challenging macroeconomic environment in Cyprus is affecting the Company's profitability. Cyprus is expected to continue to be in recession during 2014, with moderate real GDP growth driven by non-financial services and a decline in unemployment levels expected for 2015. Borrowers are expected to continue facing challenges, while property prices may fall even further.

The Company's strategy is to address these challenges through the set up of independent, centralised and specialised delinquency and recovery units and a special projects division to manage large exposures, through which the Group aims to proactively and efficiently manage delinquencies and problem loan recoveries in order to contain the increase of problem loans and provisions for impairment expected to arise from the ongoing economic slowdown. As part of the group's new organisational structure, the Restructuring and Recoveries Division aims to manage arrears across all portfolios. The Division handles all activity relating to exposures greater than €100.000 thousand, debt restructuring and debt collection and recovery of non-performing loans across all customer segments. The creation of this Division is a major step in the Company's recovery path, as swiftly and professionally addressing problem lending is absolutely critical.

4.1.8 ECB Comprehensive Assessment

The Company is one of the institutions participating in the ECB's Asset Quality Review, run as part of the ECB's comprehensive assessment prior to inception of the Single Supervisory Mechanism. As a result, it will also be subject to the ECB's stress testing process. This comprehensive assessment aims to enhance the transparency of the balance sheets of significant banks in the euro area, and in so doing, to trigger balance sheet repair where necessary, as well as to strengthen confidence. Disclosures of the results of these exercises are planned in late 2014.

4.1.9 Uncertainties

The Company's management and Board of Directors believe that the Company is taking all the necessary measures to maintain its viability and the development of its business in the current economic environment.

However, the ability of the Company and the Group to continue as a going concern is dependent on:
- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario which formed the basis of its preparation.
- The period over which the restrictive measures and capital controls are in place.
- The continuing reliance on and availability of the central bank liquidity facilities.
- The actual outcome of litigation and claims mainly relating to the bail-in of deposits and the absorption of losses by the holders of equity and debt instruments of the Company.
- The outcome of the ECB's comprehensive assessment, which may reveal additional capital requirements for the Group.

4.1.10 Going concern assessment

The Company's management and Board of Directors, taking into consideration the above factors and the measures taken to support the Cyprus economy and the realised and planned actions as detailed in its Restructuring Plan, is satisfied that the Company has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:
- The Group has been successfully recapitalised.
- The Troika is expected to continue to provide the required financial support to Cyprus as per the MoU.
- The implementation of additional actions as per the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Cyprus government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the Cyprus government will maintain certain temporary restrictive measures and capital controls with respect to banking and cash transactions for as long as required to ensure the stability of the Cyprus banking system.

Notwithstanding this assessment and the conclusion reached, the Board considers that material uncertainties remain that may cast significant doubt upon the Company's ability to continue as a going concern.

4. Significant judgements, estimates and assumptions (continued)

4.2 Provision for impairment of loans and advances to customers

The Company reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and the calculation of the impairment allowance involves the use of judgement. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ. A very important factor for the estimation of provisions is the timing and net recoverable amount from foreclosure of collaterals which mainly comprise land and buildings.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral.

For example, it has been assumed that where the most recent valuation took place more than 9 months ago then an indexation factor was used to reach open market values. The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by Recoveries Division for more than 2 years, and 4 years for customers that have been managed by Recoveries Division for less than 2 years. For all other loans the period is 5 years immediately after their classification into non-performing loans.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Company's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. Further information on impairment allowances and related credit information is set out in Note 43.

In addition to provisions for impairment on an individual basis, the Company also makes collective impairment provisions. The Company adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information for probabilities of default and loss rates is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

4. Significant judgements, estimates and assumptions (continued)

4.2 Provision for impairment of loans and advances to customers (continued)

The total amount of the Company's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas. Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Company's loan impairment provisions as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

4.3 Fair value of investments

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Company use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Company only uses models with unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further information on fair value of assets and liabilities is disclosed in Note 19.

4.4 Impairment of available-for-sale investments

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the income statement. The determination of what is significant or prolonged requires judgement by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The Company's policy in place requires that a review for potential impairment is carried out for individual debt securities when their fair value at the reporting date falls below 90% of the instrument's amortised cost. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgement.

4. Significant judgements, estimates and assumptions (continued)

4.5 Reclassification of financial assets

The Company classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets which were approved by the IASB and endorsed by the EU in October 2008, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified, there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications. Refer to Note 17 for further information on the assets reclassified by the Company.

Management judgement and assumptions are required to determine whether an active market exists in order for a financial asset to meet the definition of loans and receivables. Management judgement and assumptions are also required to estimate the fair value of the financial assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in the highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgement. Financial assets proposed for reclassification need to be approved by the Group Assets and Liabilities Committee (ALCO) based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold the asset. In addition to the above, management judgement is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

4.6 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Company's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Company's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

4.7 Tax

The Company operates and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Company recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

Deferred tax assets are recognised by the Company in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets. Further details on taxes are disclosed in Note 14.

4. Significant judgements, estimates and assumptions (continued)

4.8 Fair value of properties held for own use and investment properties

The Company's accounting policy for property held for own use as well as for investment property requires that it is measured at fair value. In the case of property held for own use valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties the valuation is performed on an annual basis. Valuations are carried out by qualified valuers by applying a valuation model recommended by the International Valuation Standards.

Depending on the nature of the underlying asset and available market information, the determination of the fair value of property and investment property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets including the main markets in which the Company retains real estate properties, Cyprus and Greece.

Since the acceleration of the economic crisis in Cyprus in 2010, transaction activity in both commercial and residential properties has recorded a significant decrease and according to local published indices, prices have declined by approximately 15% to 35% since 2011 (depending on the location and type of property). Forced sales activity is expected to accelerate as a result of pressures on the banks to enforce security on property collaterals. The high prevailing uncertainty over the economic developments in Cyprus and the financial and property sectors in particular make forecasts of the future developments in the real estate market extremely difficult.

In arriving at their estimates of market values as at 31 December 2013, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market, in estimating the market values of property. Further information on inputs used is disclosed in Note 19.

4.9 Provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims or regulatory matters require a higher degree of judgement than other types of provisions. For a detailed description of the nature of uncertainties and assumptions and the effect on amount and timing of pending litigation and claims refer to Note 38.

5. Interest income

	2013	2012
	€000	€000
Loans and advances to customers	1.148.308	974.745
Placements with banks and central banks	46.006	49.655
Investments available-for-sale	33.434	16.477
Investments held-to-maturity	-	70.347
Investments classified as loans and receivables	173.518	22.042
	1.401.266	1.133.266
Derivative financial instruments	14.314	35.857
Other investments at fair value through profit or loss	739	1.358
	1.416.319	1.170.481

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances amounting to €185.559 thousand (2012: €52.736 thousand).

6. Interest expense

	2013	2012
	€000	€000
Customer deposits	305.927	451.849
Funding from central banks and amounts due to banks	178.054	41.964
Repurchase agreements	10.130	17.368
Subordinated loan stock (reversal)/charge	(4.442)	6.023
	489.669	517.204
Derivative financial instruments	44.316	71.743
	533.985	588.947

7. Fee and commission income and expense

Fee and commission income

	2013	2012
	€000	€000
Credit-related fees and commissions	**70.622**	61.855
Other banking commissions	**68.030**	80.240
Mutual funds and asset management fees	**2.349**	2.850
Other commissions	**50**	178
	141.051	145.123

Mutual funds and asset management fees include income of €2.319 thousand (2012: €2.819 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	2013	2012
	€000	€000
Banking commissions	**18.607**	11.690
Mutual funds and asset management fees	**334**	358
	18.941	12.048

8. Net foreign exchange gains

Net foreign exchange (losses)/gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange (losses)/gains from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

9. Net gains/(losses) on financial instrument transactions and disposal of subsidiaries

	2013	2012
	€000	€000
Trading portfolio:		
- equity securities	194	(64)
- debt securities	31	122
- derivative financial instruments	15.327	11.528
Other investments at fair value through profit or loss:		
- debt securities	2.370	(3.572)
Loss on disposal of held-to-maturity investments:		
- debt securities	-	(22.333)
Net gains/(losses) on disposal of available-for-sale investments:		
- equity securities	951	(48)
- debt securities	(12.040)	(8.589)
Net gains on disposal of loans and receivables:		
- debt securities	6.681	-
Realised losses on disposal of loans and deposits	(4.829)	-
Gains on repurchase of own debt securities in issue and subordinated loan stock	-	6
Impairment of debt securities excluding GGBs	(15.898)	(1.602)
Impairment of available-for-sale equity securities	(5.832)	(2.568)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	1.169	(55.637)
- hedged items	-	56.795
Profit/(loss) on dissolution/disposal of subsidiaries	444	(13)
Gain on derecognition of loans	26.643	-
	15.211	(25.975)

Gain on derecognition of loans arises on settlement of loans acquired during the year through the acquisition of Laiki Bank operations (Note 22) at an amount higher than their carrying amount on settlement date.

10. Other income

	2013	2012
	€000	€000
Dividend income	**319**	85
Losses on sale and write-off of property and equipment and intangible assets	**(835)**	(116)
Rental income from investments properties	**546**	339
Losses from revaluation of investment properties (Note 26)	**(16.746)**	(1.001)
Other income	**2.332**	1.388
	(14.384)	695

11. Staff costs

	2013	2012 (restated)
	€000	€000
Salaries	**182.352**	170.287
Employer's contribution to state social insurance and pension funds	**25.838**	22.577
Retirement benefit plan costs	**22.195**	6.659
Voluntary Retirement Schemes (VRS)	**118.310**	65
	348.695	199.588

The number of persons employed by the Company as at 31 December 2013 was 4.264 (2012: 6.254).

In January and August 2013 the Company proceeded with a Voluntary Retirement Scheme (VRS) for its employees in Cyprus, the cost of which is included in staff costs and amounted to €118.310 thousand.

11. Staff costs (continued)

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance and pension funds, the Company operates plans for the provision of additional retirement benefits as described below:

	2013	2012
	€000	€000
Effect on termination of defined benefit plans	**-**	(16.098)
Defined benefit plans	**(2.836)**	(305)
Defined contribution plans	**25.031**	23.062
	22.195	6.659

Cyprus

The main retirement plan for the Company's permanent employees in Cyprus (94% of total Company employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14% and employee contributions of 3%-10% of the employees' gross salaries.

The defined contribution plan replaced the defined benefit plan which was in effect until 31 December 2011, which provided for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation of the remaining retirement plans of the Company in Cyprus during 2013 and 2012 are set out below:

	2013	2012
Discount rate	**3,55%**	3,43%
Inflation rate	**2%**	2%
Future salary increases	**0% for 2014-2015, 2% for 2016 and 3% onwards**	0% for 2013-2014 and 3% onwards
Rate of pension increase	**0%-2%**	0%-2%
Life expectancy for pensioners at age 60	**24,0 years M 30,1 years F**	24,0 years M 30,1 years F

Greece

As part of the disposal of the Greek operations the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank.

All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan, were out of the Company's assets because this plan was unfunded.

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Greece (continued)
In addition, a number of employees recruited up to 31 December 2002 participated in a defined benefit plan which comprised of two schemes, A and B. Scheme A covered part of the difference between the salary and the retirement benefit and it was settled in full and terminated with the consent of the employees in October 2011. Scheme B provided for a lump sum payment on retirement up to approximately 50 monthly salaries depending on the length of service and was still in place at 31 December 2012.

The present value of the defined benefit obligations under the two defined benefit plans in Greece was estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2013	2012
Discount rate	**3,64%**	3,56%
Inflation rate	**2%**	2%
Future salary increases	**0% for 2014-2015, 2% for 2016 and 3% onwards**	0% for 2013-2014 and 3% onwards

The third plan applied to employees recruited after 31 December 2002 and was a defined contribution plan.

United Kingdom
The Group's employees in the United Kingdom (4% of total Company employees) are covered by a defined contribution plan for all current employees and a defined benefit plan which was closed in December 2008 to future accrual of benefits for active members.

The present value of the defined benefit plan obligations is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation were as follows:

	2013	2012
Discount rate	**4,65%**	4,50%
Inflation rate	**3,45%**	3,00%
Rate of pension increase	**3,30%**	2,90%
Life expectancy for pensioners at age 65	**23,70 years**	23,24 years

Romania
The Company does not operate any retirement benefit plans in Romania.

11. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans

The amount included in the statement of financial position arising from the Company's obligation in respect of its defined benefit plans is as follows:

	2013	2012
	€000	€000
Net present value of obligations	**70.312**	111.494
Fair value of plan assets	**(75.772)**	(96.969)
	(5.460)	14.525
Amount not recognised as an asset because of the asset restriction requirement	**14.449**	22.672
Net liability of retirement benefit plans recognised in the balance sheet	**8.989**	37.197

One of the plans has a funded status surplus of €15.000 thousand (2012: €23.500 thousand) that is not recognised as an asset on the basis that the Company has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

	2013	2012
Amounts recognised in the balance sheet	**€000**	€000
Liabilities (Note 31)	**9.035**	38.095
Assets (Note 26)	**(46)**	(898)
	8.989	37.197

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The movement in the net present value of obligations is set out below:

	2013	2012
	€000	€000
1 January	**111.494**	528.409
Current service cost	**659**	2.080
Interest cost on liabilities	**3.338**	4.452
Actuarial (gains)/losses:		
- remeasurement (gain)/loss - financial	**(4.325)**	11.203
- remeasurement loss – demographic	**587**	1.008
- remeasurement loss - experience	**1.343**	841
Benefits paid from the plans	**(9.775)**	(7.533)
Benefits paid directly by the Company	**(7.012)**	(4.006)
Terminations, curtailments and settlements	**(3.091)**	11.048
Effect of termination of plan upon disposal of operations	**(21.752)**	-
Exchange differences from overseas plans	**(1.154)**	1.363
Termination of defined benefit plan	**-**	(437.371)
31 December	**70.312**	111.494

The movement in the fair value of plan assets are set out below:

	2013	2012
	€000	€000
1 January	**96.969**	463.713
Interest income on scheme assets	**3.480**	4.605
Remeasurement – return on plan assets (excluding interest income)	**(11.318)**	(1.385)
Employer's contributions	**1.936**	55.241
Benefits paid from the plans	**(9.775)**	(7.533)
Termination of plan	**-**	(418.744)
Asset adjustment due to disposal	**(4.609)**	-
Exchange differences from overseas plans	**(911)**	1.072
31 December	**75.772**	96.969

The actual return on plan assets for the year 2013 was a loss of €7.838 thousand (2012: gain of €3.220 thousand).

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The assets of funded plans are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or are insurance contracts. Plan assets held in trust are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Company is exposed to a number of risks as outlined below:

Interest rate risk	The Company is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Company faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases), exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2013	2012
Equity securities	**45%**	27%
Debt securities	**38%**	31%
Placements with banks	**17%**	40%
Other plan assets	**0%**	2%
	100%	100%

The assets held by the funded plans include securities issued by the Company, the fair value of which is:

	2013	2012
	€000	€000
Equity securities	**2.764**	2.587

11. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The components of the expense recognised in the income statement in relation to the defined benefit plans are as follows:

	2013	2012
	€000	€000
Current service cost	**659**	2.080
Net interest income	**(141)**	(152)
Curtailments and settlements	**(3.354)**	(2.233)
	(2.836)	(305)

The components of the expense recognised in the statement of comprehensive income in relation to the defined benefit plans are as follows:

	2013	2012
	€000	€000
Remeasurement losses	**2.395**	(13.052)
Return on plan assets (excluding interest income)	**(11.318)**	(1.385)
Change in the effect of limit on plan surpluses	**8.216**	5.082
	(707)	(9.355)

11. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Company's plans in the Eurozone (Cyprus and Greece) which comprise 25% of the defined benefit obligations, the Company adopted a full yield curve approach using AA rated corporate bonds data from the iBoxx Euro Corporates AA10+ index. For the Company's plan in the UK which comprises 75% of the defined benefit obligations, the Company adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Company, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is shown below:

Variable	**Change +0,5%**	**Change -0,5%**
Discount rate	-7,3%	8,2%
Inflation growth rate	4,9%	-4,6%
Salary growth rate	0,3%	-0,1%
Pension growth rate	1,0%	-0,9%
	Plus 1 year	**Minus 1 year**
Life Expectancy	1,5%	-1,2%

The above sensitivity analyses (with the exception of the inflation sensitivity) are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions the same method has been applied as when calculating the pension liability recognised in the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous periods.

12. Other operating expenses

	2013	2012
	€000	€000
Operating lease rentals for property and equipment	15.420	10.336
Advertising and marketing	10.849	18.424
Repairs and maintenance of property and equipment	12.947	12.951
Other property-related costs	12.519	9.611
Communication expenses	6.865	7.071
Printing and stationery	2.955	2.731
Depreciation of property and equipment (Note 24)	11.285	8.875
Impairment of property and equipment (Note 24)	290	-
Amortisation of intangible assets (Note 25)	11.097	5.793
Contribution to depositor protection scheme	2.215	6.350
Special tax levy on credit institutions	20.853	18.155
Provision and settlements of litigations or claims	8.500	8.457
Other operating expenses	27.479	48.523
	143.274	157.277
Advisory and other restructuring costs	36.224	9.710
	179.498	166.987

The special tax levy on credit institutions was increased from 0,11% to 0,15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant decrease in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% per quarter.

Advisory and other restructuring costs comprise mainly of the cost of the stress-testing exercise, loan diagnostic review and the preparation of the restructuring plan of the Company.

Other operating expenses include fees (including taxes) to the independent auditors of the Company, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2013	2012
	€000	€000
Audit of the financial statements of the Company	865	832
Other audit-related services	13	101
Tax services	167	312
Other services	274	445
	1.319	1.690
Continuing operations	1.209	1.285
Discontinued operations	110	405
	1.319	1.690

13. Impairment of Greek Government Bonds

In 2012 the Company participated in the exchange offer for Greek Government Bonds (GGBs) which was completed in March/April 2012, on the basis of the terms set out below:

- Write-off of 53,5% of the nominal value of the existing GGBs.
- Receipt of new GGBs with nominal value of 31,5% of the exchanged GGBs, in an amortising structure, from 11 to 30 years (final maturity in 2042). The coupon of the new bonds was set at 2,00% for years 2013-2015, 3,00% for years 2016-2020, 3,65% for year 2021 and 4,30% thereafter (2022-2042).
- Immediate repayment of 15% of the nominal value of exchanged GGBs with short term securities issued by the European Financial Stability Facility (EFSF) with a 1-2 year maturity and bearing market interest rates.
- The payment of accrued interest through EFSF securities with a six-month maturity and bearing market interest rates.
- Receipt of detachable Greek GDP-linked securities with a notional amount equal to the new GGBs of each holder. The securities provide for annual payments of up to 1% of their notional amount, commencing in 2015, in the event that Greek GDP growth exceeds certain thresholds.

The impairment of GGBs and the change in fair value of related hedging instruments recorded in the income statement is as follows:

	2013	2012
	€000	€000
Loss on initial recognition of new GGBs	**-**	109.308
Change in fair value of related hedging instruments	**-**	34.265
Total impairment charge per the income statement	**-**	143.573

The related hedging derivatives were terminated during 2012.

In December 2012 the Company participated in the voluntary repurchase of new GGBs by the Greek Republic. As a result, the Company disposed of all its GGBs and realised a gain of €96.515 thousand during 2012, which is disclosed in discontinued operations.

14. Tax

	2013	2012
	€000	€000
Current tax:		
- Cyprus	**325**	1.487
- overseas	**-**	931
Cyprus defence contribution	**9**	8
Deferred tax	**(5.245)**	(39.383)
Prior year tax adjustments	**-**	(152)
	(4.911)	(37.109)

14. Tax (continued)

The reconciliation between the tax expense and the loss before tax as estimated using the current tax rates is set out below:

	2013	2012
	€000	€000
Loss before tax from continuing operations	(746.651)	(1.282.869)
Tax at the normal tax rates in Cyprus	(93.322)	(128.279)
Tax effect of:		
- expenses not deductible for tax purposes	48.629	33.168
- losses non tax allowable/(income) not subject to tax	(3.971)	4.670
- change in corporation tax rate in Cyprus	(6.896)	-
- differences between overseas tax rates and Cyprus tax rates	(4.777)	(43.990)
Tax effect of losses on which deferred tax is not recognised	55.426	97.474
	(4.911)	(36.957)
Prior years' tax adjustments	-	(152)
	(4.911)	(37.109)

The loss on disposal of Greek operations is included in discontinued operations and is a tax deductible loss.

Corporation tax in Cyprus is calculated at the rate of 12,5% on taxable income (2012:10%).

Defence contribution in Cyprus is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 15% until 29 April 2013 and 30% thereafter (2012:15%).

The Company's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2013 were: Greece 26% (2012: 20%), Romania 16% (2012: 16%), UK 24% until 31 March 2013 and 23% thereafter (2012: 26% until 31 March and 24% thereafter).

The accumulated tax losses are presented in the table below:

31 December 2013	Total tax losses	Tax losses for which deferred tax asset was recognised	Tax losses for which no deferred tax asset was recognised
	€000	€000	€000
Expiring within 4 years	15.925	15.925	-
Expiring within 5 and 10 years	4.122.736	295.584	3.827.152
Expiring within 11 and 15 years	7.378.801	3.336.000	4.042.801
	11.517.462	3.647.509	7.869.953

14. **Tax** (continued)

31 December 2012	Total tax losses	Tax losses for which deferred tax asset was recognised	Tax losses for which no deferred tax asset was recognised
	€000	€000	€000
Expiring within 4 years	3.917	3.917	-
Expiring within 5 and 10 years	2.387.816	295.580	2.092.236
	2.391.733	299.497	2.092.236

Recognition of deferred tax assets on unutilised tax loss is based on evidence available including management's projections of future income loan portfolio growth rate, impairment rates and profitability taking into account recoverability of the deferred tax asset within their expiry period.

The increase in the deferred tax asset relates mainly to the Laiki Bank tax losses transferred to the Company as a result of the acquisition (Note 22). The tax losses were transferred under 'The Credit Institutions' Resolution Law' which says that any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. The tax losses transferred amounted to €7.378.801 thousand are provisional and are subject to review and agreement with the Tax Authorities in Cyprus. The deferred tax asset recognised on acquisition amounted to €417.000 thousand and can be set off against the future profits of the Company for a period of 15 years at a tax rate of 12,5%.

No significant tax losses of prior years were utilised during 2013 and 2012.

The tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Following the disposal of Greek operations, no deferred tax liability will arise in case of distribution of the undistributed reserves of the Company's Greek overseas branch and Greek subsidiaries (2012: €2,3 billion).

Deferred tax

The net deferred tax asset arises from:

	2013	2012
	€000	€000
Difference between capital allowances and depreciation	**5.156**	4.219
Property revaluation	**16.827**	15.278
Investment revaluation	**-**	60
Unutilised tax losses carried forward	**(453.948)**	(31.203)
Other temporary differences	**(2.531)**	(2.025)
Net deferred tax asset	**(434.496)**	(13.671)
Deferred tax asset (Note 26)	**(456.479)**	(33.228)
Deferred tax liability (Note 31)	**21.983**	19.557
Net deferred tax asset	**(434.496)**	(13.671)

14. Tax (continued)

Deferred tax (continued)

The movement of the net deferred tax asset is set out below:

	2013	2012
	€000	€000
1 January	**(13.671)**	(34.782)
Conversion of branch to subsidiary	**-**	(95)
Deferred tax recognised in the income statement – continuing operations	**(5.245)**	(39.383)
Deferred tax recognised in the income statement – discontinued operations	**-**	62.015
Deferred tax recognised in the Statement of Other Comprehensive Income	**(3.265)**	(1.378)
Deferred tax acquired through business combinations (Note 22)	**(412.308)**	-
Exchange adjustments	**(7)**	(48)
31 December	**(434.496)**	(13.671)

The Company offsets tax assets and liabilities if and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities.

The analysis of the net deferred tax (income)/expense recognised in the income statement is set out below:

	2013	2012
	€000	€000
Difference between capital allowances and depreciation	**937**	(7.951)
Investment revaluation	**63**	51.455
Unutilised tax losses carried forward	**(5.739)**	(11.342)
Other temporary differences	**(506)**	(9.530)
	(5.245)	22.632
Continuing operations	**(5.245)**	(39.383)
Discontinued operations	**-**	62.015
	(5.245)	22.632

The analysis of the net deferred tax income recognised in the statement of other comprehensive income is set out below:

	2013	2012
	€000	€000
Timing differences on property revaluation	**(3.205)**	(6.023)
Available-for-sale-investment	**(60)**	2.254
Retirement benefits obligations	**-**	2.391
	(3.265)	(1.378)

15. Earnings per share

	2013	2012 (restated and represented)
Basic and diluted losses per share		
Losses after tax (€ thousand)	**(2.069.343)**	(2.264.060)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**3.558.002**	15.453
Basic and diluted losses per share (€ cent)	**(58,2)**	(14.651,3)

Basic and diluted losses per share – continuing operations		
Loss after tax continuing operations (€ thousand)	**(741.740)**	(1.245.760)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**3.558.002**	15.453
Basic and diluted losses per share – continuing operations (€ cent)	**(20,8)**	(8.061,7)

The weighted average number of shares in issue during the year 2012 was adjusted to reflect the action implemented (share consolidation) by the decrees issued by the Resolution Authority in 2013 with respect to the existing shareholders as at 29 March 2013 (Note 2.5).

The Convertible Bonds 2013/2018, the Convertible Capital Securities, the Convertible Enhanced Capital Securities and the Share Options 2008/2010 in issue at 31 December 2012 did not constitute potentially dilutive ordinary shares for the purposes of calculating the diluted earnings per share for the year 2012, as their conversion into ordinary shares would reduce losses per share.

Share transactions that occurred during 2013 are disclosed in Note 2.5 and 33.

16. Cash, balances with central banks and placements with banks

	2013	2012
	€000	€000
Cash	**89.130**	185.771
Balances with central banks	**461.610**	469.483
	550.740	655.254

Placements with banks	**1.064.654**	1.553.587

Balances with central banks include obligatory deposits for liquidity purposes which amount to €461.610 thousand (2012: €469.483 thousand).

The analysis of balances with central banks and placements with banks by independent credit rating agencies is set out in Note 43.

Placements with banks earn interest based on the interbank rate of the relevant term and currency.

17. Investments

	2013	2012
	€000	€000
Investments		
Investments at fair value through profit or loss	**16.973**	14.423
Investments available-for-sale	**231.844**	368.742
Investments classified as loans and receivables	**2.573.240**	710.796
	2.822.057	1.093.961

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	2013	2012
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	**672.809**	694.287
Investments classified as loans and receivables	**-**	40.460
	672.809	734.747

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

Also, the financial statements of Group companies include amounts relating to debt securities issued for financing purposes by companies of the Group. On 31 December 2013 the value of these debt securities was €325.688 thousand (2012: €1.051.750 thousand).

Investments at fair value through profit or loss

	Trading Investments		**Other investments at fair value through profit or loss**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**-**	-	**15.274**	12.918	**15.274**	12.918
Equity securities	**1.699**	1.505	**-**	-	**1.699**	1.505
	1.699	1.505	**15.274**	12.918	**16.973**	14.423
Debt securities						
Cyprus government	**-**	-	**15.274**	12.918	**15.274**	12.918
Listed on the Cyprus Stock Exchange	**-**	-	**15.274**	12.918	**15.274**	12.918
Equity securities						
Listed on the Cyprus Stock Exchange	**1.699**	1.505	-	-	**1.699**	1.505

The debt securities classified as other investments at fair value through profit or loss were originally classified as such, to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

17. **Investments** (continued)

Investments available-for-sale

	2013	2012
	€000	€000
Debt securities	**706.518**	999.730
Equity securities	**101.925**	63.299
Mutual funds	**96.210**	-
	904.653	1.063.029

Debt securities		
French government	**476.819**	505.890
Other governments	**189.687**	196.203
Banks and other corporations	**40.012**	297.637
	706.518	999.730
Listed on the Cyprus Stock Exchange	**4.858**	-
Listed on other stock exchanges	**701.660**	999.730
	706.518	999.730
Geographic dispersion by country of issuer		
Cyprus	**4.858**	-
United Kingdom	**6.365**	6.406
France	**476.818**	509.745
Germany	**46.256**	47.410
Italy	**52.211**	51.536
Other European countries	**106.175**	112.360
European Financial Stability Facility and European Investment Fund	**13.835**	272.273
	706.518	999.730

Equity securities		
Listed on the Cyprus Stock Exchange	**7.834**	7.802
Listed on other stock exchanges	**86.699**	54.693
Unlisted	**7.392**	804
	101.925	63.299

At 31 December 2013 the carrying value of available-for-sale investments in debt securities, which have been determined to be individually impaired, amounted to €nil (2012: €nil).

Available-for-sale mutual funds are unlisted and issued in other countries.

17. **Investments** (continued)

Investments classified as loans and receivables

	2013	2012
	€000	€000
Debt securities	2.573.240	751.256
Cyprus government	2.572.940	749.981
Banks and other corporations	300	1.275
	2.573.240	751.256
Listed on the Cyprus Stock Exchange	2.573.240	630.052
Listed on other stock exchanges	-	121.204
	2.573.240	751.256
Geographic dispersion by country of issuer		
Cyprus	2.573.240	751.256

Loans and receivables at 31 December 2013 include €169.073 thousand (2012: €1.275 thousand) of debt securities which have been determined to be individually impaired.

Reclassification of investments

Reclassification of trading investments to loans and receivables
On 1 April 2010, in light of the crisis prevailing in global markets, the Company identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables
On 1 October 2008 and 30 June 2011 the Company reclassified certain available-for-sale debt securities to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Company had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held–to-maturity investments to available-for-sale investments
On 1 November 2012, the Company reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Company's accounting policies and IFRSs, the Company is not allowed to classify any investments as held-to-maturity until November 2014.

There were no reclassifications during 2013.

17. Investments (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Company, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2013		31 December 2012		Year 2013		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the bonds not been reclassified	Additional loss in other comprehensive income had the bonds not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	38.059	32.204	39.650	28.105	4.098	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	163.407	164.875	145.171	167.461	131.292	-	(19.704)	4,6%-4,7%
- loans and receivables	30 June 2011	164.035	185.666	158.170	191.565	121.390	-	(27.496)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	103.067	105.698	105.698	104.252	104.252	-	-	0,4%-3,1%

17. **Investments** (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Company, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2012		31 December 2011		Year 2012		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional loss in the income statement had the bonds not been reclassified	Additional loss in other comprehensive income had the bonds not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	39.650	28.105	36.125	33.546	(5.441)	-	1,2% - 4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	163.407	167.493	131.305	172.579	159.045	-	(36.188)	4,6% - 4,7%
- loans and receivables	30 June 2011	250.839	280.570	203.585	258.822	221.202	-	(76.985)	2,8% - 6,3%
Reclassification of held-to -maturity investments to:									
- available-for-sale	1 November 2012	106.877	108.107	108.107	n/a	n/a	n/a	n/a	0,4% - 3,1%

18. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2013			2012		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**139.843**	**105**	**2.674**	865.293	3.307	5.127
Currency swaps	**1.739.075**	**3.778**	**15.350**	4.983.832	11.122	27.264
Interest rate swaps	**517.264**	**4.203**	**11.585**	285.430	1.299	30.372
Currency options	**-**	**-**	**-**	40.408	363	363
Equity options	**4.295**	**1.591**	**1.485**	74.118	7.275	7.240
Interest rate caps/floors	**6.574**	**11**	**250**	15.040	3	405
GDP securities warrants	**1.619.743**	**19.035**	**-**	-	-	-
	4.026.794	**28.723**	**31.344**	6.264.121	23.369	70.771
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**674.888**	**-**	**47.090**	786.663	3.416	90.310
Fair value of net investments – forward exchange rate contracts	**126.936**	**-**	**5.523**	226.072	-	22.721
	801.824	**-**	**52.613**	1.012.735	3.416	113.031
Total	**4.828.618**	**28.723**	**83.957**	7.276.856	26.785	183.802

The use of derivatives is an integral part of the Company's activities. Derivatives are used to manage the Company's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

18. Derivative financial instruments (continued)

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

Commodity swaps are contractual agreements where a fixed-price contract for a commodity is exchanged for a floating (market) price contract at a specified future date.

GDP warrant securities are GDP-linked securities issued by the Greek government as part of the exchange offer of the Greek Government Bonds. The securities provide for annual payments of up to 1% of their notional amount, commencing in 2015, in the event that Greek GDP growth exceeds certain thresholds.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Company's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Company's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Company also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged, are recognised in the income statement.

Fair value hedges
The Company uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Hedges of net investments
The Company's balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of overseas branches. The Company hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas branches and forward exchange rate contracts. As at 31 December 2013, deposits and forward exchange rate contracts amounting to €16.456 thousand (2012: €4.031 thousand) have been designated as hedging instruments and have given rise to a gain of €2.356 thousand (2012: loss of €6.243 thousand) which was recognised in the 'Foreign currency translation reserve' in the statement of other comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

19. Fair value measurement

The following table presents the carrying value and fair value of the Company's financial assets and liabilities.

	2013		2012	
	Carrying value	**Fair value**	Carrying value	Fair value
	€000	**€000**	€000	€000
Financial assets				
Cash and balances with central banks	**550.740**	**550.740**	655.254	655.254
Placements with banks	**1.064.654**	**960.513**	1.553.587	1.553.587
Investments at fair value through profit or loss	**16.973**	**16.973**	14.423	14.423
Investments available-for-sale	**904.653**	**904.653**	1.063.029	1.063.029
Investments classified as loans and receivables	**2.573.240**	**2.593.745**	751.256	590.192
Derivative financial assets	**28.723**	**28.723**	26.785	26.785
Loans and advances to customers	**19.714.705**	**18.878.747**	20.873.053	20.873.053
Group intercompany accounts	**1.115.708**	**1.115.708**	2.088.659	2.088.659
Other assets	**90.362**	**90.362**	130.723	130.723
	26.059.758	**25.140.164**	27.156.769	26.995.705
Financial liabilities				
Obligations to central banks and amounts due to banks	**11.080.429**	**11.080.429**	256.831	256.831
Repurchase agreements	**594.004**	**596.006**	607.773	607.773
Derivative financial liabilities	**83.957**	**83.957**	183.802	183.802
Customer deposits	**12.745.743**	**12.656.857**	25.880.056	25.880.056
Group intercompany accounts	**563.579**	**563.579**	759.467	759.467
Debt securities in issue	**-**	**-**	15.389	14.420
Subordinated loan stock	**-**	**-**	126.372	43.318
Other liabilities	**80.840**	**80.840**	127.494	127.494
	25.148.552	**27.537.911**	27.957.184	27.873.161

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

19. **Fair value measurement** (continued)

The Company uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

The following is a description of the determination of fair value for assets which are recorded at fair value on a recurring and on a non-recurring basis and for assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Investment properties
Investment properties are classified as residential, offices and other commercial properties, manufacturing and industrial, hotels, land and plots and under construction properties. Their fair value is based on valuation performed by external accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remaining of this section.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined by using valuations performed by external, accredited independent valuers and internal accredited valuers. Further information on techniques applied is disclosed in the remaining of this section.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and inflation curves.

The Company does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss
Available-for-sale investments and investments at fair value through profit or loss which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data.

Loans to customers
The fair value of loans and advances to customers is based on the present value of expected cash flows. The expected cash flows have been based on the expected loss rates, therefore adjusting for expectations on the credit quality of the borrowers.

Customer deposits
The fair value of customer deposits is determined by discounting the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company.

Repurchase agreements
Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Company is greater than the amount borrowed, the fair value calculation of these repurchase agreement takes into account the time value of money only.

19. Fair value measurement (continued)

Placements with banks

Placements with maturity over 1 year are discounted using an appropriate risk free rate plus the government's credit spread, or plus the credit spread of each counterparty.

Model inputs for valuation

Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The non-observable inputs to the models for the valuation of unquoted equity and debt securities include assumptions regarding liquidity and other instrument related discounts.

The following table presents the fair value measurement hierarchy of the Company's assets and liabilities recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	**Total**
2013	€000	€000	€000	**€000**
Assets measured at fair value				
Investment properties				
Residential	-	-	74.763	**74.763**
Offices and other commercial properties	-	-	42.583	**42.583**
Manufacturing and industrial	-	-	3.256	**3.256**
Hotels	-	-	25.263	**25.263**
Land and plots	-	-	52.347	**52.347**
Properties under construction	-	-	417	**417**
	-	-	198.629	**198.629**
Property and equipment				
Offices and other commercial properties	-	-	216.034	**216.034**
Trading derivatives				
Forward exchange rate contracts	-	105	-	**105**
Currency swaps	-	3.778	-	**3.778**
Interest rate swaps	-	4.203	-	**4.203**
Equity options	-	1.591	-	**1.591**
Interest rate caps/floors	-	11	-	**11**
GDP warrant securities	-	19.035	-	**19.035**
	-	28.723	-	**28.723**
Investments at fair value through profit or loss				
Trading investments	1.699	-	-	**1.699**
Other investments at fair value through profit or loss	-	15.274	-	**15.274**
	1.699	15.274	-	**16.973**
Investments available-for-sale	801.850	-	102.803	**904.653**
	803.549	43.997	517.466	**1.365.012**
Assets not measured at fair value				
Placements with banks	-	960.513	-	**960.513**
Loans and receivables - investments	-	2.394.781	-	**2.394.781**
Loans and advances to customers	-	-	18.878.747	**18.878.747**
	-	3.355.294	18.878.747	**22.234.041**

19. **Fair value measurement** (continued)

	Level 1	Level 2	Level 3	**Total**
2013	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	2.674	-	**2.674**
Currency swaps	-	15.350	-	**15.350**
Interest rate swaps	-	11.585	-	**11.585**
Equity options	-	1.485	-	**1.485**
Interest rate caps/floors	-	250	-	**250**
	-	31.344	-	**31.344**
Derivatives designated as fair value hedges				
Interest rate swaps	-	47.090	-	**47.090**
Derivatives for fair value of net investment				
Forward exchange rate contracts	-	5.523	-	**5.523**
	-	52.613	-	**52.613**
	-	83.957	-	**83.957**
Liabilities not measured at fair value				
Amounts due to banks	-	124.152	-	**124.152**
Repurchase agreements	-	596.006	-	**596.006**
Customer deposits	-	-	12.656.857	**12.656.857**
	-	720.158	12.656.857	**13.377.015**

The cash and balances with central banks, the funding from central banks and treasury bills are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

19. Fair value measurement (continued)

	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
2012				
Assets measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	3.307	-	**3.307**
Currency swaps	-	11.122	-	**11.122**
Interest rate swaps	-	1.299	-	**1.299**
Currency options	-	363	-	**363**
Equity options	-	7.275	-	**7.275**
Interest rate caps/floors	-	3	-	**3**
	-	23.369	-	**23.369**
Derivatives designated as fair value hedges				
Interest rate swaps	-	3.416	-	**3.416**
	-	26.785	-	**26.785**
Investments at fair value through profit or loss				
Trading investments	1.505	-	-	**1.505**
Other investments at fair value through profit or loss	-	12.918	-	**12.918**
	1.505	12.918	-	**14.423**
Investments available-for-sale	1.063.029	-	-	**1.063.029**
	1.064.534	39.703	-	**1.104.237**

2012				
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	5.127	-	**5.127**
Currency swaps	-	27.264	-	**27.264**
Interest rate swaps	-	30.372	-	**30.372**
Currency options	-	363	-	**363**
Equity options	-	7.240	-	**7.240**
Interest rate caps/floors	-	405	-	**405**
	-	70.771	-	**70.771**
Derivatives designated as fair value hedges				
Interest rate swaps	-	90.310	-	**90.310**
Derivatives for fair value of net investment				
Forward exchange rate contracts	-	22.721		**22.721**
	-	113.031	-	**113.031**
	-	183.802	-	**183.802**

During years 2013 and 2012 there were no significant transfers from Level 1 to Level 2.

19. **Fair value measurement** (continued)

The movement in Level 3 assets which are measured at fair value is presented below:

	2013			2012	
	Investment properties	Own use properties	Available-for-sale investments	Trading derivatives	
				Assets	Liabilities
	€000	€000	€000	€000	€000
1 January	14.386	239.504	-	156	(1.432)
Acquired through business combinations	172.248	91.712	133.841	-	-
Unrealised losses recognised in the statement of comprehensive income	-	-	(14.998)	-	-
Realised (losses)/gains recognised in the income statement	-	-	-	(156)	726
Disposals	-	-	(16.040)	-	706
Additions	-	2.160	-	-	-
Disposals as a result of discontinued operations	-	(73.561)			
Depreciation charge for the year	-	(1.599)	-	-	-
Impairment charge for the year	-	(72)	-	-	-
Revaluation losses	(16.746)	(13.447)	-	-	-
Transfer from owned used properties to investment properties	28.704	(28.704)	-	-	-
Exchange adjustments	37	41	-	-	-
31 December	198.629	216.034	102.803	-	-

Level 3 valuation policy and sensitivity analysis

Financial instruments

The valuation policy for Level 3 financial instruments is defined by the ALCO committee.

The Company's model for the Level 3 available-for-sale investments utilises the net asset value of the investee entity and a liquidity discount of 10%. An increase of the discount rate of the investments available-for-sale by 15% will lead to a fall in the carrying value of the investment by €15.606 thousand, with the relevant change in value reflected in the statement of comprehensive income.

19. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties

The valuation policy for properties is defined by the Group's property and valuations department. The valuation technique mainly applied by the Group, is the market comparable approach, adjusted to market and property specific conditions. In certain cases, the Company also utilised the income capitalisation approach. The key inputs used for the valuations of the investment properties and own use properties are presented in the tables below:

Analysis of investment properties

Type and area	Carrying value	Index change	Estimated rental value per m²	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land area (m²)	Building area (m²)	Age of building
	€000										
Residential											
Cyprus	18.691	n/a	n/a	n/a	€300-€1.091	n/a	€550-€3.675	€55-€758	335-2.067	41-2.526	5-70
Greece	56.072	-7%	€4-€7	n/a	n/a	n/a	€1.207-€1.868	n/a	n/a	13.297-18.960	n/a
Total	74.763										
Offices and other commercial properties											
Cyprus	28.581	n/a	€11-€198	n/a	€305	5%-6%	€75-€6.909	€550-€4.400	175-1.591	54-6.395	10-144
Greece	14.002	-11%	€7-€80	n/a	n/a	n/a	€459-€778	n/a	n/a	577-24.786	n/a
Total	42.583										
Manufacturing and industrial											
Cyprus	925	n/a	n/a	n/a	€273-€312	n/a	n/a	€300-€350	1.940	1.840-1.894	n/a
Greece	2.331	-17%	€3-€4	n/a	n/a	n/a	€231- €473	n/a	n/a	1.283-3.122	n/a
Total	3.256										
Hotels											
Cyprus	25.263	n/a	n/a	n/a	€518	n/a	€1.211	€185	5.604-19.115	2.730-12.386	24

19. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties (continued)

Analysis of investment properties (continued)

Type and area	Carrying value	Index change	Estimated rental value per m²	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land area (m²)	Building area (m²)	Age of building
	€000										
Land and plots											
Cyprus	44.227	n/a	€72	n/a	€318	5%-16%	€2-€3.163	€2-€3.163	90-67.225	n/a	n/a
Greece	8.120	-7% to 29%	n/a	n/a	n/a	n/a	€106	€15-€106	24.709-351.732	n/a	n/a
Total	52.347										
Under construction properties											
Cyprus	417	n/a	n/a	n/a	€400-€439	n/a	n/a	€47-€185	1.812	285	n/a

Analysis of own use properties

Type and area	Carrying value	Index change	Estimated rental value per m²	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land area (m²)	Building area (m²)	Age of building
	€000										
Offices and other commercial properties											
Cyprus	216.034	n/a	€56-€245	n/a	€566-€2.076	5%-6%	€200-€8.917	€130-€7.257	390-51.947	108-15.805	11-84 years

19. Fair value measurement (continued)

Level 3 valuation policy and sensitivity analysis (continued)

Investment properties and own use properties (continued)
The majority of investment properties of the Company are not utilised at their highest and best use, as the Group has acquired these assets either in debt satisfaction or as part of the Laiki Bank acquisition and is in the process of initiating an orderly disposal of these properties.

Sensitivity analysis
Most of the Groups properties valuations have been classified as Level 3 Hierarchy. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income approach would result in a significantly higher/lower fair value of the properties.

20. Loans and advances to customers

	2013	2012
	€000	€000
Loans and advances to customers	**21.910.985**	**23.635.125**
Hire purchase and finance lease debtors (Note 21)	**513.815**	**356.209**
Gross loans and advances to customers	**22.424.800**	**23.991.334**
Provisions for impairment of loans and advances to customers (Note 43)	**(2.710.095)**	**(3.118.281)**
	19.714.705	**20.873.053**

Loans and advances include mortgage loans of €1.105 million (2012: €1.122 million) in Cyprus which were pledged as collateral for the issue of covered bonds by the Company in 2011 under its €5 billion Covered Bonds Programme (Note 30). At 31 December 2012, €620 million of mortgage loans in Greece were pledged as collateral under the same programme.

At 31 December 2013, loans and advances to customers also include loans amounting to €160.402 thousand, which are part of the Ukrainian operations to the Company, classified as held for sale (Note 22).

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 43.

21. Hire purchase and finance lease debtors

	2013	2012
	€000	€000
Gross investment in hire purchase and finance lease contracts	**529.508**	356.209
Unearned finance income	**(15.693)**	-
Present value of hire purchase and finance lease payments	**513.815**	356.209
Repayable		
- within one year	**252.203**	11.992
- between one and five years	**206.196**	164.556
- after five years	**71.109**	179.661
Gross investment in hire purchase and finance lease payments	**529.508**	356.209
Analysis by geographical area		
- Cyprus	**513.815**	356.209
Gross investment in hire purchase and finance lease contracts	**513.815**	356.209
Repayable		
- within one year	**247.374**	11.992
- between one and five years	**196.544**	164.556
- after five years	**69.897**	179.661
Gross investments in hire purchase and finance lease contracts	**513.815**	356.209

Under hire purchase contracts generally the hirer: (a) pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase assets, (b) makes monthly payments which include hire purchase fees on all the amounts outstanding and (c) is responsible for any loss or damage incurred to the assets concerned.

This caption also includes contracts amounting to €354.887 thousand (2012: €356.209 thousand) on which interest is accrued using the effective interest rate and is not included in the gross investment.

Under finance lease contracts the item belongs to the Company and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the assets in good condition and to compensate the Company for any damage or loss incurred and (c) upon expiry of the contract can, either return the assets to the Company or continue to pay a nominal annual fee in exchange for the right to continue to use the assets.

22. Investments in Group companies, acquisitions and disposals and assets held for sale

	2013	2012
	€000	€000
Carrying value at 1 January	**665.380**	808.714
Acquired through business combination	**94.656**	-
Investment in subsidiary companies	**-**	190.297
Conversion of BOC UK branch to subsidiary company	**-**	79.324
Impairment of investments in subsidiary companies	**(231.878)**	(412.655)
Impairment of disposal group held for sale	**(74.251)**	-
Disposal of subsidiaries	**(9.574)**	-
Repatriation of subsidiary	**(1.998)**	-
Dissolution of subsidiaries	**-**	(300)
Carrying value 31 December	**442.335**	665.380

Investment in subsidiary companies		
Kyprou Leasing SA	**-**	182.000
BOC UK Ltd	**-**	8.297
	-	190.297

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

The main subsidiaries (direct and indirect) companies and branches of the Company, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Kermia Hotels Ltd	Cyprus	Hotel business	100
BOC Ventures Ltd	Cyprus	Management of venture capital investments	100
Tefkros Investments Ltd	Cyprus	Investment fund	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	55
Diners Club (Cyprus) Ltd	Cyprus	Club credit card facilities	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80
Finerose Properties Ltd	Cyprus	Financing services	100
Hydrobius Ltd	Cyprus	Special purpose entity	-
Laiki Capital Public Co Ltd	Cyprus	Holding company	67
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	67
Laiki Factors Ltd	Cyprus	Factoring and invoice discounting	100
Paneuropean Ltd	Cyprus	Investment company	100
Philiki Ltd	Cyprus	Investment company	100
Cyprialife Ltd	Cyprus	Investment company	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Commercial bank	N/A
Kyprou Leasing SA	Greece	Leasing	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100
Kyprou Securities SA	Greece	Investment banking	100
Kyprou Properties SA	Greece	Property management	100

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Company	Country	Activities	Percentage holding (%)
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100
Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	100
Misthosis Funding Plc	United Kingdom	Special purpose entity	-
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	-
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80
Leasing Company Uniastrum Leasing	Russia	Leasing	80
MC Investment Assets Management LLC	Russia	Special purpose entity	-
PJSB Bank of Cyprus	Ukraine	Commercial bank	100
LLC Ikos Finance	Ukraine	Financing services	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

In addition to the above companies, at 31 December 2013 the Company had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Limestone Properties Ltd, Samarinda Navigation Co. Ltd, Turnmill Properties Ltd, Fairford Properties Ltd, Inverness Properties Ltd, Dinmont Properties Ltd, Lendrick Properties Ltd, Sunnybridge Properties Ltd, Caraway Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Ikosia Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Drysdale Properties Ltd, Snowfield Properties Ltd, Medaland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properies Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd and Gosman Properties Ltd.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd and Salecom Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

All Group companies are consolidated in the consolidated financial statements using the full consolidation method.

Disposal of Greek operations

As per the MoU for the financial sector and through a Decree issued on 26 March 2013, the banking and leasing operations of the Company in Greece were sold to Piraeus Bank S.A., which was selected for this transaction by the Hellenic Financial Stability Fund.

The results from the Greek banking operations until the date of the disposal are presented as discontinued operations. The loss on disposal of the Greek banking operations is presented in the table below.

	€000
Assets	
Property and equipment	97.231
Loans and advances	7.769.075
	7.866.306
Liabilities	
Customer deposits	7.653.682
Net assets disposed	212.624
Cash paid	1.153.000
Loss on disposal	1.365.624

Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd

As part of the agreement with Eurogroup, the Company acquired all of the insured deposits and the majority of the loans and assets of Cyprus Popular Bank Public Co Ltd (Laiki Bank). All employees of Laiki Bank in Cyprus have been transferred to the Company. This was effected through the 'Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd' Decree issued on 29 March 2013 and subsequent decrees which provided for the acquisition of assets and liabilities, mainly insured deposits and ELA funding of Laiki Bank by the Company. These assets included all assets of Laiki Bank in Cyprus, the loans of the Laiki Bank in UK and selected assets of Laiki Bank in Greece. The results of Laiki Bank are fully incorporated in the Company's financial statements from the date of acquisition.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd (continued)

As prescribed by the Decree issued on 29 March 2013, the Resolution Authority was required to perform a valuation of the assets and liabilities transferred from Laiki Bank to the Company and to determine a fair compensation for Laiki Bank with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of assets and liabilities transferred by Laiki Bank to the Company. The consideration transferred for this transaction (being shares of the Company) was determined and enforced by the Resolution Authority pursuant to the Decree for the 'Issue of Bank of Cyprus Share Capital to compensate Laiki Bank' issued on 30 July 2013. In accordance with the above Decree, this was set at 18,1% of the total share capital of the Company with no further right for additional compensation. Accordingly, 845.758 thousand shares of a nominal value of €1,00 each were issued to Laiki Bank.

In accordance with the Company's accounting policy, business combinations are accounted for using the acquisition method.

Consideration transferred

In accordance with IFRS 3 'Business Combinations', the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Due to the specific conditions under which this transaction took place, i.e. the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of acquisition, the ongoing discussions and negotiations with the Troika and the non-availability of up to date financial information as at the date of acquisition due to the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction.

IFRS 3 does not provide any guidance for cases where the fair value of the consideration cannot be reliably measured. Hence the Company has referred to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', which provides that in the absence of an IFRS that specifically applies to a transaction, event or condition, management shall use its judgement in developing and applying an accounting policy.

By analogy to other standards that deal with the exchange of assets, the Company has concluded that it is appropriate to determine the fair value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established.

As a result of applying the above accounting treatment, no goodwill or bargain purchase arises on this transaction.

Fair value of identifiable assets and liabilities

For the determination of the fair value of the identifiable assets and liabilities and contingent liabilities, which is currently in progress, the Company is using the services of an independent international firm.

Provisional accounting for the business combination

As of the date of approval of these financial statements, the Company was still in the process of obtaining all the information necessary to identify and measure all of the various components of the business combination as of the acquisition date in accordance with the standard. Therefore, at the date of these financial statements, the Company has included provisional amounts and any adjustments arising will later be recognised retrospectively as if the accounting recognition of the business combination was completed on the acquisition date.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Acquisition of certain operations of Cyprus Popular Bank Public Co Ltd (continued)

Provisional fair values

The table below sets out the provisional fair value of the identifiable assets and liabilities acquired from Laiki Bank.

Provisional fair value recognised on acquisition	**€000**
Assets	
Cash and balances with central banks	**406.531**
Placements with banks	**1.293.440**
Amount receivable from the Company	**1.153.000**
Investments	**2.558.053**
Loans and advances to customers	**8.615.243**
Property, plant and equipment and intangible assets	**117.974**
Deferred tax asset	**417.000**
Investments in associates and subsidiary companies	**191.802**
Other assets	**334.548**
Total assets	**15.087.591**
Liabilities	
Amounts due to banks	**1.233.564**
Funding from central banks	**9.102.528**
Customer deposits	**4.180.716**
Other liabilities	**123.286**
Deferred tax liability	**4.692**
Total liabilities	**14.644.786**
Total identifiable net assets at fair value	**442.805**
Fair value of consideration transferred (comprising 845.758 thousand shares of nominal value €1,00 each)	**442.805**

Analysis of cash flows on acquisition	
Total cash flows acquired, of which:	**2.856.371**
Cash and cash equivalents	**1.126.302**
Consideration paid in cash	**-**

The fair value of loans and advances to customers amounts to €8.615.243 thousand. The gross amount of loans and advances to customers before fair value adjustment on initial recognition is €10.536.141 thousand. Of the total gross amount, €3.870.654 thousand were considered to be impaired as at the acquisition date. The fair value of these impaired loans amounts to €2.391.508 thousand.

The contribution to losses for the year by the acquired operations of Laiki Bank in the income statement and in the statement of other comprehensive income amounted to losses of €24.112 thousand and losses of €6.357 thousand respectively. From the date of acquisition, operations of Laiki Bank have contributed €327.827 thousand to net interest income.

The impact on the income statement and the statement of comprehensive income had Laiki Bank operations been incorporated from 1 January 2013 is unavailable and not representative.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Acquisition of certain assets and liabilities of Laiki (UK Branch) by Bank of Cyprus UK Ltd

On 1 April 2013, in accordance with a Decree issued by the Resolution Authority, the customer deposits of the Laiki UK Branch amounting to €325.209 thousand and certain liquid assets were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Company.

Disposal of certain assets and liabilities of Bank of Cyprus Romania

On 25 April 2013, in accordance with a decree issued by the Resolution Authority, the Company's Romanian Branch disposed to Marfin Bank (Romania) SA assets amounting to €82.000 thousand which include certain customer loans and related collateral, cash and other liquid assets and customer deposits amounting to €77.000 thousand. The loss on disposal amounts to €4.482 thousand and is included in net losses on financial instrument transactions, in the income statement.

Step acquisition

Following the acquisition of certain operations of Laiki Bank, the Company's holding in JCC Payment Systems Ltd ('JCC') which provides cards processing transaction services has increased from 45% to 75%. As a result, the Company fully consolidates JCC from 29 March 2013. Up to the date of becoming a subsidiary, the Company used proportional consolidation to account for JCC.

Dissolution and liquidation of subsidiaries

In 2012 the subsidiaries Katoikia I Holdings Ltd, Katoikia I Mortgage Finance Plc and Kyprou Insurance Services Ltd were dissolved. The net profit from the process of dissolution amounted to €45 thousand.

On 20 December 2012 the relevant procedures started for the liquidation of S.C. ONT Carpati S.A. and the dissolution was completed in 2013.

Transfer of banking business of subsidiary

On 25 June 2012 the banking business carried out by the UK branch (Bank of Cyprus UK), was transferred to the banking subsidiary Bank of Cyprus UK Ltd, registered in the UK. Bank of Cyprus UK Ltd is registered in the UK.

Disposal of subsidiary

On 11 October, 2013 the Company sold 100% of its subsidiary Kyprou Asset Management AEDAK. The company's net asset value totalled €2,1 million and the sale consideration amounted to €1,9 million. The transaction, as well as the loss incurred, does not have any significant financial or operational impact on the Company, given the numbers involved.

Provision for impairment of amounts receivable from subsidiaries

On 31 December 2012 the Company has recognized a provision for impairment for amounts due from a subsidiary of Cyprus Leasing SA. The provision has been created taking into account the accumulated losses of the subsidiary company and selling activities of the subsidiary to Piraeus Bank, based on the relevant decree issued by the resolution authority.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

Assets held for sale

At 31 December 2013, the Ukrainian operations of the Company were classified as a disposal group held for sale.

The carrying value of major classes of assets and liabilities of the disposal group as at 31 December 2013 is shown on the table below:

	€000
Group intercompany accounts	**71.570**
Loans and advances to customers	**160.402**

Loans and advances to customers were measured at amortised cost and are stated net of impairment provisions.

Following the classification of the disposal group as held for sale, an impairment of €74.251 thousand was recognised, to reduce the carrying amount of the scoped-in non-current assets, namely the investment in subsidiaries of the disposal group to fair value less cost to sell.

In accordance with the Company's accounting policy, the excess loss being the difference of the fair value less cost to sell of the disposal group and the carrying amount of scoped-in-non-current assets is not recognised.

22. Investments in Group companies , acquisitions and disposals and assets held for sale (continued)

	2013	2012 (restated and represented)
	€000	€000
Discontinued operations		
Turnover	**99.374**	595.484
Interest income	**102.517**	544.692
Interest expense	**(67.571)**	(271.782)
Net interest income	**34.946**	272.910
Fee and commission income	**13.436**	48.595
Fee and commission expense	**(719)**	(2.182)
Net foreign exchange (losses)/gains	**(14.509)**	2.841
Net losses on financial instrument transactions and disposal of subsidiaries	**(1.224.137)**	(60.381)
Other income	**(2.070)**	(644)
	(1.193.053)	261.139
Staff costs	**(21.804)**	(112.139)
Other operating expenses	**(53.543)**	(81.117)
Profit before impairment of loans and advances and goodwill and intangible assets	**(1.268.400)**	67.883
Provisions for impairment of loans and advances	**(59.203)**	(699.511)
Provisions for impairment of receivables from subsidiary company	**-**	(337.000)
Loss before tax	**(1.327.603)**	(968.628)
Tax	**-**	(49.672)
Loss after tax	**(1.327.603)**	(1.018.300)

23. Investments in associates

Carrying value of the investments in associates

	2013	2012
	€000	€000
CNP Cyprus Insurance Holdings Ltd	95.068	-
Interfund Investments Plc	7.902	7.819
Aris Capital Management LLC	2.078	-
Rosequeens Properties SRL	-	190
Grand Hotel Enterprises Society Ltd	-	-
	105.048	8.009

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Laiki Bank 49,9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Company.

The Group's interest in the main financial highlights of the company is presented as follows:

	2013	2012
	€000	€000
Total assets	351.489	-
Liabilities	(253.165)	-
Net assets, including value of in force business	98.324	-

CNP Cyprus Insurance Holdings Ltd holds deposits with the Company amounting to €42.040 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Company are presented in the table below:

	2013	2012
	€000	€000
Interest expense paid by the Company	1.589	-
Other expenses paid by the Company	1.207	-
Other income received by the Company	312	-

Interfund Investments Plc

The Company has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the Cyprus Stock Exchange.

23. Investments in associates (continued)

Carrying value of the investments in associates (continued)

Interfund Investments Plc (continued)
During the year, there were no material transactions between the Company and the associate.

Grand Hotel Enterprises Society Ltd
As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010, the Company acquired 35,2% of the share capital of the company Grand Hotel Enterprises Society Ltd (GHES), which is incorporated in Romania and owns a hotel in Romania. The investment has been fully impaired.

S.C. ONT Carpati S.A. was liquidated during 2013 and Unknowplan Properties Ltd acquired from S.C. ONT Carpati S.A. for a value of €13,9 million, the subordinated receivable from GHES and the 35,20% shareholding in GHES previously owned by S.C. ONT Carpati S.A.

The Company had granted a loan to GHES of €97.734 thousand which was secured by a mortgage on the hotel owned by GHES. In addition, GHES owed an amount of €2.021 thousand to the Company. The Company's income statement for 2013 includes interest income of €5.284 thousand from GHES (2012: €5.706 thousand).

Rosequeens Properties SRL
The Company owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of due balances amounting to approximately €21 million. The Company fully impaired its investment in associate in the year.

Aris Capital Management LLC
The Company's holding in Aris Capital Management LLC of 30% was transferred to the Company following the acquisition of certain operations of Laiki Bank. During the year, there were no material balances and transactions between the Company and the associate.

24. Property and equipment

	Property	Equipment	**Total**
2013	€000	€000	**€000**
Net book value at 1 January	261.435	25.734	**287.169**
Acquired through business combination	93.656	11.057	**104.713**
Additions	3.325	2.878	**6.203**
Revaluation	(13.447)	-	**(13.447)**
Transfer to investment properties (Note 26)	(28.704)	-	**(28.704)**
Disposals as a result of discontinued operations	(87.692)	(9.539)	**(97.231)**
Other disposals and write-offs	(514)	(781)	**(1.295)**
Depreciation charge for the year-continuing operations	(3.824)	(7.461)	**(11.285)**
Depreciation charge for the year-discontinued operations	(1.477)	(486)	**(1.963)**
Impairment charge for the year	(72)	(218)	**(290)**
Exchange adjustments	38	-	**38**
Net book value at 31 December	**222.724**	**21.184**	**243.908**

1 January 2013			
Cost or valuation	364.536	152.172	**516.708**
Accumulated depreciation	(103.101)	(126.438)	**(229.539)**
Net book value	**261.435**	**25.734**	**287.169**

31 December 2013			
Cost or valuation	254.609	107.335	**361.944**
Accumulated depreciation	(31.885)	(86.151)	**(118.036)**
Net book value	**222.724**	**21.184**	**243.908**

24. **Property and equipment** (continued)

	Property	Equipment	**Total**
2012	€000	€000	**€000**
Net book value at 1 January	288.885	33.341	**322.226**
Conversion of branches to subsidiaries	(7.469)	(5.901)	**(13.370)**
Additions	7.715	5.951	**13.666**
Revaluation	(15.461)	-	**(15.461)**
Disposals and write offs	(1.911)	(216)	**(2.127)**
Depreciation charge for the year – continuing operations	(3.155)	(5.720)	**(8.875)**
Depreciation charge for the year – discontinued operations	(7.431)	(1.941)	**(9.372)**
Exchange adjustments	262	220	**482**
Net book value at 31 December	**261.435**	**25.734**	**287.169**

1 January 2012			
Cost or valuation	385.753	160.380	**546.133**
Accumulated depreciation	(96.868)	(127.039)	**(223.907)**
Net book value	**288.885**	**33.341**	**322.226**

31 December 2012			
Cost or valuation	364.536	152.172	**516.708**
Accumulated depreciation	(103.101)	(126.438)	**(229.539)**
Net book value	**261.435**	**25.734**	**287.169**

The net book value of the Company's property comprises of:

	2013	2012
	€000	€000
Freehold property	**216.034**	239.504
Improvement on leasehold property	**6.690**	21.931
	222.724	261.435

Freehold property includes land amounting to €99.172 thousand (2012: €105.272 thousand) for which no depreciation is charged.

The Company's policy is to revalue its properties periodically (between 3 to 5 years). As a consequence of the prevailing economic conditions in Cyprus and their impact on the real estate market, the fair value of properties was expected to be materially different to their carrying amounts as at the year end. As a result, property revaluations were performed as at 30 June 2013 which resulted in a net loss on revaluation of €13.447 thousand (2012: €15.461 thousand) which was recognised in the statement of other comprehensive income and an impairment loss of €72 thousand (2012: €nil) which was recognised in the income statement. The valuations are carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 19.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2013 would have amounted to €140.830 thousand (2012: €138.835 thousand).

25. Intangible assets

	Computer software	Licence fees	**Total**
2013	€000	€000	**€000**
Net book value at 1 January	16.339	-	**16.339**
Acquired through business combination	13.261	-	**13.261**
Additions	2.751	-	**2.751**
Disposals and write-offs	(3.939)	-	**(3.939)**
Amortisation charge for the year – continuing operations	(11.097)	-	**(11.097)**
Amortisation charge for the year – discontinued operations	(341)	-	**(341)**
Exchange adjustments	1	-	**1**
Net book value at 31 December	**16.975**	**-**	**16.975**
1 January 2013			
Cost	117.907	-	**117.907**
Accumulated amortisation	(101.568)	-	**(101.568)**
Net book value	**16.339**	**-**	**16.339**
31 December 2013			
Cost	103.210	-	**103.210**
Accumulated amortisation	(86.235)	-	**(86.235)**
Net book value	**16.975**	**-**	**16.975**

	Computer software	Licence fees	**Total**
2012	€000	€000	**€000**
Net book value 1 January	17.804	462	**18.266**
Conversion of branch to subsidiary	(635)	-	**(635)**
Additions	6.099	-	**6.099**
Disposals and write-offs	(96)	-	**(96)**
Amortisation charge for the year – continuing operations	(5.331)	(462)	**(5.793)**
Amortisation charge for the year – discontinued operations	(1.532)	-	**(1.532)**
Exchange adjustments	30	-	**30**
Net book value at 31 December	**16.339**	**-**	**16.339**

25. **Intangible assets** (continued)

	Computer software	Licence fees	**Total**
1 January 2012	€000	€000	**€000**
Cost	116.290	6.162	**122.452**
Accumulated amortisation	(98.486)	(5.700)	**(104.186)**
Net book value	**17.804**	**462**	**18.266**
31 December 2012			
Cost	117.907	6.162	**124.069**
Accumulated amortisation	(101.568)	(6.162)	**(107.730)**
Net book value	**16.339**	**-**	**16.339**

26. **Other assets**

	2013	2012
	€000	€000
Debtors	**143**	2.804
Stock of property held for sale	**723**	723
Investment properties	**198.629**	14.386
Taxes refundable	**41.319**	34.210
Deferred tax asset (Note 14)	**456.479**	33.228
Retirement benefit plan assets (Note 11)	**46**	898
Prepaid expenses	**485**	2.103
Receivable relating to acquisitions and disposals of operations	**90.219**	-
Other assets	**109.382**	42.371
	897.425	130.723

The increase in the deferred tax asset relates mainly to the Laiki Bank tax losses transferred to the Company as a result of the acquisition (Note 22).

26. Other assets (continued)

Investment properties

The movement of investment properties is summarised below:

	2013	2012
	€000	€000
1 January	**14.386**	15.395
Acquired through business combination (Note 22)	**172.248**	-
Additions	**-**	487
Transfer from property and equipment (Note 24)	**28.704**	-
Disposals	**-**	(495)
Losses from revaluation	**(16.746)**	(1.001)
Exchange adjustments	**37**	-
31 December	**198.629**	14.386

Fair value hierarchy and other disclosures have been provided in Note 19.

27. Amounts due to banks

	2013	2012
	€000	€000
Amounts due to banks	**124.152**	256.831

Amounts due to banks represent interbank takings and bears interest based on the interbank rate of the relevant term and currency.

28. Funding from central banks

Funding from central banks comprises of funding from the CBC under Eurosystem monetary policy operations, including standing facilities and Emergency Liquidity Assistance ('ELA'), as set out in the table below:

	2013	2012
	€000	€000
Emergency Liquidity Assistance	**9.556.035**	-
Monetary policy operations	**1.400.242**	-
	10.956.277	-

As at 31 December 2012 the Company had no funding under the ELA and the Company, as at that date, had been suspended by the ECB from participation in monetary policy operations.

The amount of ELA funding as at 31 December 2013 includes €9,1 billion ELA funding which was acquired as part of the acquisition of assets and liabilities of Laiki Bank as at 29 March 2013 following a decision by the Resolution Authority. This ELA funding of Laiki Bank of €9,1 billion was effectively lower by €1,2 billion, as Laiki Bank had advanced to the Company on 26 March 2013 an amount of €1,2 billion to finance the sale of the Group's Greek operations (Note 22).

Since August 2013, the Company has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This enables the Company to resort to monetary policy operations which may be used for ELA repayment.

28. Funding from central banks (continued)

The funding under monetary policy operations bears interest at the ruling main refinancing operations ('MRO') rate of the Eurosystem. The Company's ELA funding bears interest at the rate equal to the ruling marginal lending facility rate ('MLF rate') of the Eurosystem, plus a margin.

29. Customer deposits

	2013	2012
	€000	€000
By type of deposit		
Demand	**3.089.648**	6.003.515
Savings	**688.877**	1.645.797
Time or notice	**8.967.218**	18.230.744
	12.745.743	25.880.056
By geographical areas		
Cyprus	**12.715.688**	18.513.532
Greece	**-**	7.152.375
Romania	**30.055**	214.149
	12.745.743	25.880.056

During the recapitalisation process through a bail-in of uninsured deposits of the Company in Cyprus (Note 2.5), uninsured deposits have been converted into shares of the Company.

The Cypriot authorities have introduced temporary restrictive measures, with respect to banking and cash transactions, as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures include restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provided for the compulsory partial renewal of maturing deposits. Since their introduction, these restrictive measures have been gradually relaxed and the Cyprus government has published a roadmap for the gradual liberalisation of the restrictions, taking into account investor confidence and financial stability indicators.

30. Debt securities in issue

	Contractual interest rate	2013	2012
Medium term senior debt		€000	€000
SEK 100 million 2010/2014	Return of specific shares	-	11.990
€2 million 2010/2016	DJ EUROSTOXX 50 index	-	1.897
USD 2 million 2010/2016	S&P 500 index	-	1.502
		-	15.389

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company have been bailed in and were converted into shares as presented in Note 2.

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2012: €4.000 million).

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2012: €1.000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted. No commercial paper is currently in issue.

Covered Bonds

During 2011, a €5.000 million Covered Bonds Programme was set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the Central Bank of Cyprus.

Under the Programme, the Company issued in July and December 2011 covered bonds of €700 million and €1.000 million, respectively. The covered bonds issued have a maturity of 3 years with a potential extension of their repayment by one year, bear interest at the three month Euribor plus 1,25% annually and are traded on the Luxemburg Bourse.

On 29 June 2012 and 25 March 2013, covered bonds of €150 million and €550 million respectively issued in July 2011, were cancelled.

Loans and advances pledged as collateral for covered bonds are disclosed in Note 20.

30. Debt securities in issue (continued)

Covered Bonds (continued)

The liability from the issue of covered bonds is not presented in debt securities in issue in the balance sheet as all the bonds issued are held by the Company.

Additional information relating to the covered bonds issued by the Company is available on the Company's website under Investors Relations/Debt Securities.

Bonds guaranteed by the Cyprus Government

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Company assumed the rights and obligations of Laiki Bank in its role as issuer of two bonds guaranteed by the Cyprus Government of €500 million each. The bonds were issued by Laiki Bank on 14 November and 27 November 2012 respectively and had a maturity of 364 days. The maturity of the bonds was extended in November 2013 for a further period of one year. The bonds bear annual fixed interest rate at 5%. The bonds are guaranteed by the Cyprus Government and are issued in accordance with the relevant legislation and decrees on the Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law. The liability from the issue of these bonds is not presented within debt securities in issue in the balance sheet as the bonds are held by the Company. The bonds are pledged as collateral for obtaining funding from central banks. The bonds are listed on the Cyprus Stock Exchange.

31. Other liabilities

	2013	2012
	€000	€000
Income tax payable	**10.459**	10.466
Special defence contribution payable	**12.382**	9.844
Deferred tax liability (Note 14)	**21.983**	19.557
Liability of retirement benefit plans (Note 11)	**9.035**	38.095
Provision for pending litigation or claims	**47.728**	3.228
Financial guarantees	**2.604**	4.459
Accrued expenses and other provisions	**21.287**	20.083
Deferred income	**8.227**	11.279
Shares subject to interim orders (Note 33)	**(58.922)**	-
Items in the course of settlement	**25.754**	94.431
Other liabilities	**55.086**	33.063
	155.623	244.505

Provision for pending litigation or claims

The movement for the year in the provision for pending litigation or claims is as follows:

	2013	2012
	€000	€000
1 January	**3.228**	3.228
Increase of provision in the year	**44.500**	-
31 December	**47.728**	3.228

The increase of provision in the year includes €36.000 thousand provision charge for cases in relation to operations that have been discontinued in the year.

32. Subordinated loan stock

	Contractual interest rate	2013	2012
		€000	€000
Convertible Bonds 2013/2018 (€573 million)	Six-month Euribor plus 1,00%	-	27.103
Convertible Capital Securities (€645 million)	5,50%	-	76.775
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	-	22.494
		-	126.372

As a result of the recapitalisation of the Company in 2013, the subordinated loan stock in issue by the Company on 29 March 2013 was converted into shares.

Convertible Bonds

The Convertible Bonds, the Convertible Capital Securities and the Capital Securities have contributed to the recapitalisation of the Company in 2013 through their conversion into ordinary shares in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013. Additional information is presented in Note 2.5.

33. Share capital

	2013		2012	
	Shares (thousand)	€000	Shares (thousand)	€000
Authorised				
Ordinary shares of €1,00 each	4.686.414	4.686.414	3.000.000	3.000.000
Issued				
1 January	1.795.141	1.795.141	899.528	899.528
Issue of shares	-	-	159.683	159.683
Bonus issue	-	-	303.743	303.743
Conversion of Convertible Enhanced Capital Securities	-	-	432.187	432.187
Bail-in of deposits and structured products	3.814.495	3.814.495	-	-
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	122.541	122.541	-	-
Conversion of CECS into shares	459.399	459.399	-	-
Reduction in nominal value of share capital	(2.353.349)	(2.353.349)	-	-
Acquisitions (Note 22)	845.758	845.758	-	-
31 December 2013	4.683.985	4.683.985	1.795.141	1.795.141

Authorised share capital
During 2013 the authorised share capital of the Company was increased by 1.686.414 thousand shares by creating new ordinary shares of nominal value €1,00 each, which rank pari passu with the existing ordinary shares of the Company.

33. **Share capital** (continued)

Issued share capital

2013

The Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits (Note 2.5). The holders of ordinary shares and debt securities as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree of 2013' (the 'Decree') issued on 29 March 2013, the 'Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013' (the 'Amended Decree') issued on 21 April 2013 and the 'Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013' (the 'Amended Decrees No. 2 and 3') issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the 'Bail-in Decrees').

According to the Amended Decrees No. 2 and 3 the following have been decided:

- Reduction of the nominal value of all ordinary shares from €1,00 each to ordinary shares of nominal value of €0,01 each.
- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.
- As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17.913 thousand.

Following the conversion of Class A, Class B, Class C and Class D shares to Ordinary Shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0,01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1,00 each. Any remaining ordinary shares of a nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

Following the changes in the share capital described in Note 2.5, the issued share capital of the Company as at the date of approval of these financial statements amounts to €4.683.985 thousand divided into 4.683.985 thousand ordinary shares of a nominal value of €1,00 each. All issued ordinary shares carry the same rights.

2012

In November 2011, the Company decided to increase its share capital through a pre-emptive rights offering amounting to €397.000 thousand and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600.000 thousand.

The Rights were issued and allotted to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of their respective at the time conversion price into shares, in the ratio of one Right for each existing ordinary share. Every three Rights exercised were converted into one New Share at the subscription price of €1,00 per share. In addition, for each New Share arising from the exercise of the Rights, the Company granted one fully paid Bonus Share.

The holders of CECS were given the option to exchange their CECS with one fully paid New Share. In addition, for every three New Shares arising from the conversion of the CECS, the Company granted one Bonus Share.

The periods for the exercise of the Rights and the acceptance of the offers to exchange the CECS expired on 19 March 2012. As a result, the Company issued 159.683 thousand new shares from the exercise of Rights, 432.187 thousand shares from the conversion of CECS and 303.743 thousand bonus shares.

33. Share capital (continued)

Shares subject to interim orders

Following the issue of the Bail-in Decrees, a number of the affected depositors have filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. In some of the actions, interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The said actions are being contested by the Company and are pending before the District Courts.

The shares which as per the bail-in Decree correspond to the deposits which are subject to these interim orders amount to 58.922 thousand ordinary shares of a nominal value €1,00 each. These shares are included in equity in the balance sheet as 'Shares subject to interim orders', with an equivalent debit balance included in 'Other liabilities' within total liabilities.

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The shareholders' Annual General Meeting held on 19 June 2012 approved a special resolution for the reduction by an amount of €430.440 thousand of the credit balance of the Company's Share Premium account. During September 2012 the District Court of Nicosia by order approved the reduction of the Share Premium account. The reduction was effected by writing off accumulated losses in the 'Accumulated losses' reserve.

Pursuant to the Decrees issued by the Resolution Authority in 2013, the balance of the share premium reserve was reduced to zero and the reduction is applied to write off accumulated losses of the Company (Note 2.5).

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2013 was 1.021 thousand (2012: 72.282 thousand). Treasury shares include 298 thousand shares which resulted from the conversion of CECS of nominal value of €29.825 thousand, which were held by the Group. The total cost of acquisition of treasury shares was €65.499 thousand (2012: €35.674 thousand).

Share-based payments – Share Options

In 2008 the Company granted share options to Group employees and in 2009 it approved the granting of additional share options under the 2008 options scheme. The fair value of the 12,5 million Share Options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1,17 per share option. The main variables taken into account by the model are the share price (€8,56 on 28 May 2008), the exercise price (€9,41), the dividend yield (8,1%), the risk free interest rate (4,2%), the duration of the share options and the expected volatility of the share price (31,3% on an annual basis calculated using the historic volatility of the share).

The fair value of the additional 2.362 thousand Share Options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0,87 per share option. The main variables taken into account by the model are the share price (€4,10 on 9 July 2009), the exercise price (€5,50), the dividend yield (6,9%), the risk free interest rate (2,7%), the duration of the share options and the expected volatility of the share price (23,6% on an annual basis calculated using the historic volatility of the share).

The Share Options 2008/2010 were vested in full on 31 December 2010 and could be exercised by their holders from 1 January-31 March of years 2011-2013 and from 1 November-31 December of years 2012-2013. The Share Options 2008/2010 were not transferable and are unlisted.

In accordance with their issue terms, the exercise price of the Share Options might be adjusted to reflect the sequence of corporate actions and changes pursuant to the relevant provisions and decisions of the Decrees issued by the Resolution Authority in 2013.

33. Share capital (continued)

Share-based payments – Share Options (continued)

The Share Options 2008/2010 lapsed on 31 December 2013.

The movement in the number of Share Options 2008/2010 is summarised below:

	2013	2012
	€000	€000
1 January	**12.585**	14.280
Share options lapsed	**(12.585)**	-
Share options forfeited	**-**	(1.695)
31 December	**-**	12.585

34. Convertible Enhanced Capital Securities

	2013	2012
	€000	€000
1 January	**428.835**	862.233
Conversion into shares	**(429.580)**	(432.187)
Exchange difference	**745**	(1.211)
31 December	**-**	428.835

The CECS were issued by the Company on 18 May 2011, following the approval by the Extraordinary General Meeting of shareholders on 23 March 2011. For the purposes of regulatory capital the CECS qualified as tier 1 capital.

The nominal value of the CECS issued consisted of €820.000 thousand in Euro and $95.000 thousand in US Dollars. The CECS issued in Euro bore a fixed interest rate of 6,50% per annum until 30 June 2016 and 6-month Euribor plus 3,00% per annum thereafter. The CECS issued in US Dollars bore a fixed interest rate of 6,00% per annum until 30 June 2016 and 6-month Libor plus 3,00% per annum thereafter. The Company could, at any time at its sole discretion, taking into account its specific financial and solvency condition, elect to cancel an interest payment on a non-cumulative basis. Any coupon not paid was no longer due and payable by the Company. The Company proceeded with a mandatory coupon cancellation for the period since 31 December 2011.

The CECS could be converted at the option of the holder during any conversion period. The conversion periods were: 1-15 September 2011, and then 1-15 March, 15-31 May, 1-15 September and 15-30 November of each subsequent year. The last conversion date was 31 May 2016.

The CECS were perpetual without a maturity date but the Company could elect to redeem all but not some of the CECS at their principal amount together with any accrued interest, on 30 June 2016 or on any other interest payment date thereafter, subject to the prior approval of the Central Bank of Cyprus.

If a Contingency Event or Viability Event occurred, the CECS should be mandatorily converted into ordinary shares of the Company. The conversion price is set at 80% of the weighted average market price of the shares during the previous five business days, with a ceiling price of €3,30 and a floor price equal to the nominal value of the ordinary shares (€1,00).

A Contingency Event occurred if (i) the Company's core tier 1 ratio is below 5% or, on or after the implementation of the Basel III regulations, its common equity tier 1 ratio is below the required capital adequacy regulatory limits, or (ii) the Central Bank of Cyprus determines that the Company is in non-compliance with the required capital adequacy regulatory limits.

34. Convertible Enhanced Capital Securities (continued)

A Viability Event occurred if (i) the Central Bank of Cyprus determined that the conversion of the CECS was required to improve the capital adequacy and financial position of the Company to prevent insolvency, and/or (ii) the Central Bank of Cyprus determined that the Company required public sector support to prevent it from becoming (a) insolvent, (b) bankrupt, or (c) unable to pay a material amount of its debts, or (iii) other similar circumstances.

During 2012, the Company proceeded with the amendment of certain terms of the issue of the CECS in order to satisfy the requirements of the European Banking Authority (EBA) for inclusion of the remaining amount of the CECS (€429.000 thousand) as eligible for reducing the capital shortfall as determined by the EBA Capital Exercise.

The CECS were listed on the Cyprus Stock Exchange and the Athens Exchange.

During March 2012, CECS with nominal value of €432.000 thousand were converted into shares in the context of the Group's Capital Strengthening Plan.

The CECS have contributed to the recapitalisation of the Company in 2013 through their conversion into ordinary shares in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013. Additional information is presented in Note 2.5.

35. Dividends

During 2012 and 2013 no dividend was declared or paid.

36. Accumulated losses

Retained earnings are the only distributable reserve.

The companies, tax residents in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Cyprus Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 20% for tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-resident in Cyprus.

For the purpose of arriving at the profit subject to deemed distribution, any capital expenditure incurred in the acquisition of plant and machinery (excluding private saloon cars) and buildings during the years 2012 to 2014 is deducted from the after tax profits. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the Company on account of the shareholders.

37. Fiduciary transactions

The Company offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Company is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the balance sheet of the Company unless they are placed with the Company. Total assets under management and custody at 31 December 2013 amounted to €737.000 thousand (2012: €1.131.000 thousand).

38. Contingent liabilities and commitments

As part of the services provided to its customers, the Company enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Company (Note 43).

38. Contingent liabilities and commitments (continued)

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2013 amount to €1.631 thousand (2012: €8.314 thousand).

Pending litigation and claims

The Company faces legal and regulatory challenges, many of which are beyond its control. The extent of the impact of these matters, in which the Company is or may in the future become involved, cannot always be predicted with certainty, but may materially impact its operations, financial results and condition and prospects.

The recognition of provisions for litigation and claims is determined in accordance with the accounting policies set out in Note 3.33 in the consolidated financial statements.

Apart from the matters described below, the Company considers that none of these matters are material, either individually or in aggregate. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2013 (Note 31). It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Investigations and litigation on securities issued by the Company
A number of customers have filed actions against the Company alleging that they were misled into purchasing bonds and capital securities and claim various remedies including the return of the money they have paid. The Company is contesting the said claims, which are pending before the Court. In another development, the Central Bank of Cyprus has conducted an investigation and concluded that the Company breached certain regulatory requirements concerning the 2009 issue of Convertible Capital Securities, but not any regulatory requirements concerning the 2011 issue of CECS. The CBC imposed upon the Company a fine of €4 thousand. The Company has filed a recourse before the Supreme Court against the ruling and the imposition of a fine by the CBC.

CySEC Investigation for non-disclosure of information
The Cyprus Securities and Exchange Commission (CySEC) has conducted an investigation against the Company concerning alleged non-disclosure of important information, specifically the information provided on the amount of the capital shortfall as determined by the European Banking Authority and the amount of requested state aid in June 2012. It was held that the Company was in breach of the law and the Commission has imposed an administrative fine upon the Company of €230 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company intends to file a recourse before the Supreme Court against the Commission's decision and the fine imposed upon it.

Bail-in related litigation
Following the issue of the Decrees in respect of the bailed-in depositors, a number of the affected depositors filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. Actions on the part of affected depositors are filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by the depositors as a result of the Law and the Decrees issued thereafter. In some of the actions interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The Company is taking active steps to obtain the discharge and cancellation of the said interim orders and is defending the actions of depositors vigorously. The said actions are being contested by the Company and are pending before the District Courts. This far, 48 court decisions regarding interim orders were issued and in all cases the interim order was cancelled.

The position of the Company is that the Resolution Law and the Decrees take precedence over all other Laws and management assesses that it is probable that the interim orders issued will be lifted and the said deposits will be eventually converted into equity.

38. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

Bail-in related litigation (continued)
There are also numerous claims filed by shareholders and holders of debt securities as of 29 March 2013 whose shares were applied for the absorption of losses of the Company. Such proceedings have been filed before the Supreme Court of Cyprus. The objective of these proceedings before the Supreme Court is to obtain the annulment (i.e. cancellation and setting aside) of the Decrees of the Resolution Authority as unconstitutional and/or unlawful and/or irregular. These proceedings are still at an early stage. The Company is appearing in these proceedings as an interested party. Both the Government of the Republic and the Resolution Authority are taking the view that the relevant Law and Decrees are lawful and constitutional. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by a Court of Law.

Bail-in related litigation - Ukraine
In May 2013, a bailed-in depositor had assigned his rights arising from the deposit to a third party which filed a claim in the Commercial Court of Kiev against the Company and its subsidiary in Ukraine. A judgment was issued against the Company and its subsidiary in Ukraine by the Court of first instance for the amount of €11 million. The Group had filed an Appeal against this judgment, which however has been rejected and dismissed.

On 9 December 2013 the Supreme Commercial Court of Ukraine annulled the lower court’s decisions and terminated the proceedings against the Group for lack of jurisdiction and also lifted the injunctive relief measures.

Another case on collection of funds from a deposit account of the Company was pending at the Desnyanskiy District Court of Kiev. The claimant claimed USD 7.000 thousand. On 10 July 2013 the District Court issued injunctive relief measures and arrested all movable property of the Company, as well as the shares of its Ukrainian subsidiary. The Company appealed and on 25 December 2013, the court received a written motion of the claimant regarding the abandonment of his claims and closing of proceedings in the case. The court granted claimant’s motion, dismissed the proceedings and also lifted the injunctive relief.

CySEC ongoing investigations
The CySEC is carrying out investigations in respect of:
- The Group’s exposure to Greek Government bonds. In this respect, the Commission has issued its decision for part of its investigation where it held that the Company was in breach of the law and it has imposed an administrative fine upon the Company of €160 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company has filed a recourse before the Supreme Court against the fine imposed upon it.
- The fact that the Group has not published its Annual Financial Statements for the year 2012 within the legally prescribed time limits.

The above investigations are in progress and therefore it is not practical at this stage for the Company to estimate reliably and possible liability that might arise.

Other
The Company is involved in a number of other litigations involving legal cases against the Company and its subsidiaries arising in the course of its normal operating activities, mainly in Cyprus and Greece. For one of these cases relating to the discontinued operations in Greece a provision of €36.000 thousand has been recognised (Note 31).

39. Net cash flow used in operating activities

	2013	2012
	€000	€000
Loss before tax from continuing operations	**(746.651)**	(1.282.869)
Loss before tax from discontinued operations	**(1.327.603)**	(968.628)
Adjustments for:		
Provisions for impairment of loans and advances	**988.884**	2.285.043
Depreciation of property and equipment	**13.248**	18.247
Amortisation of intangible assets	**11.438**	7.325
Impairment of property	**290**	-
Loss on disposal of discontinued operations	**1.365.624**	-
Amortisation of discounts/premiums of debt securities and subordinated loan stock	**(98.328)**	7.393
Losses on sale and write-off of property and equipment and intangible assets	**3.082**	1.799
Losses from revaluation of investment properties	**16.746**	-
(Gains)/losses on sale of subsidiaries	**(444)**	13
Interest on debt securities	**(207.691)**	(125.572)
Dividend income	**(25.862)**	(31.289)
Impairment of GGBs and change in fair value of related hedging derivatives	**-**	143.573
Impairment of investments in Group companies	**306.129**	412.655
Impairment of investments	**21.991**	(91.817)
Impairment on funding to subsidiaries	**28.816**	-
Net (gains)/losses on disposal of investments in equity securities	**(951)**	48
Net losses on disposal of investments in debt securities	**12.040**	8.498
Loss/(profit) from revaluation of debt securities designated as fair value hedges	**945**	(66.231)
Interest on funding from central banks	**167.560**	-
Interest (reversal)/charge on subordinated loan stock	**(4.442)**	6.023
	524.821	324.211
Change in:		
Obligations to central banks and amounts due to banks	**(1.366.243)**	(2.761.556)
Obligatory balances with central banks	**280.187**	245.965
Customer deposits	**(5.739.738)**	(1.223.542)
Debit balances with Group companies	**951.659**	1.287.495
Credit balances with Group companies	**(195.888)**	(744.384)
Loans and advances to customers	**1.016.878**	60.814
Other assets	**(28.338)**	46.278
Placements with banks	**1.847.077**	(624.526)
Other liabilities	**(84.721)**	(1.431)
Accrued income and prepaid expenses	**1.649**	5.963
Derivative financial instruments	**(132.079)**	(137.351)
Investments at fair value through profit or loss	**(2.550)**	30.776
Repurchase agreements	**(13.769)**	(178.220)
Reverse repurchase agreements	**-**	215.936
Accrued expenses and deferred income	**(1.848)**	(70)
Subordinated loan stock	**(127.660)**	-
	(3.070.563)	(3.453.642)
Tax paid	**(7.450)**	(25.060)
Net cash flow used in operating activities	**(3.078.013)**	(3.478.702)

39. Net cash flow used in operating activities (continued)

Net cash flow used in operating activities – interest and dividends

	2013	2012
	€000	€000
Interest paid	**(651.864)**	(925.894)
Interest received	**1.463.048**	1.880.371
Dividends received	**25.862**	31.289
	837.046	985.766

40. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2013	2012
	€000	€000
Cash and non-obligatory balances with central banks	**89.130**	185.771
Treasury bills repayable within three months	**199.003**	99.379
Placements with banks with maturity less than three months	**612.048**	708.260
	900.181	993.410

Cash and non-obligatory balances with central banks	**89.130**	185.771
Obligatory balances with central banks	**461.610**	469.483
Total cash and balances with central banks (Note 16)	**550.740**	655.254

Placements with banks with original maturity less than three months	**612.048**	708.260
Other restricted placements with banks (Note 45)	**221.255**	388.817
Other placements with banks	**231.351**	456.510
Total placements with banks (Note 16)	**1.064.654**	1.553.587

41. Operating leases – The Company as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December are presented below:

	2013	2012
	€000	€000
Within one year	**3.645**	11.534
Between one and five years	**4.741**	17.225
After five years	**1.338**	4.375
	9.724	33.134

The above mainly relate to property leases for the Company's branches and offices.

42. Analysis of assets and liabilities by expected maturity

	2013			2012		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash and balances with central banks	94.825	455.915	550.740	200.555	454.699	655.254
Placements with banks	520.115	544.539	1.064.654	1.337.558	216.029	1.553.587
Investments	304.621	3.190.245	3.494.866	378.377	1.450.331	1.828.708
Derivative financial assets	25.041	3.682	28.723	16.034	10.751	26.785
Loans and advances to customers	5.085.729	14.628.976	19.714.705	4.766.158	16.106.895	20.873.053
Intercompany accounts	488.034	627.674	1.115.708	573.784	1.514.875	2.088.659
Investments in Group companies	-	442.335	442.335	-	665.380	665.380
Investments in associates	-	105.048	105.048	-	8.009	8.009
Property, equipment and intangible assets	-	260.883	260.883	-	303.508	303.508
Other assets	112.539	784.886	897.425	39.383	91.340	130.723
	6.630.904	21.044.183	27.675.087	7.311.849	20.821.817	28.133.666
Liabilities						
Amounts due to banks	98.355	25.797	124.152	255.916	915	256.831
Funding from central banks	157.000	10.799.277	10.956.277	-	-	-
Repurchase agreements	13.928	580.076	594.004	31.813	575.960	607.773
Derivative financial liabilities	16.090	67.867	83.957	65.019	118.783	183.802
Customer deposits	3.708.198	9.037.545	12.745.743	8.951.510	16.928.546	25.880.056
Intercompany accounts	194.018	369.561	563.579	380.932	378.535	759.467
Debt securities in issue	-	-	-	-	15.389	15.389
Other liabilities	78.565	77.058	155.623	223.048	21.457	244.505
Subordinated loan stock	-	-	-	-	126.372	126.372
	4.266.154	20.957.181	25.223.335	9.908.238	18.165.957	28.074.195

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

In accordance with the Company's approved restructuring plan, nearly all of the funding from central banks has been included in the over one year time band, since it is expected that it will continue to be required and available. It is noted however, that contractual maturity is under one year.

42. Analysis of assets and liabilities by expected maturity (continued)

The liquid bonds used as collateral for the ECB funding are also placed in the over one year time band, since their encumbrance will be terminated once the ECB funding is repaid.

Investments have been classified in the relevant time band based on expectations as to their realisation, taking into consideration whether investments are pledged as collateral and other conditions.

Loans and advances to customers in Cyprus are classified based on the contractual repayment schedule with the exception of the overdrafts accounts which are classified in the over one year time band.

A percentage of customer deposits in Cyprus maturing within one year was transferred in the over one year time band, based on the observed actual customer behaviour given the restrictive measures.

Loans and advances to customers and customer deposits in Romania are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year column.

The expected maturity of all other assets and liabilities is the same as their contractual maturity.

43. Risk management – Credit risk

In the ordinary course of its business the Company is exposed to credit risk which is monitored through various control mechanisms at all companies of the Company in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Company.

The Group Credit Risk Management Unit sets the Company's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line (consumer, business and corporate) and the quality of the Company's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The credit policies are combined with modern methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate. The portfolio is regularly reviewed by a specialist Unit of Group Internal Audit.

The credit risk exposure of the Company is diversified both geographically and across the various sectors of the economy. The Group Credit Risk Management Unit determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Company's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in Note 3 'Accounting Policies' of the consolidated financial statements.

The Group Market Risk Management Unit assesses the credit risk relating to investments in liquid assets (mainly placements with banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the Group Assets and Liabilities Committee (ALCO) for approval.

Following the March 2013 events relating to the Company's recapitalisation and restructuring, the Company has applied stricter lending criteria and has significantly reduced the approval limits of the various credit authorities.

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancement

The Company's maximum exposure to credit risk is analysed by geographic area as follows:

	2013	2012
On-balance sheet	**€000**	€000
Cyprus	**24.242.750**	17.759.915
Greece	**209.969**	8.157.046
United Kingdom	**539.789**	-
Romania	**647.084**	579.298
Russia	**39.545**	151.563
Ukraine	**167.479**	117.941
	25.846.616	26.765.763

Off-balance sheet		
Cyprus	**3.657.120**	2.514.044
Greece	**335.073**	1.563.889
Romania	**3.466**	23.349
	3.995.659	4.101.282

Total on and off balance sheet		
Cyprus	**27.899.870**	20.273.959
Greece	**545.042**	9.720.935
United Kingdom	**539.789**	-
Romania	**650.550**	602.647
Russia	**39.545**	151.563
Ukraine	**167.479**	117.941
	29.842.275	30.867.045

The Company offers guarantee facilities to its customers under which the Company may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Company to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

Loans and advances to customers
The Group Credit Risk Management Unit determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Company include real estate mortgages on properties, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Company's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments
Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Company has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In some cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Company sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

		Fair value of collateral and credit enhancements held by the Company							
	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	**Net exposure to credit risk**
2013	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 16)	**461.610**	-	-	-	-	-	-	-	**461.610**
Placements with banks	**1.064.654**	915	-	-	-	-	-	915	**1.063.739**
Debt securities at fair value through profit or loss	**15.274**	-	-	-	-	-	-	-	**15.274**
Debt securities classified as available-for-sale, and loans and receivables	**3.279.758**	-	-	-	-	-	-	-	**3.279.758**
Derivative financial instruments	**28.723**	10.291	-	-	-	-	-	10.291	**18.432**
Loans and advances to customers	**19.714.705**	770.815	615.849	1.098.995	22.890.454	564.834	(8.346.275)	17.594.672	**2.120.033**
Debtors (Note 26)	**143**	-	-	-	-	-	-	-	**143**
Balances with Group companies	**1.082.116**	-	-	-	-	-	-	-	**1.082.116**
Other assets	**199.633**	-	-	-	-	-	-	-	**199.633**
On-balance sheet total	**25.846.616**	**782.021**	**615.849**	**1.098.995**	**22.890.454**	**564.834**	**(8.346.275)**	**17.605.878**	**8.240.738**
Contingent liabilities									
Acceptances and endorsements	**17.042**	1.094	80	335	11.225	1.011	(5.805)	7.940	**9.102**
Guarantees	**1.226.655**	23.002	1.929	8.190	367.202	15.774	(155.301)	260.796	**965.859**
Commitments									
Documentary credits	**10.919**	-	-	-	-	-	-	-	**10.919**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.741.043**	-	-	-	-	-	-	-	**2.741.043**
Off-balance sheet total	**3.995.659**	**24.096**	**2.009**	**8.525**	**378.427**	**16.785**	**(161.106)**	**268.736**	**3.726.923**
Total credit risk exposure	**29.842.275**	**806.117**	**617.858**	**1.107.520**	**23.268.881**	**581.619**	**(8.507.381)**	**17.874.614**	**11.967.661**

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Fair value of collateral and credit enhancements held by the Company								
	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	**Net exposure to credit risk**
2012	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 16)	**469.483**	-	-	-	-	-	-	-	**469.483**
Placements with banks	**1.553.587**	-	-	-	-	-	-	-	**1.553.587**
Debt securities at fair value through profit or loss	**12.918**	-	-	-	-	-	-	-	**12.918**
Debt securities classified as available-for-sale and loans and receivables	**1.750.986**	-	-	-	-	-	-	-	**1.750.986**
Derivative financial instruments	**26.785**	1.310	-	-	-	-	-	1.310	**25.475**
Loans and advances to customers	**20.873.053**	1.799.273	317.039	275.976	19.351.997	3.149.948	(5.717.429)	19.176.804	**1.696.249**
Debtors (Note 26)	**2.804**	-	-	-	-	-	-	-	**2.804**
Balances with Group companies	**2.033.776**	-	-	-	-	-	-	-	**2.033.776**
Other assets	**42.371**	-	-	-	-	-	-	-	**42.371**
On-balance sheet total	**26.765.763**	**1.800.583**	**317.039**	**275.976**	**19.351.997**	**3.149.948**	**(5.717.429)**	**19.178.114**	**7.587.649**
Contingent liabilities									
Acceptances and endorsements	**9.746**	-	-	-	-	-	-	-	**9.746**
Guarantees	**1.558.467**	688.336	3.176	354	106.708	10.107	(38.218)	770.463	**788.004**
Commitments									
Documentary credits	**15.879**	-	-	-	-	-	-	-	**15.879**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.517.190**	-	-	-	-	-	-	-	**2.517.190**
Off-balance sheet total	**4.101.282**	**688.336**	**3.176**	**354**	**106.708**	**10.107**	**(38.218)**	**770.463**	**3.330.819**
Total credit risk exposure	**30.867.045**	**2.488.919**	**320.215**	**276.330**	**19.458.705**	**3.160.055**	**(5.755.647)**	**19.948.577**	**10.918.468**

43. Risk management – Credit risk (continued)

Credit risk concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of the shareholders' equity to a single customer group.

In addition to the above, the Company's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

43. Risk management – Credit risk (continued)

Credit risk concentration (continued)

Geographical and industry concentrations of the Company's loans and advances to customers are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**
2013	€000	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
By economic activity									
Trade	2.422.501	-	-	4.867	13.603	14.800	**2.455.771**	**(181.944)**	**2.273.827**
Manufacturing	790.123	-	-	18.867	22.396	-	**831.386**	**(58.722)**	**772.664**
Hotels and catering	1.603.214	-	-	72.344	105.434	-	**1.780.992**	**(110.784)**	**1.670.208**
Construction	4.085.291	-	-	7.376	8.732	-	**4.101.399**	**(381.267)**	**3.720.132**
Real estate	2.846.007	-	11.932	356.391	214.636	107.344	**3.536.310**	**(350.743)**	**3.185.567**
Private individuals	8.030.130	-	-	-	3.645	-	**8.033.775**	**(391.887)**	**7.641.888**
Professional and other services	1.664.951	-	16.357	13.680	68.307	93.891	**1.857.186**	**(179.527)**	**1.677.659**
Other sectors	1.390.680	171.465	27.506	88.050	29.408	8.775	**1.715.884**	**(233.029)**	**1.482.855**
	22.832.897	**171.465**	**55.795**	**561.575**	**466.161**	**224.810**	**24.312.703**	**(1.887.903)**	**22.424.800**
By customer sector									
Corporate	9.829.882	171.465	55.795	316.619	447.414	224.810	**11.045.985**	**(1.032.983)**	**10.013.002**
Small and medium-sized enterprises (SMEs)	5.123.326	-	-	219.316	15.195	-	**5.357.837**	**(503.811)**	**4.854.026**
Retail									
- housing	5.281.181	-	-	8.186	1.767	-	**5.291.134**	**(121.036)**	**5.170.098**
- credit cards	170.552	-	-	-	-	-	**170.552**	**(21.281)**	**149.271**
- consumer and other	2.427.956	-	-	17.454	1.785	-	**2.447.195**	**(208.792)**	**2.238.403**
	22.832.897	**171.465**	**55.795**	**561.575**	**466.161**	**224.810**	**24.312.703**	**(1.887.903)**	**22.424.800**

43. Risk management – Credit risk (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Russia	Romania	Ukraine	**Total**
2012	€000	€000	€000	€000	€000	**€000**
By economic activity						
Trade	1.621.688	1.165.230	-	24.719	-	**2.811.637**
Manufacturing	518.754	1.106.335	-	26.987	-	**1.652.076**
Hotels and catering	914.486	829.297	-	108.365	-	**1.852.148**
Construction	2.419.241	873.308	-	9.311	-	**3.301.860**
Real estate	1.715.884	408.598	17.368	219.028	34.675	**2.395.553**
Private individuals	5.323.545	2.609.941	63.678	42.297	-	**8.039.461**
Professional and other services	1.425.792	394.444	45.750	78.282	91.375	**2.035.643**
Other sectors	932.380	913.321	45.245	12.010	-	**1.902.956**
	14.871.770	**8.300.474**	**172.041**	**520.999**	**126.050**	**23.991.334**
By customer sector						
Corporate	7.082.336	2.818.237	172.041	451.734	126.050	**10.650.398**
Small and medium-sized enterprises (SMEs)	2.276.657	2.730.399	-	26.144	-	**5.033.200**
Retail						
- housing	3.739.869	1.634.264	-	18.739	-	**5.392.872**
- credit cards	120.657	155.727	-	-	-	**276.384**
- consumer and other	1.652.251	961.847	-	24.382	-	**2.638.480**
	14.871.770	**8.300.474**	**172.041**	**520.999**	**126.050**	**23.991.334**

As at 31 December 2012 in Greece, the ‘corporate’ sector and ‘other sectors’ include loans to government-controlled businesses amounting to €252.588 thousand, which according to the European Banking Authority are classified as sovereign debt (Note 47).

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

The following table presents the credit quality of the Company's loans and advances to customers:

	2013			2012
	Gross loans before fair value on initial recognition	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**	Gross loans
	€000	**€000**	**€000**	€000
Neither past due nor impaired	**10.178.004**	**(226.207)**	**9.951.797**	14.918.999
Past due but not impaired	**6.427.927**	**(417.169)**	**6.010.758**	4.906.405
Impaired	**7.706.772**	**(1.244.527)**	**6.462.245**	4.165.930
	24.312.703	**(1.887.903)**	**22.424.800**	23.991.334

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

Fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of Laiki Bank acquisition (Note 22). In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are neither past due nor impaired
The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Company using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	Grade 1	Grade 2	Grade 3	Total
2013	**€000**	**€000**	**€000**	**€000**
Cyprus	5.770.178	1.663.414	2.344.810	**9.778.402**
United Kingdom	195.791	6.652	2.858	**205.301**
Romania	71.500	97.600	24.861	**193.961**
Ukraine	-	-	340	**340**
	6.037.469	**1.767.666**	**2.372.869**	**10.178.004**

2012				
Cyprus	7.249.155	993.674	1.109.152	**9.351.981**
Greece	3.308.864	85.742	1.665.447	**5.060.053**
Romania	403.331	3.523	-	**406.854**
Russia	96.456	93	-	**96.549**
Ukraine	1	-	3.561	**3.562**
	11.057.807	**1.083.032**	**2.778.160**	**14.918.999**

Loans and advances to customers that are neither past due nor impaired (continued)
Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are past due but not impaired

	2013	2012
Past due:	**€000**	€000
- up to 30 days	**744.773**	954.825
- 31 to 90 days	**1.030.687**	1.499.621
- 91 to 180 days	**1.278.814**	730.593
- 181 to 365 days	**2.058.869**	744.735
- over one year	**1.314.784**	976.631
	6.427.927	4.906.405

The fair value of the collateral that the Company holds (to the extent that they mitigate credit risk) in respect of loans and advances to customers that are past due but not impaired as at 31 December 2013 is €4.871.083 thousand (2012: €3.738.825 thousand).

Impaired loans and advances to customers on an individual basis

	2013		2012	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**7.055.199**	**4.068.353**	2.876.783	1.822.899
Greece	**171.465**	**-**	1.175.167	580.938
United Kingdom	**114.658**	**102.964**	-	-
Romania	**248.465**	**119.093**	72.452	48.271
Russia	**15.792**	**9.772**	20.699	14.633
Ukraine	**101.193**	**86.932**	20.829	18.496
	7.706.772	**4.387.114**	4.165.930	2.485.237

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

43. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers

The movement of provisions for impairment of loans and advances to customers is as follows:

	Cyprus	Greece	Other countries	**Total**
2013	€000	€000	€000	**€000**
1 January	1.779.150	1.252.751	86.380	**3.118.281**
Disposal of Greek operations	-	(1.299.300)	-	**(1.299.300)**
Exchange adjustments	1.266	-	(397)	**869**
Applied in writing off impaired loans and advances	(1.816)	(7.767)	(1.522)	**(11.105)**
Interest accrued on impaired loans and advances	(80.565)	(4.887)	(2.465)	**(87.917)**
Collection of loans and advances previously written off	429	-	-	**429**
Charge for the year – continuing operations	842.224	-	87.411	**929.635**
Charge for the year - discontinued operations	-	59.203	-	**59.203**
31 December	**2.540.688**	**-**	**169.407**	**2.710.095**
Individual impairment	**1.883.343**	**-**	**134.071**	**2.017.414**
Collective impairment	**657.345**	**-**	**35.336**	**692.681**

2012				
1 January	648.755	617.512	50.513	**1.316.780**
Conversion of branch to subsidiary	-	-	(16.017)	**(16.017)**
Exchange adjustments	(911)	-	1.153	**242**
Applied in writing off impaired loans and advances	(9.276)	(40.492)	(6.822)	**(56.590)**
Interest accrued on impaired loans and advances	(47.867)	(23.780)	(4.869)	**(76.516)**
Collection of loans and advances previously written off	2.339	-	-	**2.339**
Charge for the year – continuing operations	1.186.110	-	62.422	**1.248.532**
Charge for the year - discontinued operations	-	699.511	-	**699.511**
31 December	**1.779.150**	**1.252.751**	**86.380**	**3.118.281**
Individual impairment	**1.425.027**	**832.732**	**63.031**	**2.320.790**
Collective impairment	**354.123**	**420.019**	**23.349**	**797.491**

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. For example, it has been assumed that where the most recent valuation took place more than 9 months ago, then an indexation factor was used to reach open market values.

43. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers (continued)

The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by the Recoveries Division for more than 2 years and 4 years for loans than have been managed by the Recoveries Division for less than 2 years. For all other loans, the period is 5 years immediately after their classification into non-performing loans.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

Indicatively, if the actual recoverable amount from collateral of impaired loans in Cyprus is lower than the amount estimated as at 31 December 2013 by 5% and 10%, then provisions for impairment of loans and advances would increase by €139.127 thousand and €296.988 thousand respectively. Alternatively, if the collateral value in Cyprus increased by 5% and 10% then the provisions for impairment of loans and advances would decrease by €78.092 thousand and €143.832 thousand respectively.

Collateral and other credit enhancements obtained

The carrying value of assets obtained during the year by taking possession of collateral held as security, was as follows:

	2013	2012
	€000	€000
Residential property	**-**	-
Commercial and other property	**-**	39.387
	-	39.387

The total carrying value of the assets obtained by taking possession of collateral held as security for customer loans and advances and held by the Company as at 31 December 2013 amounted to €212.640 thousand (2012: €65.961 thousand). Included in assets acquired from Laiki Bank (Note 22) are assets amounting to €170.424 thousand which relate to collateral obtained by Laiki Bank prior to the acquisition by the Company.

The repossessed assets are subsequently disposed of and the net proceeds are used to recover the balance due from the customer. Any excess proceeds are either returned to the customer or are credited to the income statement, depending on the underlying agreement with the customers. There were no disposal of repossessed assets during the year 2013 (2012: € nil thousand).

43. Risk management – Credit risk (continued)

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Company. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

Rescheduled loans and advances are those facilities for which the Company has modified the repayment programme (extension of the grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess. Loans repaid by monthly instalments for which the elimination or suspension of maximum two monthly instalments per year is part of the original loan terms or is part of the documented policies of the Company, and accordingly no specific approval is required for the said elimination or suspension, but is up to the borrower's discretion to exercise this right, are not considered as rescheduled loan facilities.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Company reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Rescheduled loans are monitored by the Credit Risk Department. For example, the trends of re-default are closely monitored and analysed in order to identify the drivers for the re-defaults.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than five years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed 3 years.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

43. Risk management – Credit risk (continued)

Forbearance (continued)

Long-term restructuring solutions can include the following:

- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Company in providing a new financing to a distressed borrower.

The below tables present the Company's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

Rescheduled loans and advances to customers

	Cyprus	Greece	United Kingdom	Romania	**Total**
2013	€000	€000	€000	€000	**€000**
1 January	3.394.783	1.356.047	-	52.393	**4.803.223**
Disposal of Greek operations	-	(1.269.633)	-	-	**(1.269.633)**
New loans and advances rescheduled in the year	2.657.226	-	-	62.987	**2.720.213**
Assets no longer rescheduled (including repayments)	(1.126.560)	(86.414)	-	(12.057)	**(1.225.031)**
Applied in writing off rescheduled loans and advances	(11)	-	-	-	**(11)**
Interest accrued on rescheduled loans and advances	214.094	-	-	2.022	**216.116**
Exchange adjustments	(3.886)	-	-	(896)	**(4.782)**
31 December	**5.135.646**	**-**	**-**	**104.449**	**5.240.095**
2012					
1 January	1.843.527	828.670	76.299	55.526	**2.804.022**
New loans and advances rescheduled in the year	1.895.156	1.351.561	-	25.346	**3.272.063**
Assets no longer rescheduled (including repayments)	(540.332)	(829.041)	-	(30.825)	**(1.400.198)**
Applied in writing off rescheduled loans and advances	197.500	3.106	-	2.560	**203.166**
Interest accrued on rescheduled loans and advances	-	-	(76.299)	-	**(76.299)**
Exchange adjustments	(1.068)	1.751	-	(214)	**469**
31 December	**3.394.783**	**1.356.047**	**-**	**52.393**	**4.803.223**

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount on 31 December 2013 of €1.938.114 thousand which were rescheduled prior to the acquisition date (29 March 2013).

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

	Cyprus	Greece	Romania	**Total**
2013	€000	€000	€000	**€000**
Neither past due nor impaired	2.659.066	-	16.585	**2.675.651**
Past due but not impaired	1.428.549	-	7.931	**1.436.480**
Impaired	1.048.031	-	79.933	**1.127.964**
	5.135.646	**-**	**104.449**	**5.240.095**
2012				
Neither past due nor impaired	2.200.463	810.699	22.956	**3.034.118**
Past due but not impaired	773.395	507.340	29.432	**1.310.167**
Impaired	420.925	38.008	5	**458.938**
	3.394.783	**1.356.047**	**52.393**	**4.803.223**

Fair value of collateral

	Cyprus	Greece	Romania	**Total**
2013	€000	€000	€000	**€000**
Neither past due nor impaired	2.290.950	-	14.052	**2.305.002**
Past due but not impaired	1.218.052	-	2.521	**1.220.573**
Impaired	789.767	-	52.768	**842.535**
	4.298.769	**-**	**69.341**	**4.368.110**
2012				
Neither past due nor impaired	1.837.569	568.367	6.516	**2.412.452**
Past due but not impaired	642.094	412.994	3.264	**1.058.352**
Impaired	303.889	29.056	-	**332.945**
	2.783.552	**1.010.417**	**9.780**	**3.803.749**

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

	Cyprus	Romania	**Total**
2013	€000	€000	**€000**
By economic activity			
Trade	454.872	5.762	**460.634**
Manufacturing	186.322	1.116	**187.438**
Hotels and catering	371.577	6.314	**377.891**
Construction	993.812	2.528	**996.340**
Real estate	700.093	68.019	**768.112**
Private individuals	1.815.870	119	**1.815.989**
Professional and other services	379.664	20.441	**400.105**
Other sectors	233.436	150	**233.586**
	5.135.646	**104.449**	**5.240.095**
By customer sector			
Corporate	2.428.050	100.977	**2.529.027**
Small and medium-sized enterprises (SMEs)	937.341	3.353	**940.694**
Retail			
- housing	1.396.739	110	**1.396.849**
- credit cards	382	-	**382**
- consumer and other	373.134	9	**373.143**
	5.135.646	**104.449**	**5.240.095**

43. **Risk management – Credit risk** (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Romania	**Total**
2012	€000	€000	€000	**€000**
By economic activity				
Trade	263.551	74.268	145	**337.964**
Manufacturing	63.668	62.393	384	**126.445**
Hotels and catering	239.384	188.827	971	**429.182**
Construction	937.094	187.167	-	**1.124.261**
Real estate	615.446	82.399	16.755	**714.600**
Private individuals	839.420	530.391	1.821	**1.371.632**
Professional and other services	249.147	105.979	25.094	**380.220**
Other sectors	187.073	124.623	7.223	**318.919**
	3.394.783	**1.356.047**	**52.393**	**4.803.223**
By customer sector				
Corporate	1.995.147	423.939	49.074	**2.468.160**
Small and medium-sized enterprises SMEs)	589.460	377.947	1.498	**968.905**
Retail				
- housing	635.409	396.576	881	**1.032.866**
- credit cards	327	-	-	**327**
- consumer and other	174.440	157.585	940	**332.965**
	3.394.783	**1.356.047**	**52.393**	**4.803.223**

Provision for impairment

	Cyprus	Greece	Romania	**Total**
2013	€000	€000	€000	**€000**
Individual impairment	410.690	-	16.101	**426.791**
Collective impairment	176.223	-	3.032	**179.255**
	586.913	**-**	**19.133**	**606.046**
2012				
Individual impairment	280.682	19.916	5	**300.603**
Collective impairment	98.965	-	-	**98.965**
	379.647	**19.916**	**5**	**399.568**

43. Risk management – Credit risk (continued)

Credit quality of the Company's assets exposed to credit risk other than loans and advances to customers - Analysis by rating agency designation

Balances with central banks and placements with banks

Balances with central banks and placements with banks are analysed by Moody's rating as follows:

	2013	2012
	€000	€000
Aaa – Aa3	**126.655**	630.163
A1 – A3	**458.498**	707.724
Baa1 – Baa3	**39.381**	142.179
Ba1 – Ba3	**2.326**	-
B1 – B3	**121**	363.170
Caa - C	**457.554**	83.645
Unrated	**407.995**	45.242
Other receivable from banks	**33.734**	50.947
	1.526.264	2.023.070

Band Caa-C above includes an amount of €394.255 thousand, which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus. Placements with banks include €278.164 thousand, which were acquired from Laiki Bank (Note 22) and which were considered to be impaired upon acquisition.

Debt securities

Investments in debt securities are analysed by Moody's rating, their issuer and classification, as follows:

	2013	2012
	€000	€000
Aaa – Aa3	**594.752**	869.300
A1 – A3	**5.443**	24.442
Baa1 – Baa3	**52.457**	58.385
Ba1 – Ba3	**49.008**	47.603
B1 – B3	**-**	764.174
Caa - C	**2.593.372**	-
	3.295.032	1.763.904
Issued by:		
- Cyprus government	**2.588.214**	762.899
- other governments	**666.506**	702.093
- banks and other corporations	**40.312**	298.912
	3.295.032	1.763.904
Classified as:		
- investments at fair value through profit or loss	**15.274**	12.918
- available-for-sale investments	**706.518**	999.730
- investments classified as loans and receivables	**2.573.240**	751.256
	3.295.032	1.763.904

No investments listed above are past due or impaired except as described in Note 47.

44. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management Unit is responsible for monitoring compliance with the various market risk policies and procedures.

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. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to calculate the annual impact on net interest income of any changes in interest rates for every currency.

The interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Company. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Company capital and as a percentage of net interest income and are allocated to the various banking units of the Company based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis
The table below sets out the impact on the Company's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euro	**US Dollars**	**British Pounds**	**Other currencies**	**Total**
Change in interest rates	**€000**	**€000**	**€000**	**€000**	**€000**
2013					
+0,5% for all currencies	**8.538**	**2.993**	**(1.927)**	**(429)**	**8.567**
-0,25% for Euro, US Dollars and Japanese Yen, 0% for Swiss Franc and -0,5% for all other currencies	**(4.269)**	**(1.496)**	**1.927**	**(17)**	**(3.448)**
2012					
+1% for all currencies	(11.243)	23.270	1.563	(177)	26.781
-0,25% for Euro, US Dollars and Japanese Yen, -0,1% for Swiss Franc and -0,5% for all other currencies	7.643	(2.793)	(547)	(59)	7.823

44. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)
The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

In addition to the above fluctuations in net interest income, the Company results are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Company is also affected by changes in market interest rates. The impact on the Company's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments including investments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Company's loss before tax and equity (excluding the effect on equity from the impact on loss) as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on loss before tax	**Impact on equity**
Change in interest rates	**€000**	**€000**
2013		
+0,5% for all currencies	**3.549**	**(1.375)**
-0,25% for Euro, US Dollars and Japanese Yen 0% for Swiss Franc and -0,5% for all other currencies	**(1.776)**	**687**
2012		
+1% for all currencies	15.024	(3.361)
-0,25% for Euro, US Dollars and Japanese Yen, -0,1% for Swiss Franc and -0,5% for all other currencies	(3.802)	840

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.

In order to manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for the total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are monitored daily by market risk officers in all the banking units of the Company, who report the overnight foreign currency position of each unit to Market Risk Management daily.

The Company does not maintain a currency trading book.

44. **Risk management – Market risk** (continued)

Currency risk (continued)

The table below sets out the Company's currency risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on historical price fluctuations. The impact on loss after tax and on equity includes the change in net interest income that arises from the change of currency rate and also the impact on results from the open currency position.

	Change in exchange rate	Impact on loss after tax and equity
2013	**%**	**€000**
US Dollar	**+8**	**623**
Russian Rouble	**+8**	**(2.030)**
Romanian Lei	**+8**	**(2.668)**
Ukrainian Hryvnia	**+8**	**1.068**
Swiss Franc	**+8**	**3.333**
British Pounds	**+8**	**2.053**
Japanese Yen	**+15**	**777**
Other currencies	**+8**	**1.390**
US Dollar	**-8**	**(531)**
Russian Rouble	**-20**	**3.890**
Romanian Lei	**-8**	**2.272**
Ukrainian Hryvnia	**-30**	**(2.834)**
Swiss Franc	**-8**	**(2.839)**
British Pounds	**-8**	**(1.749)**
Japanese Yen	**-15**	**(574)**
Other currencies	**-8**	**(1.184)**
2012		
US Dollar	+8	2.506
Russian Rouble	+8	(1.772)
Romanian Lei	+8	(2.215)
Ukrainian Hryvnia	+5	2.520
Swiss Franc	+8	2.616
British Pounds	+8	713
Australian Dollar and Japanese Yen	+10	375
Other currencies	+8	2.493

44. Risk management – Market risk (continued)

Currency risk (continued)

	Change in exchange rate	Impact on loss after tax and equity
2012	%	€000
US Dollar	-8	(2.135)
Russian Rouble	-8	1.509
Romanian Lei	-8	1.887
Ukrainian Hryvnia	-20	(7.979)
Swiss Franc	-8	(2.228)
British Pounds	-8	(607)
Australian Dollar and Japanese Yen	-10	(307)
Other currencies	-8	(2.121)

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity securities in the trading book and other restrictions, such as maximum amount invested in a specific issuer, specific industry, etc.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Company, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Company (if not impaired).

The table below shows the impact on the loss before tax and equity (excluding the effect on equity from the impact on loss) of the Company from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

44. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

	Change in index	Impact on loss before tax	Impact on equity
2013	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+30**	**519**	**3.756**
Athens Exchange	**+25**	**-**	**115**
Moscow Exchange	**+20**	**-**	**71**
Bucharest Stock Exchange	**+20**	**-**	**16.226**
Cyprus Stock Exchange	**-30**	**(2.392)**	**(1.883)**
Athens Exchange	**-25**	**(77)**	**(38)**
Moscow Exchange	**-20**	**-**	**(71)**
Bucharest Stock Exchange	**-20**	**(16.226)**	**-**

2012			
Cyprus Stock Exchange	+50	753	3.913
Athens Exchange	+30	-	301
Bucharest Stock Exchange	+20	-	10.885
Cyprus Stock Exchange	-50	(4.253)	(413)
Athens Exchange	-30	-	(301)
Bucharest Stock Exchange	-20	(10.885)	-

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Company. Debt security prices change as the credit risk of the issuers changes. The Company invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Company as at 31 December 2013 was B3 (2012: Baa1).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Company, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Company (if not impaired).

The table below indicates how the loss before tax and shareholders equity of the Company will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

44. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)

	Impact on loss before tax	Impact on equity
	€000	€000
Change in market prices		
2013		
+7%	**1.050**	**48.960**
-7%	**(1.050)**	**(48.960)**
2012		
+7%	885	69.442
-7%	(885)	(69.442)

45. Risk management – Liquidity risk and funding

Liquidity risk is the risk that the Company is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Company may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

To limit this risk, management aims to achieve diversified funding sources in addition to the Company's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Company has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management structure

Local Treasury centres at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Company level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding the liquidity availability. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Company's liquidity position.

Liquidity is also monitored daily by Market Risk Management ('MRM'). MRM is an independent department responsible to ensure compliance at the level of individual units, as well as at Company level, with both internal policies and the limits set by the regulatory authorities in the countries where the Company operates. MRM reports to ALCO the regulatory liquidity position of the various units and of the Company, at least monthly. It also provides the results of various stress tests to the ALCO.

45. Risk management – Liquidity risk and funding (continued)

Management structure (continued)

The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. The ALCO is responsible for setting the policies for the effective management and monitoring of the liquidity across the Company. It also monitors the liquidity position of its major banking units at least monthly. After the March 2013 events, the ALCO monitors mostly the stock of liquid assets and the cash outflows of the bank in Cyprus, since these are considered to be of utmost importance.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy statement and reviews almost at every meeting the liquidity of the Company. Information on inflows/outflows is also provided.

Restriction on withdrawal of deposits

Following the bail-in, various capital controls have been put in place, that prohibit customers from withdrawing their deposits, even if placed in instant access accounts. There are limits on the maximum cash that can be withdrawn per day. There are also limits on the maximum amount that can be transferred to banks abroad and to other local banks. These limits apply per month and are different for physical and legal persons. Moreover, on the maturity of a fixed deposit, there are limits as to the amount that could be transferred to an instant access account until 24 February 2014 when this measure was abolished.

Monitoring process

Daily
Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Company's activities. MRM prepares a report for submission to the CBC, indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash (both banknote balances, nostro balances and any overnight money market balances). This information is also sent to members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Company.

Weekly
Currently MRM prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC. Group Treasury prepares projections of expected inflows and outflows covering a two months period. Group Treasury prepares and submits a liquidity report to the Board of Directors and EXCO on a weekly basis. Until March 2013 MRM prepared a weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report was submitted to the CBC and then to the European Banking Authority ('EBA').

Monthly
MRM prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Company and submits them to the ALCO. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer. The fixed deposit renewal rates and the actual flows compared to maximum withdrawal limits, given the restrictive measures, are also calculated and presented to ALCO.

Quarterly
Until March 2013, the Board of Directors was informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Company on at least a quarterly basis. Since May 2013, the Board is informed about the liquidity position of the Company on a monthly basis.

As part of the Company's procedures for monitoring and managing liquidity risk, there is a Company funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the Funding Crisis Committee. The plan sets out the members of this Committee and a series of possible actions that can be taken. This plan, as well as the Company's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the CBC.

45. Risk management – Liquidity risk and funding (continued)

Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by MRM and monitored by ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months.

The Company's liquidity ratio was as follows:

	2013	2012
	%	%
31 December	**7,87**	6,76
Average ratio	**7,19**	14,48
Highest ratio	**13,08**	24,93
Lowest ratio	**5,33**	5,23

The minimum liquidity ratios for Cyprus Operations as set by the CBC are 20% for Euro and 70% for foreign currencies.

During 2013, the liquidity ratio remained at low levels due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

The ratio of loans and advances to customer deposits is presented below:

	2013	2012
	%	%
31 December	**154,68**	80,65
Average ratio	**133,87**	85,59
Highest quarter ratio	**155,86**	87,72
Lowest quarter ratio	**80,65**	80,65

Sources of funding

Currently and following the bail-in of the Company's long term debt securities, the Company's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through Emergency Liquidity Assistance.

As a result of further deterioration in the economic conditions at the beginning of 2013 and increased customer deposit outflows, the Company obtained funding from the CBC in February 2013.

The acquisition of certain operations of Laiki Bank by the Company as a result of the agreement between Cyprus and the Eurogroup of 25 March 2013 resulted in an amount of approximately €9,1 billion ELA funding as at the date of acquisition to be assumed by the Company. The Company currently has limited access to interbank and wholesale markets which combined with a reduction in deposits in Cyprus has resulted in increased reliance on central bank funding. As at 31 December 2013, the funding from the ELA amounted to €9,56 billion (Note 28).

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreement. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for repayments. The subsidiaries of the Company, Bank of Cyprus UK Ltd and Bank of Cyprus Channel Islands Ltd cannot place funds with the Company in excess of maximum limits set by the local regulators.

The subsidiaries can proceed with dividend distribution in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

45. Risk management – Liquidity risk and funding (continued)

Sources of funding (continued)

The carrying value of the Company's encumbered assets as at 31 December 2013 and 2012 respectively are summarised below:

	2013	2012
	€000	€000
Cash and other liquid assets	**367.080**	707.749
Other investments	**3.289.810**	853.617
Loans and advances	**15.064.987**	1.830.000
Property	**90.181**	-
	18.812.058	3.391.366

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under CSA and repurchase agreements, and (ii) for trade finance transactions and guarantees issued.

Securities are mainly used as collateral for repurchase transactions, as well as for covered bonds while loans are mainly used as collateral for funding from the Central Bank of Cyprus, and for covered bonds.

Cash and other liquid assets include amounts placed with banks as collateral under ISDA agreements of €221.255 thousand (2012: €388.817 thousand) which are not immediately available for use by the Company, but are released once the transactions are terminated.

Loans and advances indicated as encumbered as at 31 December 2013 are mainly used as collateral for funding from the CBC. As at 31 December 2012 they comprise of loans and advances used as collateral for the two covered bonds issued by the Company and retained by the Company (Note 20).

In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand are pledged as collateral for obtaining funding from CBC (Note 30).

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Company's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets

The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Placements with banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturities).

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial assets (continued)
Investments in debt securities and other financial assets which are considered by the CBC to be eligible as collateral (for the purposes of open market operations for monetary policy) and highly liquid assets that can be accepted as collateral by other banks for the purposes of providing financing, are classified in the first maturity time band at their fair value less haircut (as determined by the CBC) when unencumbered. When encumbered, they are placed in the time band according to when the encumbrance is expected to be terminated. The amounts deducted as haircut are presented in the time band of the maturity of the related asset. All other investments are placed in the relevant time bands according to the number of days remaining from 31 December until their contractual maturity date.

Financial liabilities
All financial liabilities for the repayment of which notice is required, were included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Company expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands, based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits. It should be noted that following the March 2013 events, various restrictions have been imposed on depositors through the various decrees (Note 2). Consequently, the ability of depositors to withdraw deposits, even on the maturity date, is restricted by the provisions of the decrees.

The amounts presented in this table are not equal to the amounts presented on the balance sheet since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivables and payables amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Company after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances at central banks	319.593	85.170	108.383	37.594	-	**550.740**
Placements with banks	498.209	17.203	4.703	444.931	99.608	**1.064.654**
Investments at fair value through profit or loss	11.165	-	-	5.128	680	**16.973**
Loans and advances to customers	6.783.809	911.856	2.218.603	3.756.929	6.043.508	**19.714.705**
Fair value of net settled derivative assets	534	2	1.778	3.019	19.553	**24.886**
Non trading investments	671.584	1.198.964	704.219	429.967	498.801	**3.503.535**
Other assets	143	-	-	-	-	**143**
Intercompany accounts	107.225	45.079	278.730	117.871	566.803	**1.115.708**
Total undiscounted financial assets	**8.392.262**	**2.258.274**	**3.316.416**	**4.795.439**	**7.228.953**	**25.991.344**
Financial liabilities						
Amounts due to banks	114.336	-	-	25.160	-	**139.496**
Funding from central banks	9.956.041	1.000.236	-	-	-	**10.956.277**
Repurchase agreements	13.928	-	-	330.482	249.594	**594.004**
Customer deposits	6.047.162	2.783.342	3.535.014	383.451	-	**12.748.969**
Fair value of net settled derivative liabilities	7.098	24	1.721	22.124	29.256	**60.223**
Other liabilities	65.465	-	-	-	-	**65.465**
Intercompany accounts	144.038	37.680	21.750	375.283	-	**578.751**
Total undiscounted financial liabilities	**16.348.068**	**3.821.282**	**3.558.485**	**1.136.500**	**278.850**	**25.143.185**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2012	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances at central banks	457.759	111.726	65.961	19.808	-	**655.254**
Placements with banks	1.089.476	7.601	240.481	133.316	82.713	**1.553.587**
Investments at fair value through profit or loss	903	-	-	12.918	602	**14.423**
Loans and advances to customers	5.875.467	849.813	2.630.602	5.322.830	6.194.341	**20.873.053**
Fair value of net settled derivative assets	14.059	92	3.647	5.416	3.571	**26.785**
Non trading investments	291.883	99.379	24.540	934.039	464.444	**1.814.285**
Other assets	27.023	-	-	923	1.733	**29.679**
Intercompany accounts	281.114	71.946	220.724	885.165	629.710	**2.088.659**
Total undiscounted financial assets	**8.037.684**	**1.140.557**	**3.185.955**	**7.314.415**	**7.377.114**	**27.055.725**
Financial liabilities						
Amounts due to banks	236.431	19.483	19	915	-	**256.848**
Repurchase agreements	-	-	32.006	355.009	266.964	**653.979**
Customer deposits	15.138.418	6.162.333	4.408.469	368.840	53.295	**26.131.355**
Debt securities in issue	-	-	-	15.389	-	**15.389**
Fair value of net settled derivative liabilities	-	2	4.523	41.853	73.138	**119.516**
Subordinated loan stock	-	-	-	-	148.347	**148.347**
Other liabilities	164.078	3.892	7.005	29.548	778	**205.301**
Intercompany accounts	316.251	36.428	27.317	388.118	627	**768.741**
Total undiscounted financial liabilities	**15.855.178**	**6.222.138**	**4.479.339**	**1.199.672**	**543.149**	**28.299.476**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	294.082	1.027	291	2.179	-	**297.579**
Contractual amounts payable	(295.360)	(1.020)	(291)	(2.116)	-	**(298.787)**
	(1.278)	7	-	63	-	**(1.208)**
Financial liabilities						
Contractual amounts receivable	1.523.551	49.866	20.470	152.866	-	**1.746.753**
Contractual amounts payable	(1.516.711)	(48.760)	(20.033)	(176.668)	-	**(1.762.172)**
	6.840	**1.106**	**437**	**(23.802)**	-	**(15.419)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	12.139	4.086	817	-	-	**17.042**
Guarantees	148.910	66.910	218.630	671.477	120.728	**1.226.655**
Commitments						
Documentary credits	1.645	2.638	6.580	56	-	**10.919**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.644.762	546	7.484	21.569	66.683	**2.741.044**
	2.807.456	**74.180**	**233.511**	**693.102**	**187.411**	**3.995.660**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2012	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	2.749.877	147.622	85.980	6.271	-	**2.989.750**
Contractual amounts payable	(2.735.903)	(146.359)	(85.392)	(6.100)	-	**(2.973.754)**
	13.974	**1.263**	**588**	**171**	-	**15.996**
Financial liabilities						
Contractual amounts receivable	3.105.174	72.218	28.227	213.981	-	**3.419.600**
Contractual amounts payable	(3.139.982)	(75.815)	(28.651)	(230.657)	-	**(3.475.105)**
	(34.808)	**(3.597)**	**(424)**	**(16.676)**	-	**(55.505)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	-	4.007	5.695	44	-	**9.746**
Guarantees	56.394	42.760	303.572	347.253	808.488	**1.558.467**
Commitments						
Documentary credits	-	2.752	5.467	7.437	223	**15.879**
Undrawn formal standby facilities, credit lines and other commitments to lend	1.698.055	796.477	20.795	1.712	151	**2.517.190**
	1.754.449	**845.996**	**335.529**	**356.446**	**808.862**	**4.101.282**

46. Risk management – Other risks

Operational risk

Operational risk arises from inadequate or failed internal process, people (e.g. internal fraud) systems and external events (e.g. external fraud and natural disasters). It includes legal risk and excludes strategic or reputational risk or other risks leading to indirect losses or opportunity costs.

The Company recognises that the control of operational risk is concerned with good management practices. To that effect, the overall Company strategy is geared towards risk prevention, as well as, the adequacy of capital charges. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Company are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Company's management at all levels in relation to the operational risk profile on Company, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Company's franchise and have minimal impact on the Company's profitability and corporate objectives. During 2013, an enterprise-wide Operational Risk Management software was implemented to streamline and further automate operational risk management activities.

The operational risk management framework adopted by the Company is based on the three lines of defence model, governance and risk ownership structure, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the internal audit function and the Audit Committee of the Board of Directors which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Company.

Year 2013 was extremely challenging from an operational risk management perspective due to the occurrence of several events, which gave rise to a number of important operational risk drivers. These risk drivers impinged upon a wide spectrum of the Company's operations.

More specifically, following the Eurogroup decisions in March 2013, IT-related operational risks emerged due to the complexity and tight deadlines faced in the process of the timely and effective application of IT systems in relation to the Decrees issued by the Resolution Authority for the bail-in of deposits and the capital controls. These risks did not materialise in any loss incidents. Several operational risks have emerged on the day-to-day operations of the Company due to the absorption of the operations of Laiki Bank in Cyprus and in relation to the process of integrating the IT systems and procedures of the Company with those of ex Laiki Bank. Operational Risk Management is monitoring and assessing the potential risks and measures are taken to control and mitigate them.

Risks relating to the potential loss of significant human capital and valuable executives of the Company arose due to the process of downsizing of the Company and the Voluntary Retirement Scheme that had been offered to employees, which was completed in August 2013. This risk did not materialise and was effectively controlled by appropriate organisational restructuring.

During the year, a number of regulatory changes were put in effect. From these new regulations emanate demands for new software and procedures development that give rise to operational risks related to data integrity and data aggregation for non-compliance with new regulatory provisions. Group Operational Risk is involved in the management of these risks as a matter of priority in collaboration with other control functions, such as Group Compliance.

Operational risk loss events are classified and recorded in the Company's internal loss database to enable risk identification, corrective action and statistical analysis. In 2013, 246 loss events with gross loss over €1.000 were recorded (2012: 343).

The Company aims to increase awareness of its employees on operational risk issues through ongoing staff training.

46. Risk management – Other risks (continued)

Operational risk (continued)

The Company also has insurance policies to cover unexpected operational losses through a number of insurers and reinsurers.

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the Company operates to ensure continuity and timely recovery after a catastrophic event.

Regulatory risk

The Company's operations in Cyprus and overseas, are supervised by the Central Bank of Cyprus. In carrying out its supervisory duties, the CBC follows, inter alia, the European Union's underlying legal framework as well as closely observing and monitoring ongoing developments and emerging risks and appropriately adjusting its monitoring and regulatory procedures and operations. The overseas branches of the Company are similarly supervised by the corresponding regulatory authorities in the countries where they operate.

The continuing and increasing regulatory obligations imposed on the Company may have both positive as well as adverse impact on its operations. Basel III has been adopted by the EU through the revised Directive for Capital Requirements (CRD IV). The revised Directive has come into effect on 1 January 2014 and provides for a phasing period, during which the new rules will be gradually applied.

Intensity of competition

The Company faces intense competition in the markets in which it operates. In Cyprus the competition primarily originates from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The Company's competitive position in Cyprus was drastically altered by the events described in Note 2. Following the acquisition of certain operations of Laiki Bank, the Company's market share in loans and deposits in Cyprus was significantly boosted, even though depositor psychology led to substantial deposit outflows from the Cyprus banking system. In this sense, the Company was rendered the biggest and most systemically important local banking organisation in Cyprus.

The accession of Cyprus to the EU and the introduction of the Euro in 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Company, may create pressure on Company profitability.

Litigation risk

The Company may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Company (Note 38) and in the event that legal issues are not properly dealt with by the Company, resulting in the cancellation of contracts with customers thus exposing the Company to legal actions against it.

Political risk

External factors which are beyond the control of the Company, such as political developments and government actions in Cyprus, Greece, the EU and other countries may adversely affect the operations of the Company, its strategy and prospects. As described in Note 2, during March 2013 the Republic of Cyprus and the Eurogroup reached an agreement on the package of measures intended to restore the viability of the financial sector and sound public finance over the coming years which had a material impact on the Company's financial standing and prospects. Other important political risk factors include government intervention on the Company's activities and social developments in the countries in which the Company operates, political developments in the Eurozone which might lead to a Euro exit of a Eurozone member state, the ongoing unresolved political issue of the Turkish occupied areas, and political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas.

46. Risk management – Other risks (continued)

Political risk (continued)

Given the above, the Company recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Company's activities, operating results and position.

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Furthermore, between 1 January 2014 and 27 March 214, the Ukrainian Hryvnia devalued to major currencies and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much higher credit conditions where credit is available.

47. Sovereign exposure

The Company's sovereign exposure and non-sovereign exposure in countries which have entered or have applied to the European Support Mechanism or whose Moody's credit rating is below Aa1 and the total Company exposure exceeds €100.000 thousand, is presented below. These counties are: Cyprus, Greece, Ireland, Italy, Russia, Romania, Ukraine, Portugal and Spain. No information is disclosed for Ireland as at 31 December 2013 since Ireland exited the European Mechanism during 2013.

The Company had no exposure to Greek government bonds as at 31 December 2013 or 31 December 2012. The sovereign exposure to the other countries, other than Cyprus, was not considered to be impaired as at 31 December 2013 and 31 December 2012, despite the financial difficulties of these countries, as the situation is not severe enough to impact the future cash flows of these countries' sovereign securities, except in relation to exchanged Cyprus government bonds as described below.

Cyprus Government Bonds (CyGBs)
In June 2013, the Republic of Cyprus offered to exchange a number of existing government bonds with a total nominal value of €1 billion, which matured during the economic adjustment programme period (March 2013 - March 2016), with five new bonds with corresponding equal coupon rates (on a series-by-series basis) and 5-10 year maturities. The Company accepted the above offer and participated in the exchange with bonds of total nominal value of €180.000 thousand. The exchange constituted a modification of terms, rather than resulting in the derecognition of the CyGBs being exchanged.

For the CyGBs offered for exchange, there is objective evidence of impairment, as in addition to other indicators (i.e. financial difficulties of the issuer, downgrades and decline in the fair value), there is a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, during the year 2013, the Company has recognised impairment losses of €6.927 thousand relating to the exchanged bonds.

The CyGBs held by the Company that were not subject to the offer for exchange as at 30 June 2013 are not considered as impaired as at 31 December 2013, for the following reasons:

- There has not been any breach of contract or delinquency in interest of principal payments.
- Although the issuer has financial difficulties, this is sufficiently mitigated by the fact that Cyprus has entered into an economic adjustment programme.
- The economic adjustment programme is progressing as planned and the terms of the MoU are being fulfilled.
- Cyprus is expected to be able to return to markets and raise necessary financing by the end of the economic adjustment programme.

Credit risk
The Company's sovereign exposure includes government bonds and other assets owned by governmental, semi-governmental, local authorities and other organisations in which the state holds more than 50%.

47. Sovereign exposure (continued)

Credit risk (continued)

The Company's exposure to sovereign debt securities and other assets in the countries above is analysed below:

	Cyprus	**Greece**	**Italy**	**Russia**	**Romania**	**Ukraine**
2013	€000	€000	€000	€000	€000	€000
Deposits with central banks	455.915	-	-	-	5.695	-
Placements with banks	30.073	5.469	428	67.920	222.308	-
Investments in sovereign debt securities						
- available-for-sale	-	-	52.211	-	-	-
- loans and receivables	2.572.940	-	-	-	-	-
- fair value through profit or loss	15.274	-	-	-	-	-
Investments in debt securities of banks and other corporations						
- available-for-sale	4.858	-	-	-	-	-
- loans and receivables	300	-	-	-	-	-
Loans and advances to customers (before provisions)	21.057.253	96.582	-	55.795	456.718	218.646
Total on balance sheet	**24.136.613**	**102.051**	**52.639**	**123.715**	**684.721**	**218.646**
Contingent liabilities	908.524	335.073	-	-	100	-
Commitments	2.748.596	-	-	-	3.366	-
Total off balance sheet	**3.657.120**	**335.073**	**-**	**-**	**3.466**	**-**
Total exposure to credit risk	**27.793.733**	**437.124**	**52.639**	**123.715**	**688.187**	**218.646**

47. Sovereign exposure (continued)

Credit risk (continued)

	Cyprus	**Greece**	**Ireland**	**Italy**	**Russia**	**Romania**	**Ukraine**
2012	€000	€000	€000	€000	€000	€000	€000
Deposits with central banks	363.170	82.459	-	-	-	23.855	-
Placements with banks	48.179	4.882	-	7.071	79.957	34.989	-
Investments in sovereign debt securities							
- available-for-sale	-	-	47.602	51.536	-	6.603	-
- loans and receivables	749.981	-	-	-	-	-	-
- fair value through profit or loss	12.918	-	-	-	-	-	-
Investments in debt securities of banks and other corporations							
- loans and receivables	1.275	-	-	-	-	-	-
Loans and advances to customers (before provisions)	14.871.770	8.300.474	-	-	172.041	520.999	126.050
Derivative financial assets	259	-	-	-	-	-	-
Total on balance sheet	**16.047.552**	**8.387.815**	**47.602**	**58.607**	**251.998**	**586.446**	**126.050**
Contingent liabilities	808.188	757.992	-	-	-	2.033	-
Commitments	1.705.856	805.897	-	-	-	21.316	-
Total off balance sheet	**2.514.044**	**1.563.889**	**-**	**-**	**-**	**23.349**	**-**
Total exposure to credit risk	**18.561.596**	**9.951.704**	**47.602**	**58.607**	**251.998**	**609.795**	**126.050**

Loans and advances to customers for Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank (Note 43).

On 31 December 2013 the revaluation reserve of available-for-sale investments includes losses amounting to €5.851 thousand (2012: €10.822 thousand) relating to the above sovereign debt securities and losses amounting to €142 thousand (2012: €359 thousand) relating to debt securities of banks and other corporations.

47. Sovereign exposure (continued)

Credit risk (continued)
The analysis of loans and advances to customers for the countries above is set out in Note 43.

In Cyprus, loans and advances to customers include loans to local authorities, semi-governmental organisations and government-controlled businesses of €139.733 thousand (2012: €118.000 thousand). In addition, contingent liabilities and commitments include an amount of €56.389 thousand for these entities (2012: €25.502 thousand). At 31 December 2012, loans and advances to customers in Greece included loans of €118.025 thousand which are secured by Greek government guarantees. There were no loans secured by Greek government guarantees at 31 December 2013.

Liquidity risk
The table below presents the Company's sovereign debt securities exposure to countries which have entered or have applied to the European Support Mechanism (Greece, Ireland, Portugal, Spain and Cyprus), based on the remaining contractual maturity of the financial assets.

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2013	€000	€000	€000	€000	€000	**€000**
Cyprus						
- loans and receivables	-	199.003	1.749.757	327.267	296.913	**2.572.940**
- at fair value through profit or loss	-	-	-	15.274	-	**15.274**
	-	**199.003**	**1.749.757**	**342.541**	**296.913**	**2.588.214**

2012						
Cyprus						
- loans and receivables	-	99.377	12.607	510.974	127.023	**749.981**
- at fair value through profit or loss	-	-	-	12.918	-	**12.918**
	-	**99.377**	**12.607**	**523.892**	**127.023**	**762.899**

Ireland						
-available-for-sale	**-**	**-**	**-**	**-**	**47.602**	**47.602**

The Cyprus Government Bond of carrying value €1,6 billion is due on 1 July 2014 an has unilateral roll-over option by the Cyprus Government up to July 2017.

As at 31 December 2013 and 31 December 2012, the Company had no sovereign debt securities exposure to Spain, Portugal or Greece.

48. Capital management

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus through its Directive for the Calculation of the Capital Requirements and Large Exposures.

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

In July 2011, the CBC amended its Directive for capital requirements, introducing a new ratio for Core Tier 1 capital. The minimum level of the new ratio was set at 8% for the period until 30 December 2012. After that date, the minimum level of the ratio increased gradually based on the percentage of Group assets over the gross domestic product of the Republic of Cyprus. The Directive has also set the minimum level of Tier 1 capital as the minimum level of Core Tier 1 ratio plus 1,5%. In addition, it has set the minimum total capital ratio as the Tier 1 ratio plus 2,0%. As a result, the minimum required ratios for Tier 1 and total capital as at 31 December 2012 were 10,2% and 12,2%, respectively. The minimum Core Tier 1, Tier 1 and total capital ratios throughout the period and until 30 December 2013 were set at 8,7%, 10,2%, 12,2% respectively. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio from 8% to 9% and the minimum requirements for Tier 1 and total capital ratios have been abolished.

As at 31 December 2013 the Company complies with the minimum capital requirements.

As from 1 January 2014, the new Capital Requirement Regulations (CRR) and amended Capital Requirement Directive IV (CRD IV) became effective. The CBC is assessing the transitional provisions relating to Common Equity Tier 1 deductions and filters. On the basis of that assessment, the CBC will define the minimum capital requirements taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

In addition, the CBC may also impose additional capital requirements for risks which are not covered by the above mentioned capital requirements (Pillar II adds-ons).

The Company's overseas branches comply with the regulatory capital requirements of the local regulators in the countries in which they operate.

48. Capital management (continued)

The capital adequacy ratios of the Company at 31 December are presented below:

	2013	2012
Regulatory capital	**€000**	€000
Core original own funds (core Tier 1)	**1.858.907**	(969.914)
Original own funds (Tier 1)	**1.858.907**	(538.097)
Additional own funds (Tier 2)	**-**	-
Carrying value of insurance companies	**-**	(22.803)
Total regulatory capital	**1.858.907**	(560.900)
Risk weighted assets – credit risk	**18.985.313**	16.743.855
Risk weighted assets – market risk	**3.400**	2.783
Risk weighted assets – operational risk	**1.665.813**	1.884.781
Total risk weighted assets	**20.654.526**	18.631.419
	%	%
Core tier 1 ratio	**9,0**	(5,2)
Tier 1 ratio	**9,0**	(2,9)
Tier 2 ratio	**-**	-
Total capital ratio	**9,0**	(3,0)

Minimum ratios per the Central Bank of Cyprus Directive		
Core tier 1 ratio	**9,0**	8,7
Tier 1 ratio	**n/a**	10,2
Total capital ratio	**n/a**	12,2

On 25 March 2013, the Cyprus Government and the Eurogroup reached an agreement for a financial assistance facility of up to €10 billion, which is conditional upon the implementation of an extensive programme of policy reforms. The Eurogroup agreement provided that the Company would be recapitalised through a bail-in of its uninsured depositors and the absorption of losses by its shareholders and bondholders.

The Company was under resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with the decrees issued by the CBC in its capacity as Resolution Authority, in accordance with the Resolution of Credit Institutions and Other Institutions Law of 2013.

The total capital during the year ended 31 December 2013 was positively affected the recapitalisation (Note 33) and negatively affected by the losses for the year. The recapitalisation was implemented via the bail-in of uninsured depositors (through the conversion of 47,5% of uninsured deposits and structured products into equity) and the conversion of debt security holders into equity holders.

The regulatory capital as at 31 December 2013 includes 'Shares subject to interim orders' (Note 33) which amounted to €58.922 thousand.

49. Related party transactions

	2013	2012	**2013**	2012
	Number of directors		**€000**	€000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Company's net assets per director	**-**	1	**-**	9.893
- less than 1% of the Company's net assets per director	**15**	16	**302**	23.356
	15	17	**302**	33.249
Loans and advances to other key management personnel and connected persons			**3.448**	832
Total loans and advances as at 31 December			**3.750**	34.081
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**3.224**	5.028
- connected persons			**526**	29.053
			3.750	34.081
Interest income for the year			**929**	9.511

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**1.881**	19.260
- connected persons			**36.536**	21.948
			38.417	41.208
Interest expense on deposits for the year			**1.115**	3.452

Debt securities in issue, subordinated loan stock and CECS:				
- members of the Board of Directors and other key management personnel			**-**	56
- connected persons			**-**	2
			-	58

The above table does not include year end balances for members of the Board of Directors and their connected persons who resigned during the year.

49. **Related party transactions** (continued)

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €231 thousand (2012: €16.124 thousand). As at 31 December 2013 there were no directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the Company per director (2012: €13.813 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €743 thousand (2012: €77 thousand). The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 December 2013 amounted to €1.439 thousand (2012: €4.191 thousand).

Transactions with connected persons of the Directors who resigned during 2013

During 2013 the Company also had the following transactions with connected persons: purchases of equipment and services amounting to €1 thousand (2012: €274 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous holds an indirect interest; purchases of equipment amounting to €89 thousand (2012: €513 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the Director Mr Elias Neocleous is a partner amounted to €14 thousand (2012: 324 thousand).

In addition, the Company had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr Andreas Poetis is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr Philippos Mannaris is a partner.

During 2012, immovable property amounting to €185 thousand was acquired by a company that is being influenced by connected persons of Mr Vassilis G. Rologis.

Connected persons include spouses, minor children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Company's employees.

49. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	2013	2012
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**452**	1.191
Termination benefits	**84**	-
Employer's contributions	**27**	77
Retirement benefit plan costs	**31**	134
	594	1.402
Non-executives		
Fees	**324**	534
Emoluments of a non-executive director who is also an employee of the Company	**100**	151
Total directors' emoluments	**1.018**	2.087
Other key management personnel emoluments		
Salaries and other short term benefits	**921**	584
Termination benefits	**667**	-
Employer's contributions	**82**	44
Retirement benefit plan costs	**114**	65
Total other key management personnel emoluments	**1.784**	693
Total	**2.802**	2.780

Fees and emoluments of executive directors

The salaries and other short term benefits of the executive directors are analysed as follows:

	2013	2012
	€000	€000
Andreas Eliades (resigned on 10 July 2012)	**-**	315
Yiannis Pehlivanidis (resigned on 29 March 2013)	**104**	488
Yiannis Kypri (resigned on 29 March 2013)	**127**	388
Dinos Christofides – Special Administrator (25 March 2013 to 21 June 2013)	**20**	-
Christos Sorotos – Interim Chief Executive Officer (29 May 2013 to 10 September 2013)	**60**	-
John Patrick Hourican - Chief Executive Officer (appointed on 1 November 2013)	**141**	-
	452	1.191

For the years 2012 and 2013 no bonus has been recommended or paid for the executive directors.

The termination benefits of the executive directors relate to payments to an executive director who left the Company on 29 March 2013. The termination benefits include notice period paid in accordance with his employment contract.

The retirement benefit plan costs for 2013 amounting to €31 thousand related to Mr John Patrick Hourican €18 thousand and Mr Yiannis Kypri €13 thousand. The retirement benefit plan costs for 2012 amounting to €134 thousand related to Mr Andreas Eliades €51 thousand, Mr Yiannis Pehlivanidis €30 thousand and Mr Yiannis Kypri €53 thousand.

49. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees of non-executive directors

	2013	2012
	€000	€000
Andreas Artemis	**20**	75
Evdokimos Xenophontos	**15**	39
Theodoros Aristodemou	**-**	82
Vassilis G. Rologis	**5**	28
Costas Z. Severis	**6**	29
Chistakis G. Christofides	**-**	10
Anna Diogenous	**4**	27
George M. Georgiades	**1**	35
Andreas J. Jacovides	**-**	20
Christos Mouskis	**-**	31
Manthos Mavrommatis	**-**	29
Costas Hadjipapas	**13**	26
Nikolas P. Tsakos	**1**	23
Stavros J. Constantinides	**2**	32
Irene Karamanou	**5**	25
Elias Neocleous	**4**	15
Symeon Matsis	**4**	8
Takis Arapoglou	**7**	-
Sophocles Michaelides	**25**	-
Erol Riza	**19**	-
Constantinos Damtsas	**9**	-
Takis Taousianis	**11**	-
Lenia Georgiadou	**8**	-
Philippos Mannaris	**9**	-
Lambros Papadopoulos	**8**	-
Andreas Persianis	**6**	-
Andreas Poetis	**7**	-
Panikos Pouros	**12**	-
Savvakis Savvides	**8**	-
Georgios Theocharides	**7**	-
Michalis Zannetides	**7**	-
Christis Hassapis	**21**	-
Vladimir Strzhalkovskiy	**16**	-
Anjelica Anshakova	**6**	-
Dmitry Chichikashvili	**5**	-
Marinos Gialeli	**6**	-
Marios Kalochoritis	**5**	-
Konstantinos Katsaros	**6**	-
Eriskhan Kurazov	**4**	-
Adonis Papaconstantinou	**5**	-
Anton Smetanin	**4**	-
Xanthos Vrachas	**6**	-
Marios Yiannas	**5**	-
Andreas Yiasemides	**6**	-
Ioannis Zographakis	**6**	-
	324	534

49. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees of non-executive directors (continued)
The fees of the non-executive directors include fees as members of the Board of Directors of the Company as well as of committees of the Board of Directors.

Mr Costas Hadjipapas, who is an employee of the Company, was also a non-executive director (resigned from the Board of directors on October 2013), had emoluments for 2013 up to the date of resignation, amounting to €81 thousand (2012: €123 thousand). Employer's contributions amounted to €8 thousand (2012: €11 thousand) and the retirement benefit plan cost amounted to €11 thousand (2012: €17 thousand).

Emoluments of other key management personnel
The other key management personnel emoluments include the emoluments of the Senior Group Executive Management up to 29 March 2013 and the remuneration of the Executive Committee since the date of their appointment as members of the Executive Committee.

The termination benefits relate to payments to four key management personnel who left during 2013. The termination benefits include notice period paid in accordance with their employment contracts and voluntary retirement compensation.

For the year 2012 and 2013 no bonus was recommended or paid for other key management personnel.

50. Events after the reporting date

50.1 Disposal of Company's Ukrainian business

On 31 January 2014 the Company reached an agreement to sell its subsidiary PJSC Bank of Cyprus, the funding provided by the Company to PJSC Bank of Cyprus, and its loans with Ukrainian exposures, to ABH Ukraine Limited, a member of the Alfa Group. The sale is subject to approvals from the relevant regulatory authorities in Cyprus and Ukraine.

The sale consideration is €225.000 thousand, subject to adjustments made upon completion. The impact in the Group's capital is estimated to be approximately €49.000 thousand of 0,2% negative on the Group's Core Tier 1 ratio.

The accounting loss from the sale is approximately €126.000 thousand and represents the difference of the consideration received and the carrying value of the disposal group held for sale at 31 December 2013, as well as the unwinding of the related foreign currency reserves of €41.000 thousand.

50.2 Release of the six-month time deposits

On 31 January 2014 the Company after witnessing improved liquidity positions and the stabilizing signs of its deposit base released the six-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013 and matured on 31 January 2014. The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

50.3 Transfer of business of Laiki Factors Ltd to the Company

In 2014, the Company decided the transfer of the operations and the assets and liabilities of its subsidiary company Laiki Factors Ltd to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership, of the subsidiary.

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Independent Auditor's Report to the members of Bank of Cyprus Public Company Ltd

Report on the Financial Statements

We have audited the financial statements of parent company Bank of Cyprus Public Company Ltd (the "Company") on pages 195 to 329, which comprise the balance sheet as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 about 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 entity's preparation of financial statements that give a 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of 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.

Basis for qualified opinion

As discussed in note 3.2.2 to the financial statements of parent company Bank of Cyprus Public Company Ltd, in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority, the Company when accounting for its recapitalisation was not able to measure the shares issued at their fair value as required by International Financial Reporting Standards ('IFRS') relating to extinguishment of financial liabilities due to the specific conditions and uncertainties that existed at the time of the transaction. Had the Company been able to apply the requirements of IFRS and measure the shares issued at their fair value it would recognise any difference with the carrying amount of the liabilities extinguished in profit or loss.

Furthermore, as described in note 22 to the financial statements relating to the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Company Ltd ('Laiki Bank'), pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, the Company was not able to establish a reliable fair value of the shares issued and has therefore determined the value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired, for which a reliable fair value could be established.

Due to the nature of the above mentioned transactions and the circumstances that existed at the date these transactions took place, we were unable to obtain sufficient and appropriate audit evidence to conclude on the reliability of the measurement of the value of the shares issued at the time of these transactions and on any adjustments to the Company's income statement that could have been determined to be necessary because of the adopted treatments. The Company's equity and financial position are not affected by the above accounting treatments.

Qualified opinion

In our opinion, except for the matter described in the first paragraph under the "Basis for qualified opinion" above and any adjustments that could have been determined to be necessary had we been able to satisfy ourselves as to the fair value of the shares issued for the Group's recapitalisation through a bail-in of uninsured deposits and debt securities and for the consideration transferred for the Laiki Bank acquisition, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Emphasis of matter

We draw your attention to note 4.1 'Going concern' to the financial statements of parent company Bank of Cyprus Public Company Ltd which indicates the significant judgments, estimates and assumptions used in the preparation of the financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 17 is consistent with the financial statements.

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Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 March 2014

Annual Corporate Governance Report 2013

Bank of Cyprus Group

Introduction

In September 2012 the Cyprus Stock Exchange (CSE) issued the 3rd Edition (Amended) of the Corporate Governance Code (the 'Code'). Listed companies have an obligation to include in their Annual Report a Report by the Board of Directors on Corporate Governance. In the first part of the Report, companies should report whether they comply with the Code and the extent to which they implement its principles. In the second part of the Report, companies should confirm that they have complied with the Code provisions and in the event that they have not, should give adequate explanations.

Part A

As a company listed on the CSE, Bank of Cyprus Public Company Ltd ('the Bank' or 'the Company') has adopted the CSE Code and applies its principles.

Part B

The Company complies with the provisions of the CSE Code. There were some exceptions during 2013 and these are noted in the sections that follow.

The following sections contain, among other, information and declarations in relation to the implementation of the provisions of the Code.

1. Board of Directors

1.1 The role of the Board of Directors

The primary role of the Board of Directors is to provide entrepreneurial leadership of the Bank of Cyprus Group ('the Group') within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board of Directors sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The authorities of the members of the Board of Directors are specified by the Articles of Association of the Company and by Legislation. The Board of Directors may issue share capital if there is sufficient authorised share capital and as long as the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares are not offered to existing shareholders, the approval of the shareholders in General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

1.2 Composition of the Board of Directors

As at 31 December 2013, the Board of Directors comprised 15 members (as listed below), specifically the non-executive Chairman, Mr Christis Hassapis, the non-executive Vice-Chairman, Mr Vladimir Stzrhalkovskiy, another 12 non-executive Directors and one executive Director.

The roles of the Chairman and the Chief Executive Officer are exercised by separate individuals.
<u>Board of Directors as at 1 January 2013</u>

Andreas Artemis (Chairman)
Evdokimos Xenophontos (Vice-Chairman)
Takis Arapoglou

Vassilis G Rologis
Costas Z Severis
Anna Diogenous
George M Georgiades
Symeon Matsis
Elias Neocleous
Panicos Pouros
Costas Hadjipapas
Takis Taoushanis
Nikolas P Tsakos
Stavros J Constantinides
Irene Karamanou
Yiannis Kypri
Yiannis Pehlivanides

On 10 January 2013 Messrs George M Georgiades and Nikolas P Tsakos resigned from the Board of Directors. Mr Stavros J Constantinides resigned from the Board of Directors on 31 January 2013.

Following the Eurogroup meetings that took place on 16 March 2013 and 25 March 2013, the Central Bank of Cyprus, in its capacity as Resolution Authority, decided on 25 March 2013 to place Bank of Cyprus under Resolution in order to implement resolution measures in accordance with the Resolution of Credit and Other Institutions Law of 2013. Furthermore, on the same day the Central Bank of Cyprus appointed Mr Dinos Christofides as Special Administrator to implement the restructuring of the Bank. The Special Administrator and the Central Bank of Cyprus, in its capacity as Resolution Authority, took over the powers of the shareholders, the Board of Directors and the executive management of the Company, pursuant to the provisions of the Resolution of Credit and Other Institutions Law of 2013.

The Board of Directors of the Company collectively resigned on 29 March 2013. The CEO, Mr Yiannis Kypri, and Deputy CEO, Mr Yiannis Pehlivanides, also resigned from their executive positions.

<u>Interim Board of Directors appointed on 26 April 2013</u>

On 26 April 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, appointed an Interim Board of Directors (as listed below), in accordance with the requirements of the Memorandum of Understanding (MOU) agreed between the Republic of Cyprus and the Troika. As per the MOU, the Interim Board's appointment would be effective until the Company's shareholders are organised in a General Meeting. On 30 April 2013 the Board of Directors elected Messrs Sophocles Michaelides and Erol Riza as Chairman and Vice–Chairman respectively.

Sophocles Michaelides (Chairman)
Erol Riza (Vice–Chairman)
Takis Arapoglou (from 10/5/2013 and up to 2/7/2013)
Constantinos Damtsas
Lenia Georgiadou
Costas Hadjipapas
Philippos Mannaris
Lambros Papadopoulos
Andreas Persianis
Andreas Poetis
Panicos Pouros
Savvakis Savvides
Takis Taoushanis
George Theocharides
Michalis Zannetides

On 29 May 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, appointed Mr Christos Sorotos as Interim Chief Executive Officer and executive member of the Board of Directors following a recommendation of the Interim Board of Directors of the Company.

On 30 May 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, terminated the powers of the Special Administrator. The non-executive duties previously exercised by the Special Administrator were transferred to the Interim Board of Directors and the executive duties of the Special Administrator were transferred to the Interim Chief Executive Officer. The Bank remained under Resolution, in accordance with the Resolution of Credit and Other Institutions Law of 2013, and the Central Bank of Cyprus, in its capacity as Resolution Authority, retained all its powers as described above.

On 30 July 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, issued decrees pursuant to the Resolution of Credit and Other Institutions Law of 2013, through which it completed the recapitalisation of the Company through the bail-in of depositors (a deposit-to-equity conversion). On the same day, the Central Bank of Cyprus, in its capacity as Resolution Authority, notified the Company that it was no longer under resolution. Consequently, the shareholders' rights were reinstated as of that date. The Company issued notice to its shareholders on 8 August 2013 that a shareholders' Annual General Meeting would be convened on 10 September 2013.

Board of Directors appointed on 10 September 2013

On 10 September 2013 the shareholders of the Company elected a new Board of Directors as follows:

Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialeli
Costas Hadjipapas (up to 10/10/2013)
Christis Hassapis
Marios Kalochoritis
Konstantinos Katsaros
Eriskhan Kurazov
Igor Lojevsky (up to 22/10/2013)
Adonis Papaconstantinou
Anton Smetanin
Vladimir Strzhalkovskiy
Xanthos Vrachas
Marios Yiannas
Andreas Yiasemides
Ioannis Zographakis

Following the Annual General Meeting, the Board of Directors convened a meeting in which Messrs Christis Hassapis and Vladimir Strzhalkovskiy were elected as Chairman and Vice-Chairman, respectively.

Messrs Costas Hadjipapas and Igor Lojevsky resigned from the Board of Directors on 10 October 2013 and 22 October respectively. Mr John Patrick Hourican was appointed as an executive member of the Board of Directors on 26 November 2013.

1.2.1 Independence

Provision A.2.3 of the Code requires that at least 50% of the Board of Directors, excluding the Chairman, be independent non-executive Directors.

Board of Directors as at the date of this Report

The Board of Directors considers the following Directors to be independent as at the date of this Report thereby satisfying provision A.2.3 of the Code.

Christis Hassapis (Chairman)
Vladimir Strzhalkovskiy (Vice–Chairman)
Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialeli
Marios Kalochoritis
Konstantinos Katsaros
Eriskhan Kurazov
Anton Smetanin
Xanthos Vrachas
Marios Yiannas
Ioannis Zographakis

It is noted that provision A.2.3 was not satisfied prior to the appointment of the Interim Board of Directors. The previous Board of Directors had proceeded with actions in order to enhance the number of independent Directors on the Board. In this respect it had appointed four new independent Directors during 2012. These efforts continued during 2013 with the Board announcing two additional appointments (both independent Directors) on 28 February 2013 which were subject to Central Bank of Cyprus approval. The Eurogroup events of mid March followed and the approval of the Central Bank of Cyprus had not been granted by that time.

1.3 Senior Independent Director

On 10 October 2013 the Board of Directors appointed Mr Konstantinos Katsaros as Senior Independent Director. The Senior Independent Director is available to shareholders if they have concerns that are not resolved through normal communication channels. It is noted that following the resignation of the former Senior Independent Director, Mr Manthos Mavrommatis, and up to the appointment of Mr Konstantinos Katsaros the Company did not have a Senior Independent Director.

1.4 Meetings of the Board of Directors

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2013, 68 Board meetings were held due to the unprecedented and especially challenging events and circumstances prevailing during this period of time. The main areas of focus for the Board were the preparation of the Bank's strategy and Restructuring Plan, liquidity and arrears management, the recapitalisation of the Bank and the implementation of the various decrees issued by the Resolution Authority, improvement of the risk management framework, the smooth integration of ex-Laiki Bank and the general improvement of operational efficiency through branch rationalisation and the implementation of voluntary retirement schemes.

The attendance of the members of the Board of Directors for 2013 is presented in the following tables.

Board of Directors 1/1/2013 – 29/3/2013

Name	Board of Directors	Audit Committee	Remuneration Committee	Nomination & Corporate Governance Committee	Risk Committee
Andreas Artemis	16/16			-	0/1
Vassilis G Rologis	16/16			-	
Costas Z Severis	16/16	1/1			1/1
Evdokimos Xenophontos	16/16				

Name	Board of Directors	Audit Committee	Remuneration Committee	Nomination & Corporate Governance Committee	Risk Committee
Anna Diogenous	15/16			-	
George M Georgiades (up to 10/1)	0/1				
Costas Hadjipapas	13/16				1/1
Nikolas P Tsakos (up to 10/1)	1/1				
Stavros J Constantinides (up to 31/1)	3/3	1/1	-		
Irene Karamanou	14/16	1/1			1/1
Elias Neocleous	4/16				
Symeon Matsis	14/16				
Yiannis Kypri	16/16				
Yiannis Pehlivanides	13/16				
Takis Taoushanis	16/16				
Panicos Pouros	16/16				
Takis Arapoglou	12/16				
Total meetings	***16***	***1***	***-***	***-***	***1***

Special Administrator and Interim Board of Directors 29/3/2013 – 10/9/2013

Name	Board of Directors	Audit Committee	Remuneration Committee	Nomination & Corporate Governance Committee	Risk Committee
Dinos Christofides (29/3 – 30/5)	8/8	-	-	-	-
Sophocles Michaelides (Chairman)	35/35			5/9	
Erol Riza (Vice–Chairman)	32/35	2/2			7/7
Takis Arapoglou (10/5 - 2/7)	10/14			2/2	2/2
Constantinos Damtsas	35/35	9/12	6/6		
Lenia Georgiadou	34/35	15/15	6/6		
Costas Hadjipapas	33/35				
Philippos Mannaris	31/35	9/15		9/9	6/7
Lambros Papadopoulos	29/35	15/15		8/9	
Andreas Persianis	28/35			5/9	5/7
Andreas Poetis	28/35	13/15	3/6		
Panicos Pouros	34/35		4/6		5/5
Savvakis Savvides	34/35		4/6	9/9	7/7
Takis Taoushanis	33/35			9/9	
George Theocharides	31/35	15/15	2/5		
Michalis Zannetides	33/35			9/9	
Chistos Sorotos (29/5 – 10/9)	20/22				3/3
Total meetings	***43***	***15***	***6***	***9***	***7***

Board of Directors 10/9/2013 – 31/12/2013

Name	Board of Directors	Audit Committee	Remuneration Committee & Human Resources	Nomination & Corporate Governance Committee	Risk Committee
Christis Hassapis (Chairman)	9/9			3/3	
Vladimir Strzhalkovskiy (Vice–Chairman)	9/9				4/4
Anjelica Anshakova	7/9	1/10			2/4
Dmitry Chichikashvili	5/9				2/4
Marinos Gialeli	8/9	3/4		2/3	5/5
Costas Hadjipapas (up to 10/10)	3/4			0/1	
Marios Kalochoritis	8/9		4/4	2/3	
Konstantinos Katsaros	9/9	9/9		2/3	
Eriskhan Kurazov	3/9				0/1
Igor Lojevsky (up to 22/10)	1/5				
Adonis Papaconstantinou	8/9		4/4		
Anton Smetanin	5/9				
Xanthos Vrachas	9/9	7/8			4/5
Marios Yiannas	9/9		4/4	3/3	
Andreas Yiasemides	8/9	9/10		2/2	
Ioannis Zographakis	9/9	10/10			5/5
John Patrick Hourican	2/2				
Total meetings	***9***	***10***	***4***	***3***	***5***

On 31 January 2014 the Board appointed Mr Panayiotis Agapiou as Company Secretary, following the resignation of Mr Phivos Zomenis from the position of Company Secretary.

All Directors have access to the advice and services of the Company Secretary. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

1.5 Board Renewal

The rules regarding the composition of the Board of Directors and the appointment and rotation of its members are defined in the Articles of Association of the Bank as follows:

- The number of Directors shall not be less than ten nor more than eighteen.
- At the first and every subsequent Annual General Meeting of the Company one-third of the Directors, or if their number is not three or a multiple of three, then the nearest number to one third, shall retire from office.
- The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall, unless they otherwise agree among themselves, be determined by lot.
- A retiring Director shall be eligible for re-election.
- No person other than a Director retiring at the Meeting shall unless recommended by the Directors be eligible for election to the office of Director at any General Meeting unless not less than six nor more than twenty-one days before the date appointed for the Meeting there shall be left at the registered office of the Company notice in writing, signed by a member duly qualified to attend and vote at the Meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.
- The Directors shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

In accordance with the Articles of Association of the Company, one third of the Directors shall retire from office at an Annual General Meeting and the Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day, those to retire shall, unless they otherwise agree among themselves, be determined by lot (the "Rotation Decision"). A Rotation Decision as to the identity of the Directors to be retiring at the upcoming Annual General Meeting of the Company has not been taken to this date but shall be taken or made not later than the giving of Notice for the said Annual General Meeting and be announced (including the provision of CVs of those offering themselves for re-election) accordingly.

2. Members of the Board of Directors

The curriculum vitae of the all the members of the Board of Directors as at the date of this Report, are provided below.

2.1 Non-executive Directors

Christis Hassapis (Chairman)

He was born in 1959. He has a Bachelor's degree in Mechanical Engineering from the George Washington University and a Master's and a PhD degree in Economics from Boston College, USA. He is a professor at the Department of Economics, School of Economics and Management, of the University of Cyprus, since 1993, and he teaches "Banking and Financial Markets", "Money and Banking" and "Economics", among others. His research interests are in the areas of Banking, International Finance and Macroeconomics. His research publications include, among others, papers on the Exchange Risk and Excess Returns in the European Monetary System, on the Relationship between Output, Money and Interest Rates, on the links between Growth and Stock Price Changes, on the transmition of Stock Market Fluctuations to Output, on Borrowing Constraints and Portfolio Choice, on the relationship between Financial Variables and Real Activity and on the Convergence and Variability of Money and Capital Markets. He has participated in more than 25 international conferences on Finance and Economics and co-organised several international conferences on issues including Saving, Portfolios and Pensions, Household Saving and Portfolios in Developed and Emerging Markets, Applied Business and Economics and Multinational Finance. He has served, among others, as an elected member of the Board of the University of Cyprus, as a member of the University of Cyprus Senate, as Vice Dean for the School of Economics and Management, as a member of the Academic Council of the Economics Research Centre, as a member of the Research Centre for Banking and Finance, as the Chairman of the Board of UCy Voice Radio Station, as a Member of the Cyprus Council for the Recognition of Higher Education Qualifications for Economics, as a Member of the Board of Diogenis Business Incubator and as a member on numerous Board committees, such as the Internal Audit Committee, the Finance and Tenders Board Committee, the Development Planning Committee, and many others.

Vladimir Strzhalkovskiy (Vice-Chairman)

He was born in 1954. He has a PhD degree in Economics, specialty "Applied Mathematics", from Leningrad Institute of Electronic Engineering of V.I. Lenin, in 1977.

He has held the position of Deputy Minister of the Ministry of Economic Development of the Russian Federation for four years (July 2000 – November 2004), Chairman of the Executive Board of the World Tourism Organisation (2003 - 2004), Head of the Federal Agency Tourism Organisation (November 2004 – August 2008), member of the Board of Director of the company INTER RAO Ues (June 2011 – June 2013) and he also served as CEO - Chairman of the Management Board (August 2008 – December 2012)and Vice President (December 2012 – June 2013) of the Mining and Metallurgical Company.

Anjelica Anshakova

She was born in 1970. She graduated from Kiev State University of Economics with a major in banking (Diploma with honours). She is a member of the Association of Chartered Certified Accountants (ACCA) since 1998. Moreover, she obtained certification from the Chartered Institute of Management Accountants (CIMA) in 2002.

She worked in the Kiev and Moscow offices of international consulting company Arthur Andersen for 8 years. After the merger of Arthur Andersen with Ernst & Young, Ms Anshakova continued her career in the subdivision responsible for bank audit and consulting. In 2003 she worked for the "Promsvyazcapital" Group in various positions including executive director of "Promsvyazcapital". She then joined a leading printing and publishing house in Moscow region before becoming a director of JSC "Link Capital" in 2006. She is a member of the Board of directors and the Head of the Audit Committee of JSC BINBNANK (Moscow, Russia).

Dmitry Chichikashvili

He was born in 1966. He graduated from the Department of Banking and Insurance at the Financial Academy (Moscow, Russia, 1995 – 1996) with a major in Economics in Banking and Insurance Business, and from Tbilisi State Medical University, (1984 – 1990), with a major in the Faculty of Medicine (Doctor).

After a successful start in the banking sector, first at GUTA BANK (Commercial Bank, Moscow, as First Deputy Chairman (May 1993 – July 1996), and then at INKOR BANK (Commercial Bank, Moscow, Russia) as Chairman (July 1996 – May 1997), he developed and formed his own businesses, initially under the name of "Energogarant Capital Story" (investments in real estate). He is currently serving as Chairman of the "Insigma" group of companies (primarily involved in the construction and development of real estate). In cooperation with leading consultants and investment companies more than 20 sizeable Class "A" projects have been completed or are under construction, such as apartment towers "Glade Plaza", "Gentry" and "George Plaza", business centres "Wave Tower", "Bakhrushina House" and the residential/office/retail complex "Italian Quarter" in Moscow (Russia) and a hotel/retail complex in central Tbilisi (Georgia).

Marinos Gialeli

He was born in 1968. He holds a B.A in Management – Finance from the East Strasbourg University (USA) and an MBA in Investments from the Fairleigh Dickinson University (USA). He has worked for "Lieber and Weissman Securities LLC" in New York, "CLR Financial Services Ltd" and "Harvest Financial Services Ltd".

He has been working for the Hotel Employees Provident Fund since 2004 and he is responsible for the General Management of the Fund. His competences are, among others, the management and administration of the daily operations and matters related to the Fund and the introduction and supervision of the procedures application by supporting the decisions of the Management Committee of the Fund. In respect of the investments of the Fund, he is responsible for the monitoring of the portfolio, making recommendations to the Management Committee concerning the investment policy and coordinating the investing operations after obtaining directions from the Management Committee. He participates and coordinates the meetings of the Management Committee.

Marios Kalochoritis

Marios Kalochoritis was born in 1973. He holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University. He is a Financial Executive with experience in investment banking, hedge fund management, private equity, wealth management and as a Chief Financial Officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations.

He has recently moved to Dubai from Cyprus to set up a family office for an industrialist family as Head of Investments, after spending five and half years in Cyprus where, as the Managing Director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was Senior Vice President for Credit Suisse Bank in Zurich and he was heading business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the Chief Financial Officer for Amana Group in Dubai, a major regional construction group. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he analysed and made investments in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan bank in New York and McKinsey & Co in Athens.

Konstantinos Katsaros

He was born in 1977. He graduated with excellence from the Law School of Aristotle University of Thessaloniki in 1999, having received a scholarship from the State Scholarship Foundation. He received a scholarship and a diploma for the postgraduate seminar course in maritime law of Tulane University, New Orlean's, USA & the University of the Aegean. He completed his postgraduate studies in History, Philosophy and Sociology of Law (LLM) at the Aristotle University of Thessaloniki. He is currently a PhD candidate in the department of Law School of the Aristotle University.

He has worked as an investment broker / advisor in Guardian Trust Securities S.A. and Vorioelladiki Securities S.A., until his entry to the Thessaloniki Bar Association in 2002. He obtained a licence as a certified consultant from ADEX in May 2001. He was a co-founding partner of the advertising company Friktoria Ltd from 2000 to 2007, which created major innovative marketing tools in the fields of classified marketing, targeting students and lawyers, and acted as its representative to UACCNG. In his career as an independent lawyer, he has offered his services as legal advisor to numerous companies. He has also offered his services as a member of the scientific committee of the Bar's official magazine.

Since 2009, when he contributed to the preparation of the new constitutional charter of the Church of Cyprus, he has been the legal advisor of the Holy Archbishopric of Cyprus and head of the legal activities of its legal entities (Archbishopric, parishes, partnerships, companies, foundations and other financial entities), gaining significant experience in various sectors of its financial (amongst them the banking sector) and other activities. He is a member of the Nicosia Bar Association since 2012. From February 2012 until September 2013 he has been the non-executive Chairman of the Board of Directors of LOGOS Information and Cultural LLP and its representative in many forums. He is the secretary of Tarseion Foundation. He is also teaches as a visiting professor at the Department of Law of the University of Nicosia in the fields of Commercial and Company Law, and he has authored scientific articles and has lectured in scientific conferences.

Eriskhan Kurazov

Eriskhan Kurazov was born in 1977. In 2001 he obtained a Masters of Economics from the Russian University of People's Friendship and at the same University he became a Specialist in Law in 2005 and a Lawyer in 2007.

He has served as a Deputy Head of Division at B&N Bank from 2003 to 2004 and from 2004 to 2007 as a Financial Director at CJSC "Association" Grand". From 2008 to today Mr Kurazov has progressed from Deputy General Director, to General Director at the CJSC "Smart Finance Group" to his current position as a General Manager at the CJSC "SP" Eurasia M4. He is also a member of the Board of Directors at: "Dekmos" (Joint Stock Company), "BIN-Insurance" LLC, CJSC "Service Reestr" and the Audit Committee at B&N Bank (Joint-Stock Company). In addition, Mr Kurazov serves as an Executive Director of Tomilino Logistic LLC, Head of Branch of Indwell Limited, Head of Branch of Seicento Limited and Head of Branch of Megalead Limited.

Adonis Papaconstantinou

He was born in 1953. He graduated with honours in 1977 from London University (Queen Mary College) where he studied Computer Science. He is also a graduate (1996) of Columbia University's (New York) Senior Executive program. From 1977 until 2003 he was employed by NCR Corporation (a U.S.A. multinational Information Technology organisation) specialising in banking, retail and data warehousing systems. During his tenure with NCR Corporation he assumed a number of management positions culminating to the position of Vice President and Area Managing Director for NCR Corporation's Middle East and Africa region, an organisation with Headquarters in Nicosia – Cyprus. The region consisted of 55 countries and employed around 1000 people. He also was the Chairman of the Board for NCR (Cyprus) Ltd, NCR (IRI) Ltd, NCR (North Africa) Ltd as well as Chairman of the NCR (Cyprus) Ltd Provident Fund Committee.

In 2003 he co-founded Bartercard (Cyprus) Ltd, the Cyprus Licensee of Bartercard International, an Australian Trade Exchange Organisation with presence in various countries. He is the Managing Director of Bartercard (Cyprus) Ltd. He holds the following professional qualifications: Fellow of the British Computer Society since 1988, Chartered Engineer at the Engineering Council since 1993, Chartered Fellow of the British Computer Society since 2004 and member of the Cyprus Computer Society since inception.

Anton Smetanin

He was born in 1984. In 2007 he graduated from the Law Faculty of Lomonosov Moscow State University with a Diploma in Law.

From 2007 to 2011 he worked as a Lawyer at GSL Law and Consulting LLC, in Moscow, Russia. From 2011 to 2012 he served as a member of the Board of Directors at Bank of Moscow. From 2011 to date he is self-employed, practicing in private law, mainly dealing with legal advice and support, representing clients' interests in various major deals in the fields of M&A, capital raising for project financing, bank loan raising, real estate acquisition etc. He also represents clients' interests in different stages of arbitration proceedings as well as in the courts of general trial jurisdiction.

Xanthos Vrachas

He was born in 1979. He holds an MBA from Harvard Business School, a BSc from Georgetown University, and is a Certified Public Accountant (CPA). He is the Chief Financial Officer and Chief Investment Officer of Universal Life, a life and health insurance group. Prior to assuming his current position, he worked as an investment banker in the Corporate Finance and Restructuring team at Merrill Lynch in London. Previously, he was an auditor with Deloitte & Touche in the United States.

Marios Yiannas

He was born in 1978. He graduated from the London School of Economics and Political Science with a BSc in Actuarial Science (First Class Honours). He is a Fellow of the UK Institute and Faculty of Actuaries (FIA).

He is a founder and Director of Cronje & Yiannas Actuaries and Consultants Ltd. He has advised pension funds and insurance companies across Europe and the Middle East for more than 12 years on investments and governance. He has also advised local and multinational companies on general human resource and governance matters. He trained and qualified as a consulting actuary with Towers Watson in London in the area of pensions and investments.

He holds the following qualifications: Fellow of the Institute and Faculty of Actuaries in the UK (FIA), Fellow (FCAA) and member of the Executive Council of the Cyprus Association of Actuaries, Member of the International Actuarial Association, and Member of the UK Institute of Directors.

Andreas Yiasemides

He was born in 1976. He graduated from the University of Manchester in the UK in 1999 with a first class honours BA degree in Economics with specialisation in Accounting, Finance and Econometrics. He worked with PricewaterhouseCoopers in Nicosia in the financial services audit department as senior associate between 1999 and 2003, having financial institutions in his portfolio. He is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and a holder of an audit practising certificate.

From 2003 till March 2013, he was employed with the Bank of Cyprus Group. He held various positions including those of Head of Cyprus Leasing for Attica region in Greece, Head of Corporate Unit in Bank of Cyprus Romania, member of Credit Review team of the Group Internal Audit department and officer of the Group Credit Risk Policy Department. He was also the Head of Custody and Trust department of the Bank of Cyprus.

Since March 2013, he is Principal in Fiduserve Fund Services, a company providing registration and administration of funds of various countries including Cyprus, Malta, Luxembourg and other jurisdictions. He is a founding member of Cyprus Investment Fund Association (CIFA).

Ioannis Zographakis

He was born in 1963. He holds a Bachelor's degree in Civil Engineering from Imperial College in London and an MBA from Carnegie Mellon University in the USA. He is a senior executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations.

He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he was the Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In his four years as CEO of SLC, he managed to almost triple the earnings and the stock price of the company, outperforming the markets. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and UK Retail Bank Head. Deciding to move closer to home in 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested.

He has been a Director for the Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece.

2.2 Executive Directors

John Patrick Hourican (CEO)

He was born in 1970. He served as Chief Executive of The Royal Bank of Scotland Group's ("RBS") Investment Bank (Markets & International Banking) from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as Chief Financial Officer of ABN AMRO Group and as a Member of its Managing Board.

He joined RBS in 1997 as a Leveraged Finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's board as Finance Director and Chief Operating Officer. He also ran the bank's Leverage Finance business in Europe and Asia.

Mr. Hourican started his career at Price Waterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

3. Board Committees

Specific responsibilities have been delegated to Committees of the Board of Directors. The Terms of Reference of the Committees are based on the relevant provisions of the CSE Code and the relevant Directive of the Central Bank of Cyprus (where applicable).

Both the Interim Board of Directors appointed on 26 April 2013 and the Board of Directors elected on 10 September 2013 set up Board Committees in accordance with the relevant requirements of the Code (except for the participation of the Chief Executive Officer in the Risk Committee of the Interim Board of Directors which was agreed with the Central Bank of Cyprus). Information about each of these Committees is provided in sections 3.1 to 3.4 below. Furthermore, both Boards established additional Committees to further assist them in carrying out their role, especially given the challenging and unprecedented circumstances prevailing during 2013. Information about these additional Committees is provided in section 3.5 below.

3.1 Audit Committee

The Audit Committee considers and makes recommendations to the Board on matters relating to the review and assessment of inter-alia, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group Internal Audit Function. The Committee also considers and makes recommendations to the Board on compliance issues based on the reports prepared by the Group Compliance Function.

The Audit Committee held 26 meetings during 2013.

3.1.1 Audit Committee appointed by the Board of Directors elected on 10/9/2013

The Group Audit Committee which was appointed on 10 September 2013 held ten meetings during 2013.

Audit Committee members	Scheduled meetings: 10
Ioannis Zographakis	10/10
Anjelica Anshakova	1/10
Konstantinos Katsaros *	9/9
Xanthos Vrachas **	7/8
Andreas Yiasemides	9/10
Marinos Gialeli***	3/4

* Appointed 27/09/2013
** Appointed 10/10/2013
*** Appointed 29/10/2013

<u>The Committee's Role</u>

The role of the Audit Committee is fundamental to ensuring the financial integrity and accuracy of the Bank's financial reporting. Good, open relationships between the Committee, Finance Director, Chief Risk Officer, the Group Internal Audit and Compliance Functions and the external auditors, are essential to adding value to the organisation. This is encouraged by holding management to account for the implementation of all audit recommendations (internal and external); inviting appropriate business heads to meetings to explain how they are delivering their agreed actions for which they are responsible. As well as providing assurance within the governance and accountability structures of Bank of Cyprus, it is essential that the Committee contributes, delivers results and adds value to the Group.

The key areas of focus for the Committee in 2013 were as follows:

- Review and monitoring the appropriateness and completeness of the published financial statements and formal announcements
- Examination of the internal audit process to ensure satisfaction with the quality and coverage of the work performed by Group Internal Audit
- Approval of the audit plan of the Group Internal Audit Function and Compliance Function for 2014
- Focus on the root causes of control failure and weaknesses
- Review of outstanding audit issues and ensured that these were addressed by management
- Review of major compliance issues

- Review of the adequacy of the provisioning policy

The priorities of the Audit Committee for 2014 are to:

- Ensure that the Committee is exercising its assurance oversight role in the best possible way
- Monitor changes in the external regulatory environment to make sure that the Bank continues to have appropriate financial, compliance and internal controls in place
- Review all publications of financial statements and make appropriate recommendations to the Board on their integrity, completeness and appropriateness
- Consider the findings of reports relating to the identification of the causes of breaches in controls or breakdown in processes
- Assess the independence of the external auditors and Internal Audit Function
- Review the effectiveness of Audit Committees at subsidiaries
- Ensure that critical roles and accountability are clearly communicated across the Bank
- Continue to scrutinise key accounting judgements
- Assess the effectiveness of the Internal Audit Function and review the adequacy of the resources and skills that exist within the Internal Audit and Compliance Functions given the current regulatory environment

Financial Reporting

The Committee has discussed the key areas of judgement in the Group's financial reporting with the external auditors, Ernst & Young. Particular areas for discussion have been loan provisioning and impairment policies, goodwill impairment, fair value of assets acquired from ex-Laiki, recoverability of funding provided to Legacy Laiki and its subsidiaries and the classification and valuation of the investment in Marfin Diversified Strategy Fund. The Committee is satisfied that is has considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.

Since its appointment, the Committee has reviewed and monitored the appropriateness and completeness of the published financial statements and circulars to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements and estimates made by the Group.

The Committee has considered management's recommendations in respect of provisions for bad and doubtful debts and any other provisioning for losses and charges as reported in the Group's financial statements. It also considered management's assessment in determining that the going concern basis for preparing those financial statements continues to be appropriate.

Control Environment

The Committee's activities included the consideration of reports submitted by the Group Internal Audit and Compliance Functions. Management's responses to Group Internal Audit's findings and recommendations were reviewed and monitored. The monthly findings reports issued by the Directors of Internal Audit and Compliance enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time. Areas of focus during 2013 have been Anti-Money Laundering and KYC procedures, procurement processes, data quality and provisioning policies. The Committee has also reviewed important investigations carried out in 2012 and 2013 by the Director of Internal Audit and has asked management to seek legal advice.

Group Internal Audit and Group Compliance

The Committee reviewed and approved the annual plans of the Group Internal Audit and Compliance Functions and the monitoring of subsequent actions. The Committee's merit also includes the consideration of the appointment, resignation or removal of the Head of Internal Audit.

3.1.2 Audit Committee prior to the election of the Board on 10 September2013

The members of the Audit Committee during 2013 and up to election of the current Board of Directors on 10 September 2103 were as follows:

<u>Board up to 29 March 2013</u>
Stavros J Constantinides (Chairperson) – up to 31/1/2013
Costas Z Severis
Irini Karamanou
George M Georgiades - up to 10/1/2013

<u>Interim Board</u>
Lambros Papadopoulos (Chairperson)
Constantinos Damtsas - for 12/15 meetings
Lenia Georgiadou
Philippos Mannaris
Andreas Poetis
Erol Riza – for 2/15 meetings
George Theocharides

The Committee did not satisfy the requirements of the Code in relation to its composition for part of 2013 following the resignations of Board members that had previously taken place. The Board of Directors had proceeded with actions in order to enhance the number of independent Directors on the Board. In this respect it had appointed four new independent Directors during the year 2012. These efforts continued during 2013 with the Board announcing two additional appointments (both independent Directors) on 28 February 2013 which were subject to Central Bank of Cyprus approval. The Eurogroup events of mid March followed and the approval of the Central Bank of Cyprus had not been granted by that time.

The issues examined by the Audit Committees during 2013 and up to the election of the Board on 10 September 2013 included the following:

- Review of audit reports and internal control issues
- Review of the annual report of the Group Internal Audit Function and major pending audit issues
- Review of reports prepared in relation to the implementation of the various decrees issued by the Resolution Authority
- Consideration of major compliance issues and reports submitted to it by the Compliance Function
- Staffing issues for the Group Internal Audit and Compliance Functions
- Review of the Compliance and AML Action Plans
- Review of the Audit Plan for 2013

3.1.3 Internal and external audit independence

The Group Internal Audit and Compliance Functions report directly to the Board of Directors through the Audit Committee. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Bank.

The objectivity and independence of the external auditors is safeguarded through monitoring of their relationship with the Group by the Audit Committee, including the monitoring of the balance between audit and auxiliary non-audit services. The external auditors have confirmed their objectivity and independence in writing to the Group. In addition, the external auditors do not provide internal audit services to the Group.

3.2 Remuneration and Human Resources Committee

The members of the Remuneration and Human Resources Committee as at the date of this Report are:

Marios Yiannas (Chairperson)
Marinos Gialeli - from 31/1/2014
Marios Kalochoritis
Konstantinos Katsaros – from 31/1/2014
Adonis Papaconstantinou
Andreas Yiasemides – from 28/2/2014

The members of the Remuneration Committee during 2013 were as follows:

Board up to 29 March 2013
Stavros J Constantinides - up to 31/1/2013

Interim Board (Remuneration Committee)
Lenia Georgiadou (Chairperson)
Constantinos Damtsas
Andreas Poetis
Panicos Pouros
Savvakis Savvides
George Theocharides – for 5/6 meetings

Board elected on 10 September 2013 (Remuneration and HR Committee)
Marios Yiannas (Chairperson)
Marios Kalochoritis
Adonis Papaconstantinou

The Committee did not satisfy the requirements of the Code in relation to its composition for part of 2013 following the resignations of Board members that had previously taken place. The Board of Directors had proceeded with actions in order to enhance the number of independent Directors on the Board. In this respect it had appointed four new independent Directors during the year 2012. These efforts continued during 2013 with the Board announcing two additional appointments (both independent Directors) on 28 February 2013 which were subject to Central Bank of Cyprus approval. The Eurogroup events of mid March followed and the approval of the Central Bank of Cyprus had not been granted by that time.

The Remuneration Committee held ten meetings during 2013. This included one joint meeting with the Human Resources Committee during the term of the Interim Board. The Committee considers and makes recommendations to the Board on matters relating to the remuneration of executive and non-executive Directors and senior executive management, as well as the overall Group Remuneration Policy. In addition, in accordance with Appendix 1 of the Code, the Committee prepares the annual Board of Directors' Remuneration Report which is ratified by the Board of Directors and submitted to the shareholders' Annual General Meeting. The Board of Directors Remuneration Report for the year 2013 (which was approved by the Board of Directors on 27 March 2014) is included in section 4 of this Report.

The Committee mainly focused on issues related to actions aiming to contain the on-going remuneration cost of the Group and the drafting of the remuneration packages and service contracts of the Chief Executive Officers that were appointed during 2013.

The Committee reviewed non-executive Director remuneration and recommended to the Board of Directors a reduction of 20% for the Chairman, the Vice-Chairman and the other non-executive members of the Board of Directors. The recommendation was approved by the General Meeting of the shareholders on 10 September 2013.

The Committee also considered the remuneration packages and service contracts of both the Interim Chief Executive Officer (Interim Board) and the new Chief Executive Officer (Board elected on 10 September 2013) and recommended their approval to the Board of Directors.

The Committee also recommended to the Board of Directors the cancellation of any bonuses given to management and staff, the cancellation or decrease of allowances given, the application of new terms in relation to fringe benefits with the aim of further contributing to cost cutting efforts.

The Committee also considered significant personnel issues connected with the impact of the voluntary retirement scheme and the integration of the operations of ex-Laiki Bank. The issues, among others, included the need to fill in important vacant positions, organisational structure, salary structure and the collective agreement with the Employees' Union (ETYK).

3.3 Nominations and Corporate Governance Committee

The members of the Nominations and Corporate Governance Committee as at the date of this Report are:

Christis Hassapis (Chairperson)
Marios Kalochoritis
Adonis Papaconstantinou – from 27/11/2013
Marios Yiannas
Andreas Yiasemides

The members of the Nominations and Corporate Governance Committee during 2013 were as follows:

<u>Board up to 29 March 2013</u>
Anna Diogenous (Chairperson)
Andreas Artemis
Vassilis G Rologis

<u>Interim Board</u>
Takis Taoushanis (Chairperson)
Takis Arapoglou – for 2/9 meetings
Philippos Mannaris
Sophocles Michaelides
Lambros Papadopoulos
Andreas Persianis
Savvakis Savvides
Michalis Zannetides

<u>Board elected on 10 September 2013</u>
Christis Hassapis (Chairperson)
Marinos Gialeli
Costas Hadjipapas – for 1/3 meetings
Marios Kalochoritis
Konstantinos Katsaros
Marios Yiannas
Andreas Yiasemides – for 2/3 meetings

In relation to the period up to 29 March 2013, although the Committee satisfied the composition requirements of the Code, following the resignations of Board members that had taken place during 2012, from September 2012 onwards all nominations were examined directly by the Board of Directors.

During 2013, the Nominations and Corporate Governance Committee held 12 meetings. The Committee makes recommendations to the Board for the appointment of new Directors in order to fill vacant positions on the Board, taking into consideration relevant factors and criteria. The Committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board. The Committee is responsible for the formulation of the succession plans of the Board. Additionally, the Committee has general responsibility for the application of corporate governance principles by the Group.

The Interim Nominations and Corporate Governance Committee was involved in the process for the selection of the Interim Chief Executive Officer. The Committee submitted its recommendations to the Board of Directors for approval. The Committee also considered the staffing needs in key positions.

During 2013, the Committee assessed the structure, size and composition of the Board, the independence of its members and reported accordingly to the Board of Directors. The Committee also recommended changes in the composition of subsidiary Boards and Board Committees. The Committee also submitted the Annual Corporate Governance Report for 2012 to the Board of Directors for approval.

3.4 Risk Committee

The members of the Risk Committee as at the date of this Report are:

Vladimir Strzhalkovskiy (Chairperson)
Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialeli
Xanthos Vrachas
Ioannis Zographakis

The members of the Risk Committee during 2013 were as follows:

Board up to 29 March 2013
Costas Z Severis (Chairperson)
George M Georgiades – up to 10/1/2013
Andreas Artemis
Costas Hadjipapas
Nikolas P Tsakos – up to 10/1/2013
Irini Karamanou

Interim Board
Erol Riza (Chairperson)
Takis Arapoglou – for 2/7 meetings
Philippos Mannaris
Andreas Persianis
Panicos Pouros – for 5/7 meetings
Savvakis Savvides
Christos Sorotos – for 3/7 meetings

Board elected on 10 September 2013
Vladimir Strzhalkovskiy (Chairperson) – for 4/5 meetings
Anjelica Anshakova – for 4/5 meetings
Dmitry Chichikashvili – for 4/5 meetings
Marinos Gialeli
Eriskhan Kurazov – for 1/5 meetings
Ioannis Zographakis
Xanthos Vrachas

During 2013, the Risk Committee held 13 meetings. The Committee examines, inter-alia, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters.

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 46 to 49 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the Annual Financial Report.

The Group faced significant challenges during 2013 due to the difficult environment prevailing following the decisions of the Eurogroup in March 2013. This is reflected in the matters examined by the Risk Committee and on the focus it gave to the key risks being faced by the Group. Key areas of focus for the Committee during 2013 were liquidity management, arrears management and the improvement of the risk management framework while taking into account new regulatory developments. Furthermore, the Committee made recommendations for the enhancement of the framework of the reporting to the Committee in order to facilitate its oversight role over risk management.

The Committee addressed significant risk management policy issues and submitted its recommendations to the Board for approval. Such areas included the risk appetite statement, restructuring policy, arrears management strategy and detailed implementation plan, loan sanctioning authorities and write-off limits. These policies were reviewed and revised taking into account the new operating and regulatory environment in which the Bank operates.

At the beginning of the year the Risk Committee reviewed the activity review reports for the previous year and action plans for 2013 for all the Divisions reporting to it (Market Risk, Credit Risk, Operational Risk and Group IT System Security Division). The Committee was also informed about the risk management systems being implemented by the various units reporting to the Committee and the plans for their enhancement.

3.5 Other Committees

Other Committees - Interim Board

The Interim Board of Directors established the following Committees to assist it in carrying out its role.

Human Resources Committee
Philippos Mannaris (Chairperson)
Costas Hadjipapas
Andreas Poetis
Michalis Zannetides

Restructuring Committee
Savvakis Savvides (Chairperson)
Takis Arapoglou – from 23/5/2013 up to 2/7/2013
Constantinos Damtsas
Costas Hadjipapas
Michalis Zannetides

Communication Committee
Constantinos Damtsas (Chairperson)
Lenia Georgiadou
Sophocles Michaelides
Panicos Pouros
Takis Taoushanis
Costas Hadjipapas

Recapitalisation Committee
George Theocharides (Chairperson)
Takis Arapoglou - from 13/6/2013 up to 2/7/2013
Erol Riza
Lambros Papadopoulos
Panicos Pouros
Takis Taoushanis

Other Committees - as at date of this Report

The Board of Directors elected on 10 September 2013 decided to maintain a Committee to monitor the restructuring of the Group as follows:

Strategy & Restructuring Committee	Attendance
Andreas Yiasemides (Chairperson)	5/5
Dmitry Chichikashvili (Vice–Chairperson)	0/2
Anjelica Anshakova	0/5
Marinos Gialeli – from 31/1/2014	-
Marios Kalochoritis	5/5
Adonis Papaconstantinou	4/5

Xanthos Vrachas	5/5
Marios Yiannas	5/5
Konstantinos Katsaros	5/5
Ioannis Zographakis	4/5

4. Board of Directors' Remuneration Report for the year 2013

The Group's aim is to align its Remuneration Policy with its long term objectives and the interests of its shareholders, ensuring that it is consistent with and promotes sound and effective management of risk and does not encourage excessive risk-taking.

In developing its Remuneration Policy the Group takes into account the provisions that are included in the Cyprus Stock Exchange Corporate Governance Code, the High-Level Guidelines for Remuneration Policies issued by the Central Bank of Cyprus (CBC) and the requirements for Remuneration Policies included in the European Capital Requirements Directive (CRD III) which have been incorporated into the equivalent CBC Directive and came into effect from 1 January 2011.

It is acknowledged that the implementation of the relevant requirements by financial institutions and the policies and practices that will be adopted will evolve over time, as further experience and knowledge is gained and with the development of best practice in this area. Within this context, the Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management.

The Board of Directors' Remuneration Report will be submitted to the shareholders' Annual General Meeting.

Details on Director (executive and non-executive) remuneration are provided in Note 52 of the Consolidated Financial Statements for the year 2013.

4.1 Governance of Group Remuneration Policy

The Remuneration and Human Resources Committee is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the Board of Directors for approval. In addition, the Board of Directors, through the Remuneration and Human Resources Committee, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy.

The members of the Remuneration and Human Resources Committee as at the date of this Report are as follows:

Marios Yiannas (Chairperson)
Marinos Gialeli
Marios Kalochoritis
Konstantinos Katsaros
Adonis Papaconstantinou
Andreas Yiasemides

Further information about the Committee including its composition during 2013 can be found in section 3.2 of this Report.

The remuneration of Directors, in their capacity as members of the Board of Directors and Committees of the Board of Directors, is approved by the shareholders' General Meeting.

The Board of Directors sets the remuneration of executive Directors, following the recommendation of the Remuneration and Human Resources Committee. The employment contracts of executive

Directors are reviewed by the Remuneration and Human Resources Committee, and are subsequently submitted to the Board of Directors for approval.

The Group does not grant guaranteed variable remuneration or discretionary pension payments.

4.2 Remuneration of non-executive Directors

The remuneration of non-executive Directors is not linked to the profitability of the Group. The remuneration of non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the Committees of the Board of Directors and the Boards of Group subsidiary companies. The shareholders' Annual General Meeting held on 10 September 2013 approved the further reduction of non-executive Directors' remuneration by 20%. This is further to the previous reduction approved by the shareholders' Annual General Meeting held on 19 June 2012 which amounted to 50% for the Chairman and 25% for the other non-executive Directors.

4.3 Remuneration and other benefits of executive Directors

Remuneration Policy

The remuneration of executive Directors usually comprises of a salary, adjusted annually, taking into account the prevailing economic and labour market conditions, and a variable element, the level of which depends on the Group's performance.

Variable remuneration is calculated based on the achievement of the Group's targets for profitability and key performance indicators as well as its performance relative to its peers. Other qualitative criteria as well as the individual performance of the executive Director are also taken into account.

The maximum variable remuneration that can be granted is set at 50% of salary. As a result, the maximum variable remuneration that can be granted represents only one third of an executive Director's total remuneration.

At least 40% of variable remuneration is deferred over a period of three years. The variable remuneration is paid and/or vests on a pro rata basis, provided the Group achieves the targets set with respect to profitability and key performance indicators, taking into account the performance of other peer banks.

At least 50% of variable remuneration is in the form of shares and/or share options. Vesting of shares and/or share options is deferred for three years from the date awarded and applies even after retirement or the expiry of an executive Director's employment contract. On vesting, the shares and/or share options are subject to a retention period of one year. In addition, 50% of the shares that vest must be retained until the retirement or the expiry of executive Director's employment contract.

Remuneration

No bonus was recommended by the Board of Directors for executive Directors for 2013.

Retirement Benefit Schemes

The former Chief Executive Officer, Mr Yiannis Kypri, participated in the new defined contribution plan for the Group's employees in Cyprus. The former First Deputy Group Chief Executive Officer, Mr Yiannis Pehlivanides, participated in the retirement benefit plans for the Group's employees in Greece, which were the defined contribution plan and the defined benefit plan for retirement benefits which were required by the law. The new Chief Executive Officer, Mr John Patrick Hourican, also participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 13 of the Consolidated Financial Statements for the year 2013.

Share Options

No share options were granted to executive Directors during 2013.

In the context of the Share Options 2008/2010 granted on 28 May 2008 to the Group's employees, 1.500 thousand share options were granted to Mr Andreas Eliades, 500 thousand Options were granted to Mr Yiannis Kypri and 12.000 share options were granted to the non-executive Director, Mr Costas Hadjipapas, in his capacity as an employee of the Group.

The options lapsed on 31 December 2013.

Further details regarding share options can be found in Note 36 of the Consolidated Financial Statements for the year 2013.

Other Benefits

Other benefits provided to the Chief Executive Officer include other benefits provided to staff, medical fund contributions, life insurance and other benefits related to his relocation and residence in Cyprus. The relevant costs for executive management are disclosed in Note 52 of the Consolidated Financial Statements for the year 2013.

Contracts of Employment

The remuneration (salary and bonus) of executive Directors is set out in their employment contracts which can have a maximum duration of five years.

Employment contracts include a clause for compensation in the event of a non-justified early termination and where variable remuneration is provided for, employment contracts include a provision that permits the Company to reclaim variable remuneration awarded on the basis of data which subsequently proved to be misstated.

The employment contract of the new Chief Executive Officer, Mr John Patrick Hourican, is for a period of three years commencing on 1 November 2013. The contract does not include provisions for the award of bonuses and the compensation payable in the event of a non-justified early termination is three months salary in lieu of notice.

4.4 Early Retirement Scheme

In December 2012, the Board of Directors approved the terms of a Voluntary Retirement Scheme for staff with remaining length of service of up to 10 years. The maximum compensation payable was 30 monthly salaries and was calculated based on the remaining number of months of service. Participants in the scheme were also offered life insurance coverage and employer contributions to the Medical Fund. 219 employees opted for the Scheme.

During 2013, the Interim Board of Directors approved the terms of another Voluntary Retirement Scheme for staff. The maximum compensation payable was €150.000 and was calculated based on the remaining number of months of service. Participants in the scheme were also offered life insurance coverage and employer contributions to the Medical Fund up to 31 December 2014. 1364 employees opted for the Scheme.

5. Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 52 of the Consolidated Financial Statements for the year 2013.

All transactions with members of the Board of Directors and their connected persons are in accordance with usual commercial terms and for loans these are made on normal business terms as for comparable transactions with customers of a similar credit standing in the ordinary course of business. Any banking facilities to members of the Board of Directors of the Company are approved by the Board of Directors. The interested Director does not participate nor is present during the approval process.

6. Accountability and Audit

6.1 Going concern

The Company's management and Board of Directors, taking into consideration the factors noted in Note 4.1 of the Consolidated Financial Statements and the measures taken to support the Cyprus economy and the realised and planned actions as detailed in its Restructuring Plan, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:

- The Group has been successfully recapitalised.
- The Troika is expected to continue to provide the required financial support to Cyprus as per the MoU.
- The implementation of additional actions as per the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Cyprus government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the Cyprus government will maintain certain temporary restrictive measures and capital controls with respect to banking and cash transactions for as long as required to ensure the stability of the Cyprus banking system.

Notwithstanding this assessment and the conclusion reached, the Board considers that material uncertainties remain that may cast significant doubt upon the Company's ability to continue as a going concern.

6.2 System of Internal Control

The Directors are responsible for internal control in the Bank of Cyprus Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

It is apparent that the actions necessary for the implementation of the decisions of the Eurogroup of March 2013 have implications for the Group's internal control systems. The implementation of the various decrees issued by the Resolution Authority, the integration of the operations of ex-Laiki Bank, the rationalisation of the branch network, IT systems integration, the reduction in staff resources following the Voluntary Retirement Scheme as well as increased regulatory obligations are all relevant. The Group has proceeded with various actions that take these challenges into account in the design of its procedures and controls with the overall aim of ensuring that effective internal controls are in place.

The Directors, through the Audit Committee and Risk Committee of the Board of Directors have conducted an annual review of the effectiveness of the system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. The Committees have received confirmation that executive management has taken or is taking the necessary actions to remedy weaknesses identified by the Internal Audit Function and the external auditors.

The Board of Directors confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations, except those that are known by the relevant authorities (where applicable).

6.3 Corporate Governance Compliance Officer

The Board of Directors appointed Mr Marios Skandalis as Corporate Governance Compliance Officer on 28 February 2014.

7. Shareholder Relations

The Board of Directors has appointed Mr Constantinos Pittalis as Investor Relations Officer, responsible for the communication between shareholders and the Bank. Information concerning the Bank is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Senior Independent Director, Mr Konstantinos Katsaros, is available to shareholders if they have concerns that have not been resolved through the normal communication channels.

All shareholders of Bank of Cyprus are treated on an equal basis. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, return, ownership and governance.

The Board of Directors provides to holders of at least 5% of the Company's share capital the opportunity to request the inclusion of items on the agenda of General Meetings. The Board of Directors is available at the Annual General Meeting to answer shareholders' questions.

Any change or addition to the Articles of Association of the Bank is only valid if approved by special resolution at a meeting of the shareholders.

27 March 2014

Additional Risk Disclosures 2013

Bank of Cyprus Group

Credit risk

Non-performing loans analysis

In February 2014, the Central Bank of Cyprus ('CBC') issued to credit institutions the Directive on Loan Impairment and Provisioning Procedures of 2014, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The Directive is effective as from 21 February 2014, however the disclosure requirements should be published for the year ended 31 December 2013 together with the 2013 financial statements. The disclosures required by the Directive, in addition to those presented in Notes 3 and 46 of the consolidated financial statements, are set out in the following tables.

Credit risk (continued)

Non-performing loans analysis (continued)

The analysis of non performing loans is presented below:

2013	**Total loans and advances**	**Performing loans and advances**			**Non–performing credit facilities**
		Not restructured loans and advances	**Restructured loans and advances**	**Total**	
	€000	**€000**	**€000**	**€000**	**€000**
Corporate legal entities	**15.266.211**	**4.203.625**	**1.557.962**	**5.761.587**	**9.504.624**
Construction	3.907.906	549.941	367.869	917.810	2.990.096
Real estate activities	3.593.805	929.725	493.858	1.423.583	2.170.222
Wholesale and retail trade: repair of motor vehicles and motorcycles	2.137.664	845.171	192.590	1.037.761	1.099.903
Accommodation and food service activities	1.690.995	512.491	159.310	671.801	1.019.194
Electricity, gas, steam and air-conditioning supply	42.834	33.786	6.068	39.854	2.980
All other sectors	3.893.007	1.332.511	338.267	1.670.778	2.222.229
Retail legal entities	**2.213.934**	**1.100.741**	**160.552**	**1.261.293**	**952.641**
Wholesale and retail trade: Repair of motor vehicles and motorcycles	578.497	301.280	40.016	341.296	237.201
Real estate activities	440.719	266.185	34.319	300.504	140.215
Construction	289.686	81.568	32.430	113.998	175.688
Manufacturing	219.216	100.393	14.655	115.048	104.168
Service activities	128.116	82.825	5.030	87.855	40.261
All other sectors	557.700	268.490	34.102	302.592	255.108
Private individuals	**9.263.175**	**4.381.322**	**1.297.049**	**5.678.371**	**3.584.804**
Credit facilities for the purchase/construction of immovable property:	5.838.484	2.891.360	1.039.616	3.930.976	1.907.508
a) Owner occupied	3.327.578	1.695.059	623.521	2.318.580	1.008.998
b) For other purposes	2.510.906	1.196.301	416.095	1.612.396	898.510
Consumer loans	2.193.821	793.097	205.706	998.803	1.195.018
Credit cards	276.201	198.150	376	198.526	77.675
Current accounts	361.555	207.226	1.039	208.265	153.290
Credit facilities to sole traders	593.114	291.489	50.312	341.801	251.313
Total credit facilities	**26.743.320**	**9.685.688**	**3.015.563**	**12.701.251**	**14.042.069**
Provisions for impairment and fair value adjustment on initial recognition	**4.978.981**	**432.747**	**100.372**	***533.119**	**4.445.862**

* The provisions for impairment and fair value adjustment on initial recognition for performing loans, relate to collective provision and fair value adjustment on initial recognition of loans following Laiki acquisition.

Credit risk (continued)

Non-performing loans analysis (continued)

The above table presents the Non-Performing Loans ('NPLs'). These are defined in the Directive issued by the Central Bank of Cyprus for the 'Definition of Non-performing and Restructured Credit Facilities', which became effective as of 1 July 2013.

In accordance with the Directive, a customer is classified as an NPL if:

- It is in arrears of interest or capital or any other charges for a period of more than 90 days.
- It is in excess of its contractual limit on a continuous basis for a period of more than 90 days.
- It has been restructured and at the time of restructuring was classified as NPL or was in arrears/excess for a period of more than 60 days or has been restructured twice within a period of 18 months.

Restructured loans remain as NPLs for six months following the commencement of the new repayment schedule of capital instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In the case of lump-sum payments at maturity, the loan remains as an NPL until its maturity.

NPLs amounted to €14.042 million as at 31 December 2013 and accounted for 53% of gross loans.

As at 31 December 2013, the NPL ratio comprises of two components: restructured loans that are less than 90 days past due (6% of gross loans) and loans that are more than 90 days past due or restructured loans that are more than 90 days past due (47% of gross loans).

Breakdown of New definition Non-performing loans	**31 December 2013**	
	€ million	% of gross loans
Loans restructured and less than 90 days past due	1.682	6%
Loans more than 90 days past due or loans restructured and more than 90 days past due	12.360	47%
Non-performing loans	**14.042**	**53%**

Credit risk (continued)

Credit quality of loans and advances to customers

The analysis of non-performing credit facilities by year of origination is presented in the table below, for balances as at 31 December 2013:

Loans and advances granted:	Total Credit facilities				Credit facilities to legal entities				Credit facilities to private individuals – property loans				Credit facilities to private individuals – other loans			
	Total loans and advances	Non performing loans and advances	Specific Provisions	Fair value adjust-ment on initial recogni-tion	Total loans and advances	Non performing loans and advances	Specific Provisions	Fair value adjust-ment on initial recogni-tion	Total loans and advances	Non performing loans and advances	Specific Provisions	Fair value adjustment on initial recognition	Total loans and advances	Non performing loans and advances	Specific Provisions	Fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	1.583.220	748.620	93.044	48.070	1.155.440*	612.179	86.686	38.574	120.473	37.302	239	2.359	306.101	99.140	6.119	7.137
1 – 2 years	2.248.868	994.922	139.116	142.435	1.670.316	795.958	130.849	118.604	208.314	45.277	2.215	6.675	370.237	153.688	6.051	17.155
2 – 3 years	3.246.253	1.453.338	171.795	293.721	2.191.366	1.106.828	145.675	244.333	561.960	130.750	2.759	11.518	492.927	215.760	23.361	37.870
3 – 5 years	6.311.222	3.132.483	400.875	430.863	3.531.488	2.190.416	310.758	325.159	1.944.993	509.830	16.455	45.464	834.741	432.237	73.663	60.240
5 – 7 years	7.858.920	4.858.808	927.252	580.880	5.188.630	3.640.717	767.237	455.566	2.039.785	857.318	97.212	75.181	631.712	360.772	62.803	50.134
7 – 10 years	3.052.886	1.549.915	300.005	196.214	1.807.861	1.087.380	225.589	152.601	865.867	286.650	33.255	22.778	379.157	175.884	41.160	20.835
More than 10 years	2.441.951	1.303.983	234.647	189.063	1.882.951	1.029.667	173.774	147.783	88.635	37.859	3.601	4.404	470.366	236.457	57.273	36.876
Total	**26.743.320**	**14.042.069**	**2.266.734**	**1.881.246**	**17.428.052**	**10.463.145**	**1.840.568**	**1.482.620**	**5.830.027**	**1.904.986**	**155.736**	**168.379**	**3.485.241**	**1.673.938**	**270.430**	**230.247**

* Includes loans rescheduled amounting to €384 million which cannot be split by origination date.

Liquidity risk and funding

Encumbered and unencumbered assets

The table below presents an analysis of the Group's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding purposes.

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €18.883.073 thousand as at 31 December 2013. These primarily consist of loans and advances to customers, investments in debt securities, primarily Cyprus Government bonds, and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and Emergency Liquidity Assistance (Note 30 of the consolidated financial statements) and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as for covered bonds (Note 33 of the consolidated financial statements). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under CSA and repurchase agreements, and (ii) for trade finance transactions and guarantees issued.

In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand are pledged as collateral for obtaining funding from the CBC (Note 33 of the consolidated financial statements).

An asset is categorised as unencumbered if it has not been pledged against an existing liability. Unencumbered assets are further analysed into those that are available and can be pledged and those that are not readily available to be pledged.

As at 31 December 2013, the Group held €4.889.779 thousand of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs. Such assets include Cyprus loans and advances which are less than 90 days past due as well as loans of overseas subsidiaries and branches which are not pledged. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for Emergency Liquidity Assistance. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary/branch and not to provide liquidity to any other party of the Group. Balances with central banks are reported as unencumbered which can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered asset not readily available as collateral.

As at 31 December 2013, the Group held €4.928.875 thousand of unencumbered assets, that are not readily available to be pledged for funding requirements as per their current form. These primarily consist of loans and advances which are prohibited by contract or law to be encumbered or are over 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred to the name of the Company or the subsidiary, are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as are primarily due to the policyholders.

Liquidity risk and funding (continued)

Encumbered and unencumbered assets (continued)

The carrying values of encumbered and unencumbered assets of the Group as at 31 December 2013 is summarised below:

2013	Encumbered	Unencumbered		**Total**
	Pledged as collateral	which can be pledged	which are not readily available to be pledged	
	€000	€000	€000	**€000**
Cash and bank placements	367.080	1.604.736	558.329	2.530.145
Investments	3.289.810	218.571	24.012	3.532.393
Loans and advances	15.136.002	2.352.500	4.275.836	21.764.338
Property	90.181	713.972	70.698	874.851
Total assets	**18.883.073**	**4.889.779**	**4.928.875**	**28.701.727**
Bonds guaranteed by the Cyprus government	1.000.000	-	-	1.000.000
Total	**19.883.073**	**4.889.779**	**4.928.875**	**29.701.722**

Liquidity risk and funding (continued)

Liquidity reserves

Composition of the liquidity reserves	**31 December 2013**		31 December 2012	
	Liquidity reserves	**Liquidity reserves of which Basel 3 LCR eligible Level 1**	Liquidity reserves	Liquidity reserves of which Basel 3 LCR eligible Level 1
	€000	**€000**	€000h	€000
Cash and balances with central banks	**1.239.928**	**1.048.690**	1.272.820	867.268
Nostro and overnight placements with banks	**461.633**	**-**	641.476	-
Other placements with banks	**115.506**	**-**	311.470	9.920
Liquid investments	**169.076**	**227.103**	579.257	790.832
Other investments	**59.418**	**-**	47.489	-
Total	**2.045.561**	**1.275.793**	2.852.512	1.668.020

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes. Minimum reserve amount is included in the balances with central banks under Liquidity Reserves but excluded under LCR Liquidity Reserve.

Securities reported under 'Liquidity Reserves' are shown at market value net of haircut in order to reflect actual liquidity value that can be obtained. As per LCR rules, securities are reported at market values, hence the higher amount under 'Liquid Investments'. The Group only holds LCR Level 1 eligible assets.

The Liquidity Reserves are managed by Group Treasury. Liquid asset investments take place within limits and parameters specified in the Liquid Assets Investment Policy approved by the Board.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives, have approved the issuance of €2.9 billion of guarantees for bonds/loans issued by credit institutions under the "Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012". It is expected that the Group will be able to make use of the above guarantees if the need arises.

Financial Information for the Period from 1 January 2013 to 31 December 2013

as stipulated by Decision 4/507/28.04.2009 of
the Board of Directors of the Greek Capital Markets Commission

The financial information presented below is aiming to provide a general awareness about the financial position and results of the Bank of Cyprus Group (the 'Group') and the holding company Bank of Cyprus Public Company Ltd (the 'Company'). We recommend to the reader, before any investment decision or transaction is performed with the Group, to visit the Group's website where the financial statements prepared in accordance with International Financial Reporting Standards are available, together with the independent auditors' report, and the detailed explanatory statement of results. These documents are also available at the Registered Office of the Company (51 Stassinou Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, CY-1398 Nicosia, Cyprus, Telephone: +357 22 122128, Fax: +357 22 378422).

Website: www.bankofcyprus.com - Investor Relations/Financial Information.

Members of the Board of Directors: Christis Hassapis (Chairman), Vladimir Strzhalkovskiy (Vice Chairman), Anjelica Anshakova, Dmitry Chichikashvili, Marinos Gialelis, Marios Kalochoritis, Konstantinos Katsaros, Eriskhan Kurazov, Adonis Papaconstantinou, Anton Smetanin, Xanthos Vrachas, Marios Yiannas, Andreas Yiasemides, Ioannis Zographakis and John Patrick Hourican.

Date of approval of the financial statements for year 2013 by the Board of Directors: 27 March 2014

Independent auditors: Ernst & Young Cyprus Ltd.

Type of auditors' report: Qualified conclusion for a departure from IFRS, limitation of scope and emphasis of matter

	2013	2012 (restated and represented)
	€000	€000
Continuing operations		
Net interest income	**999.431**	701.776
Net fee and commission income	**168.819**	172.685
Net foreign exchange (losses)/gains	**(5.148)**	24.948
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	**10.589**	(27.899)
Insurance income net of claims and commissions	**64.956**	62.972
Other income	**(64.282)**	(15.099)
	1.174.365	919.383
Staff costs	**(442.797)**	(293.556)
Other operating expenses	**(277.196)**	(260.553)
Profit before impairment of loans and advances and goodwill and intangible assets	**454.372**	365.274
Provisions for impairment of loans and advances	**(1.067.345)**	(1.339.269)
Impairment of goodwill and intangible assets	**-**	(359.746)
Loss before share of profit of associates	**(612.973)**	(1.333.741)
Share of profit of associates	**1.885**	222
Loss before tax	**(611.088)**	(1.333.519)
Tax	**5.184**	43.463
Loss after tax	**(605.904)**	(1.290.056)
Discontinued operations		
Loss after tax from discontinued operations	**(1.455.604)**	(932.290)
Loss for the year	**(2.061.508)**	(2.222.346)

Attributable to:		
Owners of the Company – continuing operations	**(593.898)**	(1.280.825)
Owners of the Company – discontinued operations	**(1.455.604)**	(932.290)
Total loss attributable to the owners of the Company	**(2.049.502)**	(2.213.115)
Non-controlling interests – continuing operations	**(12.006)**	(9.231)
Loss for the year	**(2.061.508)**	(2.222.346)

Basic and diluted losses per share (€) - continuing operations	**(0,1676)**	(83,0258)
Basic and diluted losses per share (€)	**(0,5784)**	(143,4588)

Loss for the year	**(2.061.508)**	(2.222.346)
Other comprehensive income after tax	**25.295**	123.361
Total comprehensive loss for the year	**(2.036.213)**	(2.098.985)

Attributable to:		
Owners of the Company	**(2.020.788)**	(2.091.763)
Non-controlling interests	**(15.425)**	(7.222)
Total comprehensive loss for the year	**(2.036.213)**	(2.098.985)

Extracts from the Consolidated Balance Sheet

as at 31 December 2013

		2013	2012 (restated)	2011 (restated)
	Notes	**€000**	€000	€000
Assets				
Cash and balances with central banks		**1.240.043**	1.272.424	1.375.047
Placements with banks		**1.290.102**	1.768.836	2.627.831
Reverse repurchase agreements		**-**	-	215.936
Investments	*3*	**2.859.584**	1.135.333	2.629.124
Investments pledged as collateral	*3*	**672.809**	734.747	938.070
Derivative financial assets		**28.765**	26.794	193.734
Loans and advances to customers		**21.764.338**	24.374.531	27.366.917
Life insurance business assets attributable to policyholders		**443.579**	495.756	504.579
Property and equipment		**414.404**	483.193	473.188
Intangible assets		**130.580**	123.555	472.510
Other assets		**1.394.751**	613.760	674.439
Investments in associates		**103.402**	3.107	2.820
Total assets		**30.342.357**	31.032.036	37.474.195
Liabilities				
Amounts due to banks		**196.422**	341.044	965.200
Funding from central banks		**10.956.277**	-	2.100.556
Repurchase agreements		**594.004**	607.773	785.993
Derivative financial liabilities		**83.894**	183.826	488.111
Customer deposits		**14.971.167**	28.442.152	29.654.498
Insurance liabilities		**551.829**	604.170	611.264
Debt securities in issue		**841**	44.775	49.791
Other liabilities	*4*	**252.653**	339.727	348.260
Subordinated loan stock		**4.676**	133.294	128.380
Total liabilities		**27.611.763**	30.696.761	35.132.053
Equity				
Share capital		**4.683.985**	1.795.141	899.528
Shares subject to interim orders		**58.922**	-	-
Share premium		**-**	428.271	1.164.903
Convertible enhanced capital securities		**-**	428.835	862.233
Revaluation and other reserves		**65.664**	106.336	2.585
Accumulated losses		**(2.152.330)**	(2.500.530)	(671.551)
Equity attributable to owners of the Company		**2.656.241**	258.053	2.257.698
Non-controlling interests		**74.353**	77.222	84.444
Total equity		**2.730.594**	335.275	2.342.142
Total liabilities and equity		**30.342.357**	31.032.036	37.474.195

Extracts from the Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	2013	2012
	€000	€000
Total equity at 1 January	**335.275**	2.342.705
Change in accounting policy	**-**	(563)
Total equity at 1 January (restated)	**335.275**	2.342.142
Loss for the year	**(2.061.508)**	(2.222.346)
Other comprehensive income net of tax	**25.295**	123.361
Purchase of shares of the Company	**-**	(39.756)
Disposal of shares of the Company	**-**	3.138
Issue of shares	**-**	159.683
Issue costs	**-**	(2.449)
Defense contribution on deemed dividend distribution	**(174)**	(28.498)
Bail-in of deposits and structured products	**3.794.864**	-
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	**122.535**	-
Acquisitions	**456.309**	-
Shares subject to interim orders	**58.922**	-
Disposals	**(924)**	-
Total equity at 31 December	**2.730.594**	335.275

Extracts from the Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	2013	2012 (restated)
	€000	€000
Loss for the year	**(2.061.508)**	(2.222.346)
Foreign currency translation reserve	**5.813**	8.627
Available-for-sale investments	**33.093**	135.919
Property revaluation	**(13.365)**	(10.159)
Actuarial loss for the defined benefit plans	**(246)**	(11.026)
Total comprehensive loss for the year	**(2.036.213)**	(2.098.985)

Extracts from the Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	2013	2012 (restated and represented)
	€000	€000
Net cash flow used in operating activities	**(2.816.135)**	(3.574.954)
Net cash flow from investing activities	**1.235.704**	2.085.056
Net cash flow from financing activities	**1.661.002**	107.539
Net increase / (decrease) in cash and cash equivalents for the year	**80.571**	(1.382.359)
Exchange adjustments	**44.716**	(5.193)
Total cash inflow / (outflow) for the year	**125.287**	(1.387.552)
Cash and cash equivalents at 1 January	**1.337.956**	2.725.508
Cash and cash equivalents at 31 December	**1.463.243**	1.337.956

Extracts from the Income Statement and Statement of Comprehensive Income

for the year ended 31 December 2013

	2013	2012 (restated and represented)
	€000	€000
Continuing operations		
Net interest income	**882.334**	581.534
Net fee and commission income	**122.110**	133.075
Net Foreign exchange gains	**15.319**	27.196
Dividends from subsidiary companies and joint ventures	**25.532**	31.179
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	**15.211**	(25.975)
Other income	**(14.384)**	695
	1.046.122	747.704
Staff costs	**(348.695)**	(199.588)
Other operating expenses	**(179.498)**	(166.987)
Profit before impairment of loans and advances	**517.929**	381.129
Provisions for impairment of loans and advances	**(929.635)**	(1.248.532)
Provisions for impairment on intercompany balances	**(28.816)**	(2.811)
Impairment of investments in subsidiary companies and disposal group held for sale	**(306.129)**	(412.655)
Loss before tax	**(746.651)**	(1.282.869)
Tax	**4.911**	37.109
Loss after tax	**(741.740)**	(1.245.760)
Discontinued operations		
Loss after tax from discontinued operations	**(1.327.603)**	(1.018.300)
Loss for the year	**(2.069.343)**	(2.264.060)

Basic and diluted losses per share (€) – continuing operations	**(0,2085)**	(80,6168)
Basic and diluted losses per share (€)	**(0,5816)**	(146,5139)

Loss for the year	**(2.069.343)**	(2.264.060)
Other comprehensive income after tax	**22.867**	119.031
Total comprehensive loss for the year	**(2.046.476)**	(2.145.029)

Extracts from the Balance Sheet

as at 31 December 2013

		2013	2012 (restated)	2011 (restated)
	Notes	**€000**	€000	€000
Assets				
Cash and balances with central banks		**550.740**	655.254	1.242.705
Placements with banks		**1.064.654**	1.553.587	2.425.778
Reverse repurchase agreements		**-**	-	215.936
Investments	3	**2.822.057**	1.093.961	2.566.223
Investments pledged as collateral	3	**672.809**	734.747	938.070
Derivative financial assets		**28.723**	26.785	193.734
Loans and advances to customers		**19.714.705**	20.873.053	24.145.674
Group intercompany accounts		**1.115.708**	2.088.659	3.321.270
Investments in Group companies		**442.335**	665.380	808.714
Investments in associates and joint ventures		**105.048**	8.009	7.722
Property and equipment		**243.908**	287.169	322.226
Intangible assets		**16.975**	16.339	18.266
Other assets		**897.425**	130.723	314.930
Total assets		**27.675.087**	28.133.666	36.521.248
Liabilities				
Amounts due to banks		**124.152**	256.831	898.914
Funding from central banks		**10.956.277**	-	2.100.556
Repurchase agreements		**594.004**	607.773	785.993
Derivative financial liabilities		**83.957**	183.802	488.102
Customer deposits		**12.745.743**	25.880.056	28.223.101
Group intercompany accounts		**563.579**	759.467	1.503.851
Debt securities in issue		**-**	15.389	20.319
Other liabilities	4	**155.623**	244.505	252.072
Subordinated loan stock		**-**	126.372	121.452
Total liabilities		**25.223.335**	28.074.195	34.394.360
Equity				
Share capital		**4.683.985**	1.795.141	899.528
Shares subject to interim orders		**58.922**	-	-
Share premium reserve		**-**	428.271	1.164.903
Convertible Enhanced Capital Securities		**-**	428.835	862.233
Revaluation and other reserves		**36.499**	63.227	(17.442)
Accumulated losses		**(2.327.654)**	(2.656.003)	(782.334)
Total Equity		**2.451.752**	59.471	2.126.888
Total liabilities and equity		**27.675.087**	28.133.666	36.521.248

Extracts from the Statement of Changes in Equity

for the year ended 31 December 2013

	2013	2012
	€000	€000
Total equity at 1 January	**59.471**	2.257.304
Change in accounting policy	**-**	(130.416)
Total equity at 1 January (restated)	**59.471**	2.126.888
Loss for the year	**(2.069.343)**	(2.264.060)
Other comprehensive income net of tax	**22.867**	119.031
Purchase of shares of the Company	**-**	(38.060)
Disposal of shares of the Company	**-**	2.192
Bail-in of deposits and structured products	**3.814.495**	-
Defence contribution on deemed dividend distribution	**-**	(28.498)
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	**122.535**	-
Shares subject to interim orders	**58.922**	-
Acquisitions	**442.805**	-
Exchange difference due to conversion of branch to subsidiary	**-**	(15.256)
Issue of shares	**-**	159.683
Issue costs	**-**	(2.449)
Total equity at 31 December	**2.451.752**	59.471

Extracts from the Statement of Comprehensive Income

for the year ended 31 December 2013

	2013	2012 (restated)
	€000	€000
Loss for the year	**(2.069.343)**	(2.264.060)
Foreign currency translation reserve	**2.391**	3.918
Available-for-sale investments	**31.425**	136.297
Actuarial loss for the defined benefit plans	**(707)**	(11.746)
Property revaluation	**(10.242)**	(9.438)
Total comprehensive loss for the year	**(2.046.476)**	(2.145.029)

Extracts from the Statement of Cash Flows

for the year ended 31 December 2013

	2013	2012 (restated and represented)
	€000	€000
Net cash flow used in operating activities	**(3.078.013)**	(3.478.702)
Net cash flow from investing activities	**1.293.485**	1.925.853
Net cash flow from financing activities	**1.690.631**	110.412
Net decrease in cash and cash equivalents for the year	**(93.897)**	(1.442.437)
Exchange adjustments	**668**	438
Total cash outflow for the year	**(93.229)**	(1.441.999)
Cash and cash equivalents at 1 January	**993.410**	2.435.409
Cash and cash equivalents at 31 December	**900.181**	993.410

1. The consolidated financial statements for the year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113

2. The accounting policies adopted are consistent with those of the previous financial year except for the accounting policy for the bail-in of uninsured deposits and debt securities which was adopted in the current year (Note 3.2.2) and the adoption of new and amended standards and interpretations (Note 3.2.1) as explained in the Consolidated Financial Statements of the Group.

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements and additional disclosures in the consolidated financial statements. These include IAS 19 Employee Benefits (Revised 2011), IFRS 13 Fair Value Measurement, amendments to IFRS 7 Financial Instruments Disclosures, and amendments to IAS 1 Presentation of Financial Statements.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

Adoption of IAS 19 (Revised 2011) and impact on accounting for employee retirement benefits
In 2012 the Group changed its accounting policy with respect to the recognition of actuarial gains and losses arising from defined benefit plans. As a result, actuarial gains and losses are recognised in full in the period in which they occur, in the consolidated income statement. The change in accounting policy in 2012 conforms with the provisions of the IAS 19 (Revised 2011) and as a result the impact on the Group's financial performance and position from the adoption of the IAS 19 (Revised 2011) in 2013 was not material, and is presented below:

3. Investments of the Group and the Company are analysed as follows:

	2013	2012
Group	**€000**	€000
Investments		
Investments at fair value through profit or loss	**25.160**	21.818
Investments available-for-sale	**260.987**	402.547
Investments classified as loans and receivables	**2.573.437**	710.968
	2.859.584	1.135.333
Investments pledged as collateral		
Investments available-for-sale	**672.809**	694.287
Investments classified as loans and receivables	**-**	40.460
	672.809	734.747
	3.532.393	1.870.080

	2013	2012
Company	**€000**	€000
Investments		
Investments at fair value through profit or loss	**16.973**	14.423
Investments available-for-sale	**231.844**	368.742
Investments classified as loans and receivables	**2.573.240**	710.796
	2.822.057	1.093.961
Investments pledged as collateral		
Investments available-for-sale	**672.809**	694.287
Investments classified as loans and receivables	**-**	40.460
	672.809	734.747
	3.494.866	1.828.708

4. Other liabilities at 31 December 2013 include provisions for pending litigation or claims of €52.312 thousand for the Group and €47.728 thousand for the Company and other provisions of €16.542 thousand for the Group and €14.874 thousand for the Company. The Group's provision for pending litigation or claims at 31 December 2013 is set out in Note 34 of the consolidated financial statements. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.

5. The number of persons employed by the Group at 31 December 2013 was 7.752 (2012: 10.772) and by the Company was 4.264 (2012: 6.254).

6. Shares of the Company held by entities controlled by the Group and by associates (including shares that are held by life insurance subsidiary which holds the shares as part of financial assets that are invested for the benefit of insurance policyholders) at 31 December 2013 were 36.798 thousand and their cost of acquisition was €109.514 thousand.

7. The Group subsidiaries, branches, associates and joint venture as at 31 December 2013 and the method of consolidation used are set out in Note 53 of consolidated financial statements.

8. Related party transactions:

(a) Loans and other advances to members of the Board of Directors and key management personnel: €3.224 thousand for the Group and the Company.

(b) Loans and other advances to other connected persons: €521 thousand for the Group and €1.082.637 thousand for the Company.

(c) Contingent liabilities and commitments (mainly documentary credits, guarantees and commitments to lend): €974 thousand for the Group and the Company.

(d) Deposits by members of the Board of Directors and key management personnel: €1.881 thousand for the Group and the Company.

(e) Deposits by other connected persons: €36.399 thousand for the Group and €599.978 thousand for the Company.

(f) Interest income: €929 thousand for the Group and €44.587 thousand for the Company.

(g) Interest expense: €1.114 thousand for the Group and €8.596 thousand for the Company.

(h) Remuneration and other transactions of members of the Board of Directors, key management personnel and connected persons: €3.294 thousand for the Group and €2.964 thousand for the Company.

9. Other information

The total capital expenditure of the Group for the year ended 31 December 2013 amounted to €1.867 thousand (2012: €12.264 thousand) and for the Company €1.631 thousand (2012: €8.314 thousand).

10. Events after the balance sheet date

Disposal of Group's Ukrainian business

On 31 January 2014 the Group entered in a preliminary agreement to sell its Ukrainian operations to ABH Ukraine Limited, a member of the Alfa Group. The sale is subject to approvals from the relevant regulatory authorities in Cyprus and Ukraine.

The sale consideration is €225.000 thousand, subject to adjustments made upon completion. The impact on the Group's capital is estimated to be approximately €49.000 thousand or 0,2% negative on the Group's Core Tier 1 ratio.

The accounting loss from the sale is approximately €126.000 thousand and represents the difference of the consideration received and the carrying value of the disposal group held for sale at 31 December 2013, as well as the unwinding of the related foreign currency reserves of €41.000 thousand.

Release of the six-month time deposits

On 31 January 2014 the Group after witnessing improved liquidity positions and the stabilising signs of its deposit base released the six-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013 and matured on 31 January 2014. The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

Transfer of business of Laiki Factors Ltd to the Company

In 2014, the Group decided the transfer of the operations and the assets and liabilities of the Group subsidiary company Laiki Factors Ltd to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership, of the subsidiary.

Table with Corresponding References to the information made publicly available by Bank of Cyprus Public Company Ltd during the period 1.1.2013 to 27.3.2014

Date	Announcement	Electronic Address
04 Jan 2013	Bank of Cyprus Group Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130104CapitalSecuritiesENG.pdf
10 Jan 2013	Resignation of Board Members	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130110DirectorsResignationENG.pdf
16 Jan 2013	Review and setting of the interest rate on Bank of Cyprus Public Company Ltd Convertible Bonds 2013/2018	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130116ConvBondsInterestENG.pdf
30 Jan 2013	Bank of Cyprus Group Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130130AnnouncementENG.pdf
31 Jan 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130131ResignationConstantinidesGR.pdf
28 Feb 2013	Preliminary Results for the year 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228PrelimResults2012ReleaseDateENG.pdf
28 Feb 2013	Appointment of New Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228NewDirectorsENG.pdf
28 Feb 2013	Period and Procedure for the exercise of the Right for the Voluntary Conversion of Securities	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228ConversionPeriodsENG.pdf
11 Mar 2013	Notice of Deferral of coupon payment on Capital Securities 12/2007	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130311CapitalSecInterestDeferralENG.pdf
26 Mar 2013	Resignation of the Chairman and members of the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130326ResignationChairmanENG.pdf
29 Mar 2013	Resignation of Group Chief Executive Officer	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130329CEOResignationENG.pdf
01 Apr 2013	Restructuring and Recapitalisation of Bank of Cyprus	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130401BOCRecapENG.pdf
02 Apr 2013	Bank of Cyprus operations in the UK and in Romania	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130402UKoperationsENG.pdf
02 Apr 2013	Resignation of members of the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130402ResignationBoardENG.pdf
26 Apr 2013	Operations in Romania	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130426RomaniaENG.pdf
26 Apr 2013	Appointment of members of Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130426BoDENG.pdf
29 Apr 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130429Conversion%ce%91ENG.pdf

30 Apr 2013	Election of Chairman and Vice-Chairman	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130430%ce%9dewChairmanENG.pdf
10 May 2013	Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130510BoardCommitENG.pdf
13 May 2013	Appointment of New Director	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130513AppointmentArapoglouENG.pdf
23 May 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130523CEOProposalENG.pdf
30 May 2013	Appointment of Interim Group Chief Executive Officer	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130530CEOAppointmentENG.pdf
14 Jun 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130614UkraineENG.pdf
18 Jun 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130618SpecialAdministratorENG.pdf
03 Jul 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130702DirectorResignationENG.pdf
03 Jul 2013	Revised Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130702BoardCommitENG.pdf
22 Jul 2013	Sale of Kyprou Asset Management M.F.M.C.	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130722AEDAKENG.pdf
26 Jul 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130726AnnouncementSplitENG.pdf
31 Jul 2013	Recapitalisation through Bail-in and Resolution Exit Bank of Cyprus Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_RecapENG.pdf
31 Jul 2013	Notice to holders of ordinary shares of Bank of Cyprus as of 29 March 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_NoticeShareholdersENG.pdf
31 Jul 2013	Notice to holders of debt securities of Bank of Cyprus as of 29 March 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_NoticeDebtSecuritiesENG.pdf
01 Aug 2013	Bank of Cyprus reinstated as an eligible counterparty by ECB	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130801ECBeligibilityENG.pdf
02 Aug 2013	Voluntary Retirement Scheme	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130802VRSENG.pdf
08 Aug 2013	Form of proxy	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/BOC%20PROXY_GR.pdf
08 Aug 2013	Notice to Annual General Meeting	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130808AGMInvitationENG.pdf

29 Aug 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130829UkraineSubENG.pdf
03 Sep 2013	Audited Group Financial Results for the year ended 31 December 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130903AnnouncementDateFY2012ENG.pdf
03 Sep 2013	Share Capital	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130903AnnouncementSharesENG.pdf
05 Sep 2013	Candidates for election to the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130905AnnouncementNomineesENG.pdf
10 Sep 2013	Resolutions of the shareholders' AGM	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130910AGMAnnouncementENG.pdf
10 Sep 2013	Announcement according to Cyprus Law L. 190(I)/2007	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130910AGMProxies_CV_ENG.pdf
24 Sep 2013	Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130924BoardENG.pdf
25 Sep 2013	ANNOUNCEMENT TO HOLDERS OF CAPITAL GUARANTEED STRUCTURED DEPOSIT PRODUCTS AND/OR INVESTMENT PRODUCTS (AS SUCH TERMS ARE USED IN THE BAILING-IN OF BANK OF CYPRUS PUBLIC COMPANY LIMITED DECREES OF 2013 UP TO (NO. 3) OF 2013)	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130925AnnouncementStructuredENG.pdf
11 Oct 2013	Completion of the Sale of Kyprou Asset Management M.F.M.C.	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131010AEDAKENG.pdf
11 Oct 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131011ResignationHadjipapasENG.pdf
11 Oct 2013	Group Financial Results for the year ended 31 December 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/FinancialResults_FY2012ENG_20131011.pdf
16 Oct 2013	Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131018BoardCommitENG.pdf
23 Oct 2013	Appointment of Group Chief Executive Officer	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131023CEOappointmentENG.pdf
23 Oct 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131023ResignationIgorENG.pdf
25 Oct 2013	Date of Announcement of Financial Results for the Six Months Ended 30 June 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131025AnnouncementDate1H2013ENG.pdf
25 Oct 2013	Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131025BoardCommitENG.pdf

4 Nov 2013	Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131104BoardCommit_AuditENG.pdf
7 Nov 2013	Notice of Resumption of Adjourned AGM	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131107AGMInvitation_AdjournedENG_final.pdf
7 Nov 2013	Form of proxy for the adjourned AGM	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/BOC%20Proxy%20AGM%2029112013.pdf
12 Nov 2013	Change in the terms of issue of Bank of Cyprus Guaranteed Bonds Dated 14 November 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131112AnnouncementENG.pdf
18 Nov 2013	Interest payment on Bank Guaranteed Bonds (ΚΥΠΡΕ/BOCYG)	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131118Announcement_InterestPaymentENG.pdf
19 Nov 2013	Interest payment on Bank Guaranteed Bonds (ΚΥΠΡΕ2/BOCYG2)	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131119Announcement_InterestPayment_BOCG2_ENG.pdf
25 Nov 2013	Change in the terms of issue of Bonds ΒΚΥΠΡΕ2/BOCYG2	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131125ChangeTermsBOCYG2ENG.pdf
26 Nov 2013	Group Financial Results for the six months ended 30 June 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/FinancialResults_1H13ENG_20131126_final.pdf
27 Nov 2013	Appointment of CEO on the Board of Directors and Change in the composition of Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131127%20BoardMemberBoardCommitENG.pdf
28 Nov 2013	Announcement according to Cyprus Law L. 190(I)/2007	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131128AGMProxies_CV_ENG.pdf
29 Nov 2013	Completion of the adjourned Annual General Meeting of the shareholders of Bank of Cyprus	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131129%20AGM%20AnnouncementENG.pdf
6 Dec 2013	Change in the Group Organisational Structure	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131206OrganChartENG_Combined.pdf
6 Dec 2013	Date of announcement of financial results for the nine months ended 30 September 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131206AnnouncementDate9M2013ENG.pdf
18 Dec 2013	Financial Results for the nine months ended 30 September 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20131218FinancialResults9M2013ENG.pdf
30 Jan 2014	Release of six-month time Deposits	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140130DepositsReleaseENG.pdf
30 Jan 2014	TRANSFER OF SHARES OF BANK OF CYPRUS PUBLIC COMPANY LIMITED WHICH RESULTED FROM THE IMPLEMENTATION OF THE BAILING-IN DECREES Bottom of Form	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140130TransferofSharesENG.pdf
31 Jan 2014	Change of Company Secretary - Changes in the composition of Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140131%20CompanySecretaryBoardCommitteesENG.pdf

31 Jan 2014	Agreement for the sale of the Group's Ukrainian business	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140131SaleofBOCUENG.pdf
4 Feb 2014	CHANGES IN THE GROUP ORGANISATIONAL STRUCTURE	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140206ChangesInOrganStructureENG.pdf
12 Feb 2014	Date of announcement of the Preliminary Financial Results for the year ended 31 December 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140212AnnouncementDateFY2013ENG.pdf
28 Feb 2014	Preliminary Group Financial Results for the year ended 31 December 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/FinancialResultsFY2013ENG.pdf
5 Mar 2014	Compliance Officer with the Corporate Governance Code – Change in the composition of a Board Committee	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140305CorpGovComplianceOfficerBoardCommitteeENG.pdf
17 Mar 2014	Date of announcement of the Audited Financial Statements for the year ended 31 December 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140317AnnouncementDateAuditedFY2013ENG.pdf