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The Document and the placing described therein when made are only addressed to and directed at persons in Member States of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State of the EEA) and any implementing measure in each relevant Member State of the EEA (the "**Prospectus Directive**") ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), the Document is being distributed only to, and is directed only at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). The Document must not be acted on or relied on (i) in the UK, by persons who are not Relevant Persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which the Document relates is available only to (i) in the UK, Relevant Persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

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INFORMATION MEMORANDUM

Ordinary Shares

Bank of Cyprus Public Company Limited

Placing of approximately €1 billion through the issuance of new ordinary shares of Bank of Cyprus Public Company Limited

Bank of Cyprus Public Company Limited, a public company limited by shares incorporated in the Republic of Cyprus with registered number HE 165 (the "**Bank**"), is placing approximately €1 billion through the issuance of new ordinary shares in the share capital of the Bank (the "**Placing Shares**").

The Placing Shares will be fully fungible and rank *pari passu* in all respects with each other and with all other existing ordinary registered shares of the Bank (the "**Existing Ordinary Shares**" and, together with the Placing Shares, the "**Ordinary Shares**").

The Placing Shares may only be offered to eligible investors outside the United States in offshore transactions in reliance on Regulation S ("**Regulation S**") under the US Securities Act of 1933, as amended (the "**Securities Act**"), or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offering of Placing Shares to eligible investors shall be herein defined as the "**Placing**".

The completion of the Placing is subject to a number of conditions, including the approval at an extraordinary general meeting of the members of the Bank (the "**EGM**") of certain shareholder resolutions required for the implementation of the Placing and the Open Offer, including the approval of the Nominal Value Reduction and the approval of the Nominal Value Reduction by the District Court of Nicosia. The Nominal Value Reduction is required because, under Cypriot corporate law, the Bank is not permitted to issue Ordinary Shares at a price per Ordinary Share which is below the nominal value of each Ordinary Share and the Placing Price will be set at a discount in respect of the current nominal value of the Ordinary Shares. Assuming that the relevant shareholder resolutions are approved at the EGM, the Bank will file an application with the District Court of Nicosia for the approval of the Nominal Value Reduction and, assuming that the court provides the requisite court order approving the Nominal Value Reduction, the Bank will file the court order with the Department of Registrar of Companies and Official Receiver and the Nominal Value Reduction will take effect upon such filing. The Open Offer will provide the Existing Shareholders with the opportunity to subscribe, over a period of 15 business days, for 20% of the total number of Placing Shares at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder. The initial allocation of Placing Shares to Placees will be subject to clawback in order to satisfy valid applications by Existing Shareholders under the Open Offer and the number of Placing Shares received by a Placee could decrease by up to 20% as a result of such clawback. Notification of the EGM will be made by way of a shareholders circular sent by the Bank to Existing Shareholders which will include, amongst other things, the date, place and time of the EGM and the full text of the special resolutions proposed for approval at the EGM. The shareholders circular will also contain the terms and conditions of the Open Offer and information on the Group and the Placing substantively as set out in this Information Memorandum. For more detail on the Placing (including an indicative timetable for the EGM, Open Offer, the approval of the Nominal Value Reduction and other principal events in relation to the Placing) and the terms and conditions of the Placing, see "*Description of the Placing*".

Investing in the Placing Shares involves risks. Prospective investors should read the entire document and, in particular, "Risk Factors" beginning on page 12 when considering an investment in the Bank.

The distribution of this Information Memorandum, and the offer, subscription and sale of the Placing Shares, may be restricted by law, and therefore those persons into whose possession this Information Memorandum comes or who wish to subscribe for or purchase Placing Shares must inform themselves about and observe any such restrictions. Any failure to comply with any of those restrictions may constitute a violation of applicable securities laws. The Placing Shares have not been and will not be registered under the Securities Act. See "*Selling and Transfer Restrictions*".

Accordingly, the Placing Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Information Memorandum is not a prospectus for the purpose of the Prospectus Directive. This Information Memorandum has been prepared on the basis that any offer of the Placing Shares in any member state of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of shares. Accordingly, any person making or intending to make any offer in that Relevant Member State may only do so in circumstances in which no such obligation arises for the Bank to produce a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. The Bank has not authorised the making of any offer of Placing Shares in circumstances in which an obligation to publish a prospectus arises for such offer. The Bank has not authorised the making of any offer of shares through any financial intermediary. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

The date of this Information Memorandum is 4 July 2014.

This Information Memorandum is a confidential document that the Bank is providing to prospective investors. You are authorised to use this Information Memorandum solely for the purpose of considering an investment in the Placing Shares as described in this Information Memorandum. This Information Memorandum is based on information provided by the Bank and by third party sources that the Bank believes are reliable. You may not reproduce or distribute this Information Memorandum, in whole or in part, and you may not disclose any of the contents of this Information Memorandum or use any information in this Information Memorandum for any purpose other than considering an investment in the Placing Shares. You agree to the foregoing by accepting delivery of this Information Memorandum.

No person is authorised to give information or to make any representation in connection with the offering or sale of the Placing Shares other than as contained in this Information Memorandum. If any such information is given or made, it must not be relied upon as having been authorised by the Bank or any of its respective affiliates, advisers or selling agents. Neither the delivery of this Information Memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Bank's affairs since the date hereof or that the information set out in this Information Memorandum is correct as of any date subsequent to its date.

In making an investment decision, prospective investors must rely upon their own examination, analysis and enquiry of the Bank and the Placing Shares and the terms of the Placing, including the merits and risks involved.

Neither the Bank nor any of its respective representatives is making any representation to any offeree or purchaser of the Placing Shares regarding the legality of an investment in the Placing Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Placing Shares.

Prospective investors must also acknowledge that they have relied only on the information contained in this Information Memorandum, and that no person has been authorised to give any information or to make any representation concerning the Bank or its subsidiaries or the Placing Shares (other than as contained in this Information Memorandum) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Bank.

The distribution of this Information Memorandum and the offering and sale of the Placing Shares in certain jurisdictions may be restricted by law. The Bank requires persons into whose possession this Information Memorandum comes to inform themselves about, and to observe, any such restrictions. For a description of certain restrictions on the offering and sale of the Placing Shares, see "Selling and Transfer Restrictions". This Information Memorandum does not constitute an offer of, or an invitation to purchase, any of the Placing Shares in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering of the Placing Shares to occur in any jurisdiction.

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NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Placing Shares have not been, and will not be, registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Placing Shares are being offered and sold only outside the United States in "offshore transactions" in reliance on Regulation S, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of restrictions on transfer and resales, see "*Selling and Transfer Restrictions*". The Placing Shares have not been recommended by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Information Memorandum. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO PROSPECTIVE INVESTORS IN CYPRUS

This Information Memorandum has not been submitted to the approval procedure of the Cyprus Securities and Exchange Commission ("**CySEC**"), pursuant to the Public Offer and Prospectus Law of 2005 (the "**Prospectus Law**") and Regulation (EC) 809/2004 of the European Union, and accordingly, may not be used in connection with any offer to purchase or sell any Placing Shares or as part of any form of general solicitation or advertising in circumstances that would constitute an offer to the public in Cyprus.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Information Memorandum has been prepared on the basis that any offer of the Placing Shares in any member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly, any person making or intending to make an offer in that Relevant Member State of Placing Shares which are the subject of the offering contemplated in this Information Memorandum may only do so in circumstances in which no obligation arises for the Bank to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. The Bank has not has authorised the making of any offer of Placing Shares in circumstances in which an obligation arises to publish or supplement a prospectus for such offer. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Placing Shares under the offer contemplated in this Information Memorandum will be deemed to have represented, acknowledged and agreed to and with the Bank that: (A) it is a "qualified investor", within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive and (B) in the case of any Placing Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the Placing Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or (y) where Placing Shares have been acquired by it on behalf of persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, the offer of those Placing Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Placing Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Placing Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Placing Shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This Information Memorandum is for distribution only to persons in the United Kingdom (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Order**") or (ii) who fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). This Information Memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Information Memorandum relates, including the Placing Shares, is available only to Relevant Persons and will be engaged in only with Relevant Persons.

CERTAIN DEFINITIONS AND INTERPRETATIONS

In this Information Memorandum and unless otherwise specified, references to the "**Bank**" are to Bank of Cyprus Public Company Limited, a public company limited by shares and registered in the companies register of Cyprus with registration number HE 165 and references to the "**Group**" are to the Bank and its consolidated subsidiaries. Unless otherwise defined in this Information Memorandum, capitalised terms have the meanings specified in the "*Glossary of Selected Terms*". In addition and unless otherwise specified, all references made herein to laws, rules, regulations or other statutes are to laws, rules, regulations or other statutes of the Republic of Cyprus as amended from time to time and in force as of the date of this Information Memorandum.

SERVICE OF PROCESS AND ENFORCEMENT OF FOREIGN JUDGMENTS IN CYPRUS

The Bank is a public company limited by shares incorporated in Cyprus. The majority of the Bank's directors and executive officers reside in Cyprus. The Bank's assets and the assets of the Bank's directors and executive officers residing in Cyprus are located principally therein. As a result, you may not be able to effect service of process within your jurisdiction on any such persons, or to enforce within your jurisdiction a judgment obtained against the Bank or such other persons in the courts of your jurisdiction.

A final judgment against the Bank rendered by any competent English court will be recognised in Cyprus without being reviewed as to the merits according to the provisions of EU Regulation 44/2001 or Regulation 1215/2012 (depending on the time the relevant lawsuit is filed).

MARKET, INDUSTRY AND OTHER INFORMATION

Market data used under "*The Macroeconomic Environment in Cyprus*" and elsewhere in this Information Memorandum has been obtained from the Group's internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including without limitation reports and press releases prepared and issued by the International Monetary Fund ("**IMF**"), the Statistical Service of the Republic of Cyprus (Ministry of Finance) (the "**Cyprus Statistical Service**"), the Central Bank of Cyprus ("**CBC**"), the Ministry of Finance of Cyprus, the U.S. Geological Survey, Eurostat and the European Commission. Market research, publicly available information and industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The Bank accepts responsibility for accurately extracting and reproducing the same, but accepts no further or other responsibility in respect of the accuracy or completeness of such information.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

The Group's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) included in this Information Memorandum were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union and audited by the Group's independent auditors, Ernst & Young Cyprus Limited. The Group's interim unaudited condensed consolidated financial statements as at and for the three months ended 31 March 2014 were not prepared in accordance with International Accounting Standard ("**IAS**") 34, since the Group did not present comparative information for the three months ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time of the Eurogroup events of March 2013.

The auditor's audit opinion in relation to the Group's audited consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter with respect to going concern. The Bank when accounting for its recapitalisation was not able to measure the ordinary shares issued at their fair value as required by IFRS relating to extinguishment of financial liabilities due to specific conditions and uncertainties that existed at the time of the transaction. Furthermore, the Bank was not able to establish a reliable fair value of the ordinary shares issued to Laiki Bank 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. The Group's equity and financial position are not affected by the above accounting treatment. For more information, see "*Risk Factors—Risks Relating to the Group's Business—The independent auditors' report in respect of the Bank's consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter*".

Certain operational and statistical information relating to the Group's operations included herein is unaudited and has been derived from the Group's financial statements and/or accounting records and include statistical data reported in the forms prescribed by the CBC.

The Group prepares its financial statements in euro. The euro is the common legal currency of the EU Member States participating in the third stage of the European Economic and Monetary Union, including Cyprus. In this Information Memorandum, unless specified otherwise or the context otherwise requires, references to "$", "USD", "US$" and "U.S. dollar" are to the United States dollar and references to "€" or "euro" are to the euro.

The Group's financial year ends on 31 December of each year. References to any financial year refer to the year ended 31 December of the calendar year specified.

Certain monetary amounts and other figures included in this Information Memorandum have been subject to rounding adjustments. Accordingly, any discrepancies in any tables between the totals and the sums of the amounts listed are due to rounding.

Comparability of Results

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a significant proportion of its liabilities into equity and the acquisition of certain operations of Cyprus Popular Bank Public Co Ltd ("**Laiki Bank**"). As a result, the Group's management believes that the financial results of the Group for periods prior to the year ended 31 December 2012 (as re-presented and restated in its 2013 financial statements) are not comparable to the financial condition and results of operations of the Group following the Recapitalisation, and accordingly no such prior periods are presented.

As a result of the factors discussed below, the Group's operating results for certain of the financial periods discussed in this Information Memorandum are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.

The unaudited financial statements for the quarter ended 31 March 2014 contain comparative balance sheet information as at 31 December 2013. Certain of the comparative balance sheet items have been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. In this Information Memorandum, the 31 December 2013 balance sheet items presented include the restated items rather than those contained in the 2013 annual report, which used provisional valuations and classifications in respect of Laiki Bank.

The Group did not prepare financial statements for the quarter ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time, due to the agreement between the Government and the main forum for the management of the single currency area, consisting of the finance ministers of the countries whose currency is the euro (the "**Eurogroup**") announced on 25 March 2013 regarding the macroeconomic adjustment programme for Cyprus, which included the restructuring of the Cypriot banking sector and the recapitalisation of the Group. Accordingly, the Group's financial statements for the quarter ended 31 March 2014 do not contain comparative information for the quarter ended 31 March 2013. Instead, in this Information Memorandum regarding the first quarter of 2014, certain comparative information is presented from the income statement for the quarter ended 31 December 2013.

The financial information for the year ended 31 December 2013 contains comparative information for the year ended 31 December 2012. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See note 3.35 to the Group's 2013 financial statements. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 annual report.

Available Information

Pursuant to Cypriot law and the listing rules of the Cyprus Stock Exchange ("**CSE**"), the Group is required to file with CySEC, and make publicly available on the Group's website: (i) unaudited consolidated quarterly financial statements, prepared in accordance with IFRS, within two months after the end of the relevant period; (ii) reviewed condensed consolidated semi-annual financial statements, prepared in accordance with IFRS, within two months after the end of the relevant period; and (iii) audited consolidated annual financial statements, prepared in accordance with IFRS, within four months after the end of the Group's financial year and prior to calling the Group's annual general meeting.

FORWARD-LOOKING STATEMENTS

This Information Memorandum includes forward-looking statements. Such items in this Information Memorandum include, but are not limited to, statements made under "*Risk Factors*", "*Operating and Financial Review and Prospects*" and "*Business Description of the Group*". Such statements can be generally identified by the use of terms such as "believes", "expects", "may", "will", "should", "would", "could", "plans", "anticipates" and comparable terms and the negatives of such terms. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this Information Memorandum could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. The Bank has based these forward-looking statements on its current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Bank or the Group, including, among other things, the factors set out in "*Risk Factors*".

NO INCORPORATION OF WEBSITE

The contents of the Bank's website, or any other website referenced in this Information Memorandum, do not form part of this Information Memorandum.

SUMMARY

The following summary highlights information contained elsewhere in this Information Memorandum. Because it is a summary, it does not contain all of the information you should consider before investing in the Placing Shares. You should carefully read this entire Information Memorandum, including the section entitled "Risk Factors" and the Group's financial statements, including the notes thereto, included elsewhere in this Information Memorandum, before making an investment decision in the Placing Shares. Unless otherwise indicated, all financial information refers to that of the Group on a consolidated basis.

Overview

The Group is the leading banking and financial services group in Cyprus. The Group currently operates through a total of 300 branches, of which 130 operate in Cyprus, 164 in Russia, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group also has 5 representative offices in Russia, Ukraine, China and South Africa. At 31 March 2014, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition accounted for 86.7% of the Group's total gross loans and advances to customers. As of 31 March 2014, the Group employed 7,400 staff worldwide, of which 502 were employed in Ukraine. In April 2014, the Group completed the sale of its Ukrainian business (see "*Business Description of the Group—International Operations—Ukraine*"). As of 31 December 2013 and 31 March 2014, the Group's total assets amounted to €30.3 billion and €29.4 billion, respectively. The Group recorded a total loss after tax attributable to its owners of €2.0 billion for the year ended 31 December 2013 and a total profit after tax attributable to its owners of €31.3 million for the three months ended 31 March 2014.

The Group offers a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services, investment banking, brokerage, fund management, private banking, and life and general insurance.

Rationale for the Placing

The Bank intends to use the net proceeds to strengthen its capital adequacy position.

Competitive Strengths

The Bank believes that its key strengths include the following:

The leading bank in Cyprus

The Bank is the leading bank in Cyprus, based on loans, deposits and number of branches, with a market share in loans in Cyprus of 40% (including cooperative credit institutions) and a market share in deposits of more than 25% at the end of April 2014. As such, it plays an important role in the Cypriot economy and is poised to benefit from the improving macroeconomic situation in the country.

Cyprus has been a member of the EU since 2004 and adopted the euro as its currency in 2008. As a result of its strategic position in the Eastern Mediterranean region, its access to the EU single market, its low tax rates and its developed legal, accounting and banking sectors, it has developed into a regional international business hub as well as a popular tourist destination.

Although Cyprus was deeply affected by the global economic crisis, actions taken by the Government and the Troika - including the reforms being implemented under the EAP - have put the Cypriot economy on the road to recovery. A flexible economy has allowed for significant and rapid adjustments in consumer prices, wages and property. The recession has proven less severe than expected, with the unemployment rate well below that of Greece and Spain, and GDP expected to return to growth in 2015. As a result, S&P and DBRS recently upgraded the Government's credit rating and Cyprus returned to the capital markets in June 2014 with the issue of a €750 million benchmark bond. See "*The Macroeconomic Environment in Cyprus*".

A strengthened management team with significant turn-around experience

As part of its restructuring, the Bank made a number of key management hires. These include John Hourican, the CEO and former head of investment banking at RBS, and Euan Hamilton, the head of the Restructuring and Recoveries Division, who previously was responsible for the sale or run-down of approximately £75 billion of assets at RBS following its bailout by the UK government. Both have substantial experience in bank restructuring and debt collection and recovery. They are supported by a strong senior management team with long-standing experience of the banking and financial services market in Cyprus. See "*Management and Corporate Governance*".

Aggressive management of non-performing loans

The Bank has made significant changes to its management and operational structure to improve the management of its non-performing loans. The newly-created Recoveries and Restructuring Division centralises the management and recovery of delinquent loans across the Group and is also responsible for monitoring all exposures above €100 million, whether performing or not. It currently manages a delinquent loan portfolio of approximately €12 billion. Since its inception in December 2013, the RRD has restructured a €1.9 billion backlog of loans requiring restructuring, collected approximately €177 million through its new collections process and sold the Group's largest concentration of non-performing loans for approximately €165 million, realising an accounting gain of €27 million. See "*Business Description of the Group*".

Emphasis on a prudent capital structure

The Group has prioritised the building of a prudent capital structure to enable it to withstand contingent risks and to rebuild market confidence. Following the completion of the Placing, the Group expects that its transitional Common Equity Tier 1 (CET) ratio will be approximately 15%, against a required 8.0%, and estimates that its fully-Basel III compliant CET 1 ratio will be approximately 14%. The CBC has currently prohibited the Bank from paying dividends until the end of 2017 which, together with the Group's deleveraging actions, should further bolster its capital position.

Strategy

The Group intends to achieve the objectives set out in the Restructuring Plan and to position itself to support the recovery of the economy in Cyprus through the following measures:

Shrink to strength

The Group has been disposing of non-essential assets and operations in order to focus on its core business in Cyprus. It has exited its businesses in Greece, Ukraine and Romania and continues to examine its remaining international operations in terms of profitability and synergies with its core domestic business. In Cyprus, the Bank has simplified its organisational structure and rationalised its branch network and headcount to improve efficiency. It will continue to rationalise its loan portfolio to improve its capital and funding positions.

Focus on asset quality

A key priority for the Group is to increase the quality of its loan portfolio. In December 2013 the Group established the RRD to manage the Group's NPL portfolio, pro-actively restructuring, collecting or selling delinquent loans and managing all large exposures. As a result, the first quarter of 2014 showed the first reduction in NPLs after 16 consecutive quarterly increases. While the Group's NPL ratio remains high, at 53% of gross loans at the end of 2013, the loan portfolio is adequately collateralised and adequately provisioned. At 31 December 2013, the Group had a maximum exposure to risk in respect of its loans and advances to customers of €21.8 billion, but the fair of net collateral held by the Group was €19.8 billion, leaving a net exposure to credit risk of €1.9 billion. Total provisions at 31 December 2013 were €3.1 billion. See "*Selected Statistical and Other Information*". The Group has recently implemented a new lending policy with tighter credit approval requirements. Going forward, the Group intends to focus on growth in lower-risk retail products and customers, as well as targeted business sectors for SME and corporate customers, such as professional services, education, energy, green project and information and communication technology.

Diversify funding sources

Historically, customer deposits provided the principal source of funding for the Group. However, as part of the Recapitalisation a significant proportion of deposits were converted into equity, with customer deposits falling during 2013 from €28.4 billion as at 31 December 2012 to €15.0 billion as at 31 December 2013. In addition, together with many other Southern European banks, the Group lost access to the capital markets as a source of funding during this period. As a consequence, the Group is currently heavily reliant on central bank funding, which comprised 42.4% of its funding at 31 March 2014.

The Group intends to steadily reduce its central bank funding, both in absolute terms and as a percentage of total funding, and has already repaid approximately €1,750 million of central bank funding, including €950 million with the proceeds from the repayment of a Cyprus sovereign bond held by it. It has implemented a deposit gathering and retention campaign to grow its deposit base as confidence in the Cyprus banking system returns. Following the completion of the Placing, the Group intends to resume issuing debt securities in the capital markets as and when market conditions allow.

Increase fee income

The Bank will seek to increase its fee income to increase revenues without a corresponding increase in capital requirements. To this end, the International Banking Services division is shifting its focus from deposit gathering to international transaction services. The Corporate Banking Division is focusing on fee generating activities such as factoring, debtor collection, assessment services, ledger administration and trade finance. The Bank is also looking to increase its distribution of bancassurance products through its branch network. The Wealth, Brokerage and Asset Management division generates most of its income in the form of fees and commissions and is expected to be an additional driver of fee income growth. As the economic recovery in Cyprus takes hold, CISCO should also see an increase in investment banking and advisory fees.

Recent Developments

In April 2014, the Bank partially released the nine-month time deposits that comprised the second tranche of the New Deposits issued by the Bank pursuant to the Recapitalisation and which had been subject to restrictive measures pursuant to the Capital Controls Decree. The Bank has released and converted these nine-month deposits as follows:

- one-third of the deposits was immediately released and available in customer current accounts;
- one-third of the deposits was converted into three-month time deposits maturing and automatically released on 31 July 2014; and
- one-third of the deposits was converted into six-month time deposits maturing and automatically released on 31 October 2014.

The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

In April 2014, the Group completed two disposals in connection with its Restructuring Plan and divestment of non-core businesses:

- the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, to Alfa Group, the Russian banking group, for approximately €202.5 million comprising €102.5 million received and €100.0 million deferred up to 31 March 2015; and
- the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million.

In addition, in April 2014, the Group announced that it was proceeding with the sale of a real estate loan portfolio in the United Kingdom, largely composed of residential and commercial real estate-backed facilities. The loan portfolio was part of the wider United Kingdom loan portfolio transferred to the Bank pursuant to the Laiki Transfer Decrees.

In May 2014, the Bank sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank for approximately €165.0 million, which has had a positive impact on the Bank's liquidity and capital position. The loans were transferred to the Bank following the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees.

In June 2014, the Group substantially completed its integration of ex-Laiki Bank operations through the migration of information technology systems across all divisions.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group will realise an accounting profit of approximately €95 million for the second quarter of 2014, which will have a positive impact of approximately €95 million or 0.4 percentage points on the Group's CET1 ratio.

On 4 July 2014, Fitch upgraded the Bank's long-term issuer default rating from Restricted Default to CC, upgraded its short-term issuer default rating from Restricted Default to C and affirmed its viability rating at cc.

Company Information

The Bank was founded in 1899 and is the holding company of the Bank of Cyprus Group. The registered office of the Bank is located at the Group Headquarters at 51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company limited by shares and is registered in the companies register of Cyprus with registration number HE 165. The Bank's legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus.

The Bank has a primary listing on the CSE and a secondary listing on the Athens Stock Exchange ("**ATHEX**"). It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 19 March 2013, the Existing Ordinary Shares have been suspended from trading on the CSE and ATHEX.

THE PLACING

The Issuer	Bank of Cyprus Public Company Limited.
Number of Existing Ordinary Shares outstanding prior to the Placing	4,743,203,680 Existing Ordinary Shares.
The Placing	Approximately €1 billion through the issuance of new Ordinary Shares.
Listing and trading of Placing Shares	There is no established trading market for the Ordinary Shares. Although the Bank has a primary listing on the CSE and a secondary listing on ATHEX, 0.5% of the Bank's Existing Ordinary Shares are currently listed on these stock exchanges and these Existing Ordinary Shares have been suspended from trading on both stock exchanges since 19 March 2013. Accordingly, no transfer of these listed Existing Ordinary Shares can be effected over the CSE or ATHEX unless and until these Existing Ordinary Shares are released from their suspension from trading or unless and until the CSE or ATHEX elect to allow, in their discretion, transfers of listed Existing Ordinary Shares. Transfers of Ordinary Shares (excluding the listed Existing Ordinary Shares) can only be made through the physical submission of an instrument of transfer together with the original share certificate (if any). See "*Description of Ordinary Shares—Form and Transfer of Ordinary Shares*". The Bank intends to seek a listing for the entire class of Ordinary Shares on the CSE and ATHEX in the short term, and will explore moving the secondary listing to another European stock exchange in the medium term. If and when all of the Ordinary Shares are admitted to trading on the CSE and ATHEX, the Ordinary Shares will automatically be dematerialized in accordance with the Bank's articles of association and the relevant listing rules of the CSE and ATHEX and tradeable in accordance with the procedures of the CSE and ATHEX.
Conditions of the Placing	The completion of the Placing is subject to a number of conditions, including the approval at the EGM of certain shareholder resolutions required for the implementation of the Placing and the Open Offer, including the approval of the Nominal Value Reduction and the approval of the Nominal Value Reduction by the District Court of Nicosia. The Nominal Value Reduction is required because, under Cypriot corporate law, the Bank is not permitted to issue Ordinary Shares at a price per Ordinary Share which is below the nominal value of each Ordinary Share and the Placing Price will be set at a discount in respect of the current nominal value of the Ordinary Shares. Assuming that the relevant shareholder resolutions are approved at the EGM, the Bank will file an application with the District Court of Nicosia for the approval of the Nominal Value Reduction and, assuming that the court provides the requisite court order approving the Nominal Value Reduction, the Bank will file the court order with the Department of Registrar of Companies and Official Receiver and the Nominal Value Reduction will take effect upon such filing. The Open Offer will provide the Existing Shareholders with the opportunity to subscribe, over a period of 15 business days, for 20% of the total number of Placing Shares at the Placing Price for a total

	consideration of at least €100,000 per Existing Shareholder. The initial allocation of Placing Shares to Placees will be subject to clawback in order to satisfy valid applications by Existing Shareholders under the Open Offer and the number of Placing Shares received by a Placee could decrease by up to 20% as a result of such clawback. Notification of the EGM will be made by way of a shareholders circular sent by the Bank to Existing Shareholders which will include, amongst other things, the date, place and time of the EGM and the full text of the special resolutions proposed for approval at the EGM. The shareholders circular will also contain the terms and conditions of the Open Offer and information on the Group and the Placing substantively as set out in this Information Memorandum. For more detail on the Placing (including an indicative timetable for the EGM, Open Offer, the approval of the Nominal Value Reduction and other principal events in relation to the Placing) and the terms and conditions of the Placing, see "*Description of the Placing*".
Use of proceeds	The Bank intends to use the net proceeds to strengthen the Bank's capital adequacy position.
Dividends	The CBC has imposed a prohibition on the distribution of dividends by the Bank for the period of the Restructuring Plan (i.e., 31 December 2017) and, therefore, the Bank does not expect to distribute dividends during this period. The Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time. See also "*Risk Factors—Risks relating to the Placing and the Ordinary Shares—The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan*".
Voting Rights	Each Ordinary Share gives the holder the right to cast one vote at a general meeting of shareholders. No shareholders possess different voting rights per Ordinary Share from other shareholders. For information on the Voting Rights, see "*Description of Ordinary Shares*" and "*Description of Articles of Association*".
Placing Restrictions	The Placing Shares may be placed to eligible investors outside the United States in offshore transactions in reliance on Regulation S, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Placing is only addressed to persons to whom it may lawfully be addressed. The distribution of this Information Memorandum and the offer and sale of the Placing Shares may be restricted by law. Persons into whose possession this Information Memorandum comes or who wish to subscribe for or purchase Placing Shares must inform themselves about and observe any such restrictions. Any failure to comply with any of those restrictions may constitute a violation of applicable securities laws. The Placing Shares have not been and will not be registered under the Securities Act or any state securities laws of any state of the United States. Accordingly, the Placing Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "*Selling and Transfer Restrictions*".

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The summary consolidated financial and other information provided below should be read in conjunction with the audited and unaudited consolidated financial statements and the notes thereto and "Operating and Financial Review and Prospects" included elsewhere in this Information Memorandum. The Group's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) included in this Information Memorandum were prepared in accordance with IFRS as adopted by the European Union. The Group's unaudited interim condensed consolidated financial statements as at and for the three months ended 31 March 2014 included in this Information Memorandum were not prepared in accordance with IAS 34, since the Group did not present comparative information as no information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events of March 2013. In addition, the comparability of the financial information below is limited in certain respects. See "Presentation of Financial and Other Information".

Consolidated Income Statement Data

	Year ended 31 December		Three months ended	
	2012(1)	**2013(1)**	**31 December 2013(1)**	**31 March 2014(1)**
	(€'000)			
Continuing operations				
Turnover	1,859,797	1,966,621	467,197	480,026
Interest income	1,415,611	1,660,461	421,570	392,716
Interest expense	(713,835)	(661,030)	(148,002)	(125,758)
Net interest income	701,776	999,431	273,568	266,958
Fee and commission income	191,566	193,458	49,989	48,180
Fee and commission expense	(18,881)	(24,639)	(6,571)	(2,901)
Net foreign exchange gains/(losses)	24,948	(5,148)	(3,560)	(5,571)
Net (losses)/gains on financial instrument transactions and disposal of subsidiaries	(27,899)	10,589	26,513	19,570
Insurance income net of claims and commissions	62,972	64,956	14,171	13,126
Other (expense)/income	(15,099)	(64,282)	(40,437)	491
Total income	**919,383**	**1,174,365**	**313,673**	**339,853**
Staff costs	(293,556)	(442,797)	(66,008)	(67,456)
Other operating expenses	(260,553)	(277,196)	(89,536)	(61,043)
Profit before impairment of loans and advances and goodwill and intangible assets	**365,274**	**454,372**	**158,129**	**211,354**
Provisions for impairment of loans and advances	(1,339,269)	(1,067,345)	(267,897)	(146,465)
Impairment of goodwill and intangible assets	(359,746)	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,333,741)**	**(612,973)**	**(109,768)**	**64,889**
Share of profit from associates and joint ventures	222	1,885	8	2,135
(Loss)/profit before tax	**(1,333,519)**	**(611,088)**	**(109,760)**	**67,024**
Tax	43,463	5,184	2,126	(2,232)
(Loss)/profit after tax	**(1,290,056)**	**(605,904)**	**(107,634)**	**64,792**

	Year ended 31 December		Three months ended	
	2012[(1)]	2013[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
	(€'000)			
Loss after tax from discontinued operations	(932,290)	(1,455,604)	–	(35,987)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**
Attributable to:				
Owners of the Bank – continuing operations	(1,280,825)	(593,898)	(102,732)	67,257
Owners of the Bank – discontinued operations	(932,290)	(1,455,604)	–	(35,948)
Total (loss)/profit attributable to the owners of the Bank	**(2,213,115)**	**(2,049,502)**	**(102,732)**	**31,309**
Non-controlling interests – continuing operations	(9,231)	(12,006)	(4,902)	(2,465)
Non-controlling interests – discontinued operations	–	–	–	(39)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011). The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Consolidated Balance Sheet Data

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)		
Assets			
Cash and balances with central banks	1,272,424	1,240,043	963,963
Placements with banks	1,768,836	1,290,102	1,141,169
Investments	1,135,333	2,759,855	2,809,356
Investments pledged as collateral	734,747	672,809	665,382
Derivative financial assets	26,794	28,765	27,877
Loans and advances to customers	24,374,531	21,764,338	21,233,958
Life insurance business assets attributable to policyholders	495,756	443,579	449,907
Property and equipment	483,193	414,404	403,424
Intangible assets	123,555	130,580	129,967
Other assets	613,760	1,401,833	1,347,334
Investments in associates and joint ventures	3,107	203,131	205,932
Total assets	**31,032,036**	**30,349,439**	**29,378,269**

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Liabilities			
Amounts due to banks	341,044	196,422	171,236
Funding from central banks	–	10,956,277	10,905,788
Repurchase agreements	607,773	594,004	582,489
Derivative financial liabilities	183,826	83,894	77,662
Customer deposits	28,442,152	14,971,167	14,065,675
Insurance liabilities	604,170	551,829	556,143
Debt securities in issue	44,775	1,515	1,493
Other liabilities	339,727	251,979	253,482
Subordinated loan stock	133,294	4,676	4,743
Total liabilities	**30,696,761**	**27,611,763**	**26,618,711**
Equity			
Share capital	1,795,141	4,683,985	4,699,503
Shares subject to interim orders	–	58,922	46,244
Share premium	428,271	–	–
Convertible Enhanced Capital Securities (CECS)	428,835	–	–
Revaluation and other reserves	106,336	72,251	67,099
Accumulated losses	(2,500,530)	(2,151,835)	(2,123,523)
Equity attributable to the owners of the Bank	258,053	2,663,323	2,689,323
Non-controlling interests	77,222	74,353	70,235
Total equity	**335,275**	**2,737,676**	**2,759,558**
Total liabilities and equity	**31,032,036**	**30,349,439**	**29,378,269**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Selected Financial Ratios and Other Data

	As of and for the year ended 31 December		As of and for the three months ended 31 March
	2012(1)	2013(1)	2014(1)
	(€ billion except % and x)		
Key figures and ratios			
Net interest margin	2.9%	3.5%	4.0%
Cost to income ratio (excluding one-off expenses)(2)	59%	47%	36%
Gross loans	28.1	26.7	26.3
Customer deposits	28.4	15.0	14.1
Loans to deposits ratio	86%	145%	151%
Provisioning charge (cost of risk)(3)	8.1%	4.7%	2.2%
90+DPD provision coverage ratio(4)	48%	38%	39%
90+DPD(4) loans	7.7	13.0	12.8
90+DPD ratio(4)	27%	49%	49%
Leverage ratio(5)	92.6x	11.1x	10.6x
Basel II Regulatory Capital(6)			
Core tier 1 capital ratio	-1.9%	10.2%	N/A
Tier 1 capital ratio	0.6%	10.2%	N/A
Total capital ratio	0.9%	10.5%	N/A
Risk-weighted assets	21.6	22.4	N/A
	(€'000 except %)		
CRD IV/CRR Regulatory Capital(7)			
Transitional Common Equity Tier 1 (CET1)	N/A	2,495,585	2,496,549
Transitional Additional Tier 1 capital (AT1)	N/A	-	-
Tier 2 capital (T2)	N/A	45,204	51,794
Transitional total regulatory capital	N/A	2,540,789	2,548,343
Risk-weighted assets – credit risk	N/A	21,788,374	21,417,827
Risk-weighted assets – market risk	N/A	3,398	54,379
Risk-weighted assets – operational risk	N/A	2,057,687	2,058,000
Total risk-weighted assets	N/A	23,849,459	23,530,206
Transitional Common Equity Tier 1 (CET1) ratio	N/A	10.5%	10.6%
Transitional total capital ratio	N/A	10.7%	10.8%

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

(2) One-off expenses include restructuring expenses (€4.6 million and €167.3 million as at 31 March 2014 and 31 December 2013, respectively).

(3) Provisioning charge (cost of risk) is the ratio of provision charge excluding discontinued operations to the average balance of gross loans, with the average balance calculated as the average of the opening balance and the closing balance.

(4) 90+DPD is all loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired.

(5) The leverage ratio is the ratio of total assets to total equity for the relevant period.

(6) On 31 December 2013, the minimum requirements for Tier 1 and total capital ratios were abolished.

(7) The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014. The Group's CET1 on a fully loaded basis is estimated at 9.7%, primarily affected by the deduction of the deferred tax asset, which will be phased in starting from 1 January 2014.

RISK FACTORS

Investing in the Placing Shares involves risk. You should carefully consider the risk factors set out below and all other information contained in this Information Memorandum, including the Group's financial statements and the related notes, before making any investment decision regarding the Placing Shares. The risks and uncertainties described below are those currently known and specific to the Group or the banking industry that the Group believes are relevant to an investment in the Placing Shares. If any of these risks or uncertainties materialises, the Group's financial condition or results of operations could suffer, the price of the Ordinary Shares could decline and you could lose part or all of your investment. Moreover, the risks and uncertainties described below may not be the only ones faced by the Group. Additional risks not currently known to the Group or that the Group now deems immaterial may also adversely affect the Group and any investment in the Placing Shares.

Risks Relating to the Economic Crisis in Cyprus

The uncertain economic conditions in Cyprus have had, and are likely to continue to have, a material adverse effect on the Bank.

As of 31 December 2013, 94.4% and 91.2% of the Bank's total assets and total liabilities, respectively, and 88.0% of the Bank's total income from continuing operations in 2013, were derived from its operations in Cyprus. As of 31 March 2014, 95.2% and 91.8% of the Bank's total assets and total liabilities, respectively, and 88.1% of the Bank's total income from continuing operations for the first quarter of 2014, were derived from its operations in Cyprus. Given its high credit exposure to Cypriot businesses and households, the Bank's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus.

The Cypriot economy has faced and continues to face substantial macroeconomic pressures. These pressures derive from the impact of an extremely deep recession on private sector finances and the fiscal effort needed to achieve sustainable primary surpluses in the Government's budget in the years to come.

The evolution of real gross domestic product ("**GDP**") in Cyprus changed from growth of 1.3% in 2010 to a decline of 2.4% in 2012. The contraction in real GDP increased to 5.4% in 2013, with a decline in all components in domestic demand. The recession is expected to continue in 2014, with the decline in real GDP projected at 4.2% by the European Commission. In the labour market, unemployment remains high, with a total yearly average unemployment rate of 15.9% in 2013.

Although the recession for 2014 is expected to be less severe than originally anticipated and has led the European Commission to revise its expectation for a contraction in real GDP from 4.8% to 4.2%, the European Commission has emphasized that the economic outlook remains challenging for Cyprus, particularly as a result of continuing high unemployment rates and high levels of indebtedness that will continue to constrain the supply of credit. Accordingly, Cyprus' economic recovery is expected to be more subdued than previously forecast by the European Commission, with growth projected at 0.4% in 2015 compared with an initial forecast of 0.9%. Any prolonged continuation or further decline in economic conditions in Cyprus could have a material adverse effect on the Bank's business, results of operations and financial condition (see also "*—The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus*" below).

The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank.

In response to the Cypriot economic crisis, the Government agreed an Economic Adjustment Programme ("**EAP**") with the European Commission, the European Central Bank ("**ECB**") and the IMF (collectively, the "**Troika**") on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The Memorandum of Understanding (as amended, "**MoU**") prepared by Troika and approved by the European Stability Mechanism ("**ESM**") on 24 April 2013, specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance, which include measures related to revenue, public expenditure, as well as pension and health care reform. The MoU addresses short and medium term financial, fiscal and structural challenges facing Cyprus and seeks, among other things, to restructure and downsize financial institutions in Cyprus, correct the governmental deficit by reducing expenditure and enhancing revenue collection, and implement structural reforms to support competitiveness and growth. For a further discussion of the MoU and EAP and the status of Cyprus' compliance with the requirements of the MoU, see "*The Macroeconomic Environment in Cyprus*".

The MoU sets a number of targets for the Government, including limits on governmental expenditures and debt. Achieving these targets has required and will continue to require the government to implement a number of austerity measures. In addition, the MoU sets out an agenda for privatisation and reforms to the labour market, the pension and welfare systems and insolvency legislation which may prove unpopular and be difficult for the Government to implement. Many of these austerity measures and reforms involve changes to Cypriot legislation which require parliamentary approval and, accordingly, will be subject to debate and intense lobbying by trade unions and other vested interests opposed to these changes. While it is hoped that these austerity measures and reforms will ultimately restore the health of the Cypriot economy, in the short to medium term they (as with austerity measures adopted in other countries) are expected to have an adverse impact on growth and public and private expenditure in Cyprus and the Government may engage in other measures aimed at alleviating the economic crisis in general. Accordingly, unless and until the expected macroeconomic benefits from the MoU begin to appear, the Bank will continue to be adversely affected by many of the measures taken in implementing the requirements of the MoU and by any other measures taken by the Government aimed at alleviating the economic crisis in Cyprus.

In addition, the implementation by the Government of the measures and reforms set out in the MoU has given rise, and will continue to give rise, to uncertainties as to the extent and impact of these measures and reforms, particularly with respect to tax legislation and the financial services sector in which the Group operates. For example, a draft bill proposed to provide the Cypriot tax authorities with wide powers with respect to the seizure of assets, including deposits in a bank. To the extent that these reforms are more extensive and costly than anticipated by the market, this could have a material impact on the Group's operations, business and financial condition. If the requirements of the MoU are not implemented successfully or if additional austerity or other measures beyond those agreed to in the MoU are required to compensate for potential deviations from the MoU's targets, economic activity in Cyprus may also register a weaker than expected performance in the future, which will result in a delayed recovery and a further adverse effect on the Bank's business, financial condition and results of operations.

Failure to comply with the conditions and requirements of the MoU could lead to the Troika withholding the release of funds by the ESM and IMF, which would have a material adverse effect on the Government's ability to meet its debt obligations, on the economy of Cyprus and, consequently, on the Bank. If another credit event with respect to the Government's debt occurs, this could result in a downgrade of Cyprus' credit ratings which could lead to a revision of the risk-weighting criteria for calculating the Bank's risk-weighted assets and, consequently, have a negative impact on the Group's capital ratios (also, see "*—Risks Relating to the Group's Business—The Bank's wholesale borrowing costs and access to liquidity and capital have been negatively affected by a series of downgrades of the credit ratings of Cyprus and the Bank and the Bank's access to capital depends on its credit rating*" and "*—Risks Relating to the Group's Business—Deteriorating asset valuations resulting from poor market conditions may adversely affect the Bank's future earnings and its capital adequacy*").

Further, the failure to implement certain structural reforms specified in the MoU, such as the reduction of the government deficit and enhancement of revenue collection, could result in Cyprus' failure to restore its economy and credit ratings. Moreover, there can be no assurances that financial assistance to the Government from the Troika will continue in the future as a result of increasing public opinion discontent regarding the support of Cyprus and other Eurozone countries.

The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus.

The Group is one of the largest providers of loans in Cyprus and has a significant exposure to the financial performance and creditworthiness of companies and individuals in Cyprus. As of 31 March 2014, the Group accounted for 40% of gross loans in the Cypriot banking system (based on CBC information) and the Group's loans and advances to customers in Cyprus accounted for 86.7% of its total loans and advances to customers.

The protracted period of poor economic conditions in Cyprus is materially and adversely affecting the liquidity, business activity and financial conditions of the Bank's borrowers which in turn leads to further decreases in demand for borrowing in general and increases the Group's loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired ("**90+DPD**"), impairment charges on loans and other financial assets and deposit outflows. In addition, the Group's loans and advances to customers declined from €27.4 billion as at 31 December 2011 to €21.8 billion as at 31 December 2013 and to €21.2 billion as at 31 March 2014, and the Group's loans that were 90+DPD increased from €5.0 billion as at 31 December 2011 to €13.0 billion as at 31 December 2013. The ratio of loans that were 90+DPD to gross loans (the "**90+DPD Ratio**") was 48.6% as at 31 December 2013 and 31 March 2014. Although the loans that were 90+DPD decreased from €13.0 billion as at 31 December 2013 to €12.8 billion as at 31 March 2014, there can be no assurance that the Group will be able to maintain this decrease in the Group's delinquent loans. It should also be noted that the Bank's non-performing loans calculated on the basis of the new definition provided by the CBC increased from €14.0 billion as at 31 December 2013 to €14.4 billion as at 31 March 2014. For an explanation of the CBC definition of non-performing loans and a discussion of the Bank's non-performing loan portfolio, see "*Operating and Financial Review and Prospects—Presentation and Comparability of Financial Information—Non-Performing Loans*" and "*Selected Statistical and Other Information—Credit Risk—Non-performing loans*", respectively. If the financial performance and creditworthiness of the Group's borrowers in Cyprus worsen or do not improve, the quality of the Group's domestic loan portfolio will continue to deteriorate and, consequently, this would have a material adverse impact on the Group's financial condition and results of operations.

Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market.

In the years prior to 2009, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU and increased foreign demand, led to an increase in the demand for mortgage loans in Cyprus. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, Cyprus' real estate market began to decline mainly as a result of the global financial crisis from 2009 onwards. As a result of the Cypriot economic crisis, Cyprus suffered its largest decline in real estate prices in 2013. The residential property price index maintained by the CBC indicated a 6.8% decrease in real terms from 2012 to 2013, which is the largest decrease since the CBC's first publication of this index in the first quarter of 2007.

The Group has substantial exposure to the Cypriot real estate market and the continuing deterioration of Cypriot real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Cypriot real estate market due to a significant portfolio of own use and investment properties in Cyprus with a total book value of €491.7 million at 31 December 2013 and due to the fact that Cypriot real estate assets secure a substantive proportion of its outstanding loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices. Further, the Group's ability to sell real estate (in case of foreclosure) is limited by the continuing depression in the Cypriot real estate market both in terms of price and demand. In particular, the depression in real estate prices could be exacerbated if a significant proportion of the real estate for sale in Cyprus is comprised of foreclosed real estate. If Cypriot real estate prices and demand fail to recover, the Group's business may be materially adversely affected, which could materially and adversely affect its financial condition and results of operations.

There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful.

In 2010, the U.S. Geological Survey estimated that the Levant Basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus, has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 3.5 trillion cubic meters. The MoU provides for the development of these domestic oil and natural gas reserves as a medium to long term prospect for the reduction of Cyprus' energy import dependency and energy prices which, in turn, would have a positive impact on the Cypriot economy. However, all estimates of energy reserves involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated and, accordingly, the energy reserves in the Levant Basin may not be as large, or recoverable, as initially estimated. In addition, the successful development of these energy reserves involve significant challenges in terms of financing and planning the infrastructure required to exploit these energy reserves, designing efficient energy markets and implementing an adequate regulatory regime. Accordingly, there can be no assurance that the development of the Cyprus' domestic oil and natural gas reserves will be successful or result in a positive impact on the Cypriot economy.

Risks Relating to the Global Financial Markets and the Group's Operations Outside Cyprus

Political and economic developments in Cyprus and overseas could adversely affect the Group's operations.

External factors, such as political and economic developments in Cyprus and overseas, may negatively affect the Group's operations, its strategy and prospects. The Group's financial condition, its operating results as well as its strategy and prospects may be adversely affected by events outside its control, which include but are not limited to:

- changes in the level of interest rates imposed by the ECB;
- fluctuations in consumer confidence and the level of consumer spending;
- EU regulations and directives relating to the banking and other sectors;
- political instability or military conflict that impact Europe and/or on other regions; and
- taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU. For example, on 18 March 2014, the Russian Ministry of Finance published a draft law which proposes to impose tax on the income of companies that are registered in offshore jurisdictions (such as Cyprus) and are owned by Russian ultimate beneficiaries. If this law is passed, it could have a material adverse impact on the Bank's deposits from Russian customers.

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which could have a negative impact on Cyprus and the international economic conditions generally, and more specifically on the business and results of the Group in ways that cannot necessarily be predicted.

There can be no assurance as to the realisation of any of these events or that a further weakening in the Cypriot economy will not have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group is vulnerable to the ongoing disruptions and volatility in the global financial markets.

Since the second half of 2007, disruption in the global credit markets has created increasingly difficult conditions in the financial markets. These conditions have resulted in decreased liquidity and greater volatility in global financial markets, and continue to affect the functioning of financial markets and the global economy. Although global growth gained traction in the course of 2013 and is expected to improve further in 2014, this is mainly supported by the ongoing accommodative monetary policy, combined with less severe fiscal tightening, in most major economies. In particular, the US economy grew in the second half of 2013, mainly as a result of an improvement in the housing and labour market, an expansionary monetary policy, as well as declining fiscal risks related to the rise of the US government's debt ceiling. The deceleration in the growth of the Chinese economy in 2013 was offset by the Chinese government's proactive fiscal and monetary policy and China's economy remains subject to significant risks including a significant concentration of debt financing in public infrastructure projects and oversupply in the manufacturing and real estate sectors. The Eurozone economy exited recession in the second quarter of 2013 following six quarters of negative economic activity. However, the Eurosystem is expected to remain on an monetary easing mode throughout 2014 and it is expected to use more unconventional monetary policy tools, such as Targeted Long Term Refinancing Operations (or TLTROs), lower policy rates and asset purchases, to reduce the risk of deflation. Accordingly, the continuing recovery of the global economy remains subject to the continued employment of accommodative and expansionary monetary policies by major economies and there can be no assurance that the governments of these economies will continue to do so or that the employment of these policies will be sufficient to address the fiscal risks which remain. In particular, in Europe, despite measures taken by several governments, international and supranational organisations and monetary authorities to provide financial assistance to Eurozone countries in economic difficulty and to mitigate the possibility of default by such countries on their sovereign debt obligations, concerns persist regarding the debt and/or deficit burden of certain Eurozone countries, including Cyprus, and their ability to meet future financial obligations, given the diverse economic and political circumstances in individual member states of the Eurozone. It remains difficult to predict the effect of these measures on the economy and on the financial system, how long the crisis will last and to what extent the Group's business, results of operations and financial condition may be adversely affected. As a result of the foregoing risks concerning the continued recovery of the global economy, the Group's ability to access the international capital and financial markets to meet the financial requirements of the Group may be adversely impacted and costs of financing may significantly increase. This could materially and adversely affect the business, financial condition and results of operations of the Group.

The Group's operations and assets in Russia and Romania have been, and may continue to be, adversely affected by recent economic and political events.

The Group had a significant presence in Russia and Romania, which are both Central and Eastern European Countries that share a common history of volatile capital markets and exchange rates, political, economic and financial instability, and, in many cases, underdeveloped political, financial and legal systems and infrastructures.

The Group operates in Russia mainly through its Russian subsidiary, CB Uniastrum Bank LLC ("**Uniastrum**"). Russia is the Group's largest market outside of Cyprus, representing 10.9% of income from continuing operations in 2013, 4.3% of total assets and 5.0% of total liabilities. Even though the Bank disposed of certain assets and liabilities of its Romanian operations to Marfin Bank (Romania) SA ("**Marfin Bank Romania**") pursuant to the Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Romanian Operations Decree**") and, in April 2014, sold its 9.99% equity stake in Banca Transilvania, a Romanian bank, the Bank still operates a branch in Romania which is managing the Bank's remaining loan portfolio and the disposal of loan collateral assets which are primarily comprised of real estate in Romania. As of 31 March 2014, the Group's gross loans and advances to customers in Romania before fair value adjustments on initial recognition were €472.4 million. The Group's investment property in Romania at 31 March 2014 amounted to €34.8 million. The Bank also has significant intragroup funding exposures with respect to Uniastrum and its remaining operations in Romania. As of 31 March 2014, the Bank's total net intragroup funding to its units in Russia and in Romania was €308.9 million and €343.8 million, respectively.

Both Russia and Romania have been adversely affected by the global economic crisis. In 2013, Russia's GDP growth was 1.3% according to the World Bank. Loss before tax from the Group's Russian operations amounted to €51.8 million and €42.7 million for the years ended 31 December 2013 and 31 December 2012, respectively, primarily as a result of provisions for impairment of loans and advances. While Romania's GDP growth was 3.5% in 2013, this was preceded by GDP growth of 0.6% in 2012 according to the European Commission. In addition, Romania has suffered several waves of social unrest from 2012 to 2013 and benefited from EU financial assistance three times, the latest having been agreed in October 2013.

The adverse economic situation in Russia has been exacerbated by events related to the accession of Crimea to the Russian Federation in March 2014 and subsequent unrest by Russian separatists in Eastern Ukraine following the presidential elections in Ukraine in May 2014. Following these events, both the European Union and the United States have imposed economic sanctions against Russia and certain Russian citizens and have threatened to impose additional sanctions. It is currently uncertain how much the current unrest in Ukraine and the resulting economic sanctions against Russia will affect the Russian economy. While Romania has not been directly involved or affected by the recent events in Ukraine, it shares a border with Ukraine and its economy could be indirectly affected by any negative impact that these events have on Ukraine's or Russia's economy.

Any significant deterioration of general economic conditions in Russia and Romania, and in particular a decline in their growth rates or credit ratings, as well as continued political disturbances in the region, may have a material adverse effect on the Group's Russian bank subsidiary, its operations and assets in Romania. In addition, a prolonged crisis between Russia and Ukraine could restrict the ability of Russian and Ukrainian customers to deposit with the Bank in Cyprus.

Risks Relating to the Group's Business

The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank.

The Bank is participating in the ECB's Asset Quality Review ("**AQR**"), run as part of the ECB's comprehensive assessment prior to inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions ("**SSM**"). As a result, it is also subject to the ECB's stress testing process. Disclosure of the results of these exercises are planned in late 2014. If the results of these exercises determine that the capital requirements for the Bank should be increased, this could lead to increased costs for the Bank, limitations on the Bank's capacity to lend and further restructuring of the Group which could have a material adverse effect on the business, financial condition and results of operations of the Group. Moreover, if the Bank is not able to strengthen its capital adequacy by raising funds from its shareholders or the capital markets, or by implementing other capital enhancement measures, it may need to seek additional funding by means of state support, thereby increasing the likelihood that its shareholders will be subject to limitations on their rights, suffer significant dilution in their shareholding and/or incur significant losses in their investments.

Stress tests analysing the European banking sector have been, and the Bank anticipates that they will continue to be, published by national and supranational regulatory authorities. At present, it is not clear how the ECB's stress tests will be aligned with the requirements of the EAP. Loss of confidence in the banking sector following the announcement of stress tests regarding the Bank or the Cypriot banking system as a whole, or a market perception that any such tests are not rigorous enough, could also have a negative effect on the Group's cost of funding and may thus have a material adverse effect on its results of operations and financial condition.

The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs.

The capital adequacy regulations which govern the Group's operations are established by the CBC through its Directive for the Calculation of the Capital Requirements and Large Exposures.

The Group has prepared a Restructuring Plan which was approved by the CBC in November 2013. The Restructuring Plan defines the Group's strategy, business model and risk appetite. An important target in the Restructuring Plan is the compliance by the Bank with the minimum capital adequacy requirements set forth by the CBC. The minimum capital adequacy ratios as determined by the CBC throughout the period and until 30 December 2013 were: a Core Tier 1 ratio of 8.7%, Tier 1 ratio of 10.2% and total capital ratio of 12.2%. As of 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios were abolished. The Bank's Core Tier 1 ratio stood at 10.2% as at 31 December 2013.

As from 1 January 2014, CRD IV and the CRR became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by and is immediately binding on all EU Member States. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV must be transposed into national law and national regulators, such as the CBC, can impose additional capital buffer requirements. The CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. For more detail on CRD IV and the CRR, see "*Regulation and Supervision of Banks in Cyprus—Guidelines for Capital Requirements*". As of 31 March 2014, the Bank's Common Equity Tier 1 ratio was 10.6%.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and, on 29 May 2014, set the minimum Common Equity Tier 1 capital ratio at 8%. The CBC will also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements, taking also into account the provisions of CRD IV/CRR and any additional capital requirements which may arise upon the finalisation of the AQR and the EU-wide stress test (Pillar II add-ons).

The implementation of a more demanding and restrictive regulatory framework, with respect to, amongst other things, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, will imply additional costs for banks. In particular, these regulatory requirements may result in a need for additional capital strengthening by the Bank in order to comply with the more demanding capital ratios and the lower profitability of such capital. Further, in light of its past non-compliance with capital requirements, the Recapitalisation and its exposure to the Government and economy, there is also an increasing market expectation that the Bank should increase its capital position to a level aligned or surpassing that of its competition. There can be no assurance that the Bank will be able to raise the additional capital required by regulation or expected by the market and any failure to do so could have a material adverse effect on its reputation, financial condition and results of operation.

Compliance with new regulations might also restrict certain types of transactions, affect the Bank's strategy and limit or imply the modification of the rates or fees charged by the Bank for certain loans and other products, where any of the foregoing might reduce the yield of its investments, assets or holdings. Accordingly, the Bank might face increased limitations on its capacity to pursue certain business opportunities, and, as a consequence, this could have a significant adverse effect on the business, financial condition and results of operations of the Bank.

The Bank's wholesale borrowing costs and access to liquidity and capital have been negatively affected by a series of downgrades of the credit ratings of Cyprus and the Bank and the Bank's access to capital depends on its credit rating.

The Bank currently has a long-term deposit rating from Moody's of Ca, with a positive outlook and a long-term issuer default rating from Fitch of CC. These ratings reflect in part the sovereign ratings of Cyprus (Caa3 from Moody's and B- from Fitch) which take into account the capital control measures imposed by the Ministry of Finance of Cyprus which are still in place (see "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*"). The Bank's sub-investment grade ratings will make it more difficult for it to raise debt or equity and will increase its cost of wholesale funding, with a consequent adverse effect on its financial condition and results of operations. As discussed above (see "—*Risks Relating to the Economic Crisis in Cyprus—The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*"), further downgrade of Cyprus' rating may occur in the event of a failure to implement the requirements of the MoU or if the structural reforms implemented under the MoU do not produce the economic results expected. Accordingly, the cost of funding for Cyprus would increase further, with negative effects on the cost of funding and credit ratings for Cypriot banks. Further downgrades of the Bank's credit rating (including as a result of downgrades of the sovereign rating of Cyprus) would exacerbate this and could potentially exclude the Bank from private sources of wholesale funding.

The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance ("ELA")) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations.

The ongoing adverse market conditions have led to increased instability, reduced liquidity and increased credit spreads and world credit markets have experienced reduction in liquidity and financing.

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position. The Group is subject to liquidity risk in respect of the potential mismatch of payment obligations to incoming payments, taking into account both unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/call risk). In managing its liquidity risk, the Group is dependent on external sources of funding, through deposits, interbank and wholesale markets, and central banks including the ECB and the CBC.

The ability of the Group to access funding sources on favourable economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and loss of confidence in the Cypriot banking system.

As a result of the Group's limited access to interbank and wholesale markets and a reduction in deposits in Cyprus, the Bank is not in compliance with its regulatory liquidity requirements and is dependent on central bank funding for liquidity. For more detail on the Bank's regulatory liquidity requirements, see "*Operating and Financial Review and Prospects—Liquidity and Capital Resources*". The transfer of certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank to the Bank in March 2013 resulted in an amount of €9.1 billion of ELA funding at the acquisition date to be transferred to the Bank. As of 31 December 2013 and 31 March 2014, 41.0% and 42.4%, respectively, of the Group's funding was comprised of funding from central banks, of which, €9.6 billion and €9.5 billion, respectively, was ELA funding.

Since August 2013, the Bank has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by Cyprus have resulted in a reduction in funding from ELA, as the Bank has access to funding from the ECB under monetary policy operations.

Central bank funding that the Bank receives or may receive in the future may be adversely affected by changes in the funding provision rules of these facilities. The available funding amount is tied to the value of the collateral the Bank provides, including the market value of Government securities and own issued Government guaranteed securities and the value of its loan portfolio, which may also decline in value. If the value of the Bank's assets declines, then the amount of funding the Bank can obtain from these facilities may be correspondingly limited. In particular, the CBC performs its own valuation of the Bank's loan portfolio and, if the CBC were to determine that the credit quality of the Bank's loan portfolio has deteriorated, the value of the Bank's eligible ELA collateral would also decrease and this, in turn, could result in material reduction in ELA funding available to the Bank. It should also be noted that, although the Cypriot parliament has approved, on 27 January 2014, the issuance of additional Government guarantees of up to €2.9 billion as contingency collateral, the Bank will be required to apply to the Ministry of Finance of Cyprus in order to use these Government guarantees for each issue of debt securities. Under the provisions of the relevant legislation, government guaranteed debt securities can only be used as collateral for liquidity purposes. In addition, as long as the government guarantee is in place, the Bank is not allowed to repurchase its own shares or provide any discretionary bonuses to members of the Board of Directors or senior management. Further, if the CBC and/or ECB were to revise its collateral standards or increase the rating requirements for collateral securities such that the instruments currently used by the Bank were no longer eligible to serve as collateral for central bank funding, the Bank's funding costs could increase and its access to liquidity could be limited. Currently, own issued government guaranteed securities held by the Bank are not eligible collateral for ECB funding and can only be used as collateral for ELA funding. For a discussion of the Bank's liquidity risk management, funding and liquidity sources and liquidity reserves, see "*Risk Management—Liquidity and Funding Risk*" and "*Operating and Financial Review and Prospects—Liquidity and Capital Resources*".

A continued loss of deposits and the prolonged need for additional central bank funding may result in the exhaustion of collateral eligible for funding through these facilities.

A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus.

One of the Bank's principal sources of funds are customer deposits. As of 31 December 2013 and 31 March 2014, customer deposits accounted for 56.0% and 54.7%, respectively, of the Group's funding. Since the Bank relies on customer deposits for the majority of its funding, if the Bank's depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans, or if the Bank is unable to obtain the necessary liquidity by other means, the Bank may be unable to maintain its current levels of funding without incurring significantly higher funding costs or having to liquidate certain of its assets, or without increasing access to central bank funding. Further, access to central bank funding may not always be available and is subject to their funding provision rules (see "*—The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance ("ELA")) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*" above).

The ongoing funding of the Bank's loan portfolio from customer deposits is subject to potential changes in certain factors outside the Bank's control, such as depositors' concerns relating to the economy in general, the financial services industry or the Bank specifically, significant further deterioration in economic conditions in Cyprus and the availability and extent of deposit guarantees. Any of these factors separately or in combination could lead to a sustained reduction in the Bank's ability to access customer deposit funding on appropriate terms in the future, which would impact on the Bank's ability to fund its operation, having an adverse effect on the Group's results, financial condition and prospects. Unusually high levels of withdrawals could have the result that the Bank or another member of the Group may not be in a position to continue to operate without additional funding support, triggering the need for additional external funding and/or further capital, which it may be unable to secure.

In particular, in March 2013, the uncertainty concerning Cyprus' ability to secure a financial assistance package from the ESM and IMF led to a significant loss of confidence in Cyprus and the banking sector of Cyprus in particular. The subsequent bail-in of depositors of the Bank with deposits exceeding €100,000 (the insured deposit level) pursuant to the Recapitalisation and the resolution of Laiki Bank, resulted in losses suffered by depositors which further exacerbated this loss of confidence. In order to address the risk of significant deposit outflows from Cyprus in reaction to the uncertain state of Cyprus' economy and the future of the banking sector in Cyprus, all banks in Cyprus were instructed by the CBC to remain closed from 19 to 27 March 2013. Upon the issue of a decree by the Ministry of Finance of Cyprus imposing capital controls on the withdrawal of funds on 27 March 2013, banks in Cyprus reopened on 28 March 2013. The issue of the decree imposed, amongst other things, a €300 daily withdrawal limit and a ban on cashing cheques as well as a prohibition on fund transfers within and outside Cyprus with a few specific exceptions. If capital controls had not been imposed by the Ministry of Finance of Cyprus, the loss of confidence by depositors of the Bank could have led to a rate of deposit outflows which was higher than that experienced by the Bank to date. Decrees imposing capital controls are renewed regularly and there has been a gradual relaxation of the restrictions imposed. In a recent decree issued by the Ministry of Finance of Cyprus on 30 May 2014, all domestic capital controls have been repealed but some restrictions remain on the transfer of funds outside of Cyprus. As of 31 March 2014, 31.6% of the Bank's deposits in Cyprus are attributable to non-domestic customers. There is a risk that deposit outflows from the Bank and the banking sector in Cyprus will increase if the restrictions on the transfer of funds outside of Cyprus are further relaxed or removed. Significant deposit outflows would have a material adverse effect on the Group's business, financial condition and results of operations. For more detail on the capital control measures imposed by the Ministry of Finance, see "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*".

Government and CBC actions intended to support liquidity may be insufficient or discontinued, thus the Group may be unable to obtain the required liquidity.

The financial markets crisis, the increase of risk premiums and the higher capital requirements demanded by investors, have led to intervention and requirements for banking institutions to have increased levels of capitalisation and liquidity. In many countries, the requirement for additional liquidity was achieved through the provision of liquidity support by central banks. In order to permit such support, financial institutions were required to pledge securities deemed appropriate as collateral by their regulators and central banks.

The ECB's governing council has declared that it will continue with the main refinancing operations, as well as those with a maturity equal to the period of the compulsory reserve by means of fixed-rate tenders fulfilling all requests of the demand for as long as this is necessary and at least until December 2016. The ECB has also stated that it will accept all requests for 3-month operations carried out by that date and at a rate equal to the average of the main refinancing operations during the applicable 3-month period.

In the event that the Group is unable to obtain liquidity by pledging suitable collateral to central banks or if there is a significant reduction or elimination in the liquidity support provided to the system by governments and central authorities, the Group may encounter increased difficulties in procuring liquidity in the market and/or higher costs for procurement of such liquidity, thereby adversely affecting its business, financial condition or results of operations.

There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital.

Following its exit from resolution on 30 July 2013 and in light of the continuing economic crisis in Cyprus, the Group prepared a comprehensive restructuring plan covering the period from 2013 through 2017 (the "**Restructuring Plan**") which was approved by the CBC in November 2013. The Restructuring Plan defines strategic objectives and actions that are expected to create a safer, stronger, more focused institution, capable of supporting the prosperity of the Cyprus economy. The Restructuring Plan was formulated based on macroeconomic assumptions and estimates which may not be realised and could change significantly over the next three years. For example, the ability of the Group to divest itself of non-core assets is dependent on its ability to dispose of these assets at prices in the applicable market which would not result in a significant loss to the Group. Accordingly, there can be no assurances that the Group will be able to implement the Restructuring Plan successfully. Any failure by the Group to implement the Restructuring Plan in any material respect could have a significant negative impact on the Group's business, prospects, financial condition and results of operations.

Further, even if the Group was able to implement the Restructuring Plan successfully, there can be no assurance that the Bank will not be required to raise additional capital. For example, while a successful implementation of the Restructuring Plan would improve the Bank's capital position sufficiently to satisfy the capital requirements as required or foreseen at the time the Restructuring Plan was formulated, the Bank may still be required to raise additional capital if new regulatory requirements are imposed in the future. See "*—Risks Relating to the Group's Business—The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*" above.

If the Group does not generate sufficient taxable profits to utilise its deferred tax assets, it could result in a material reduction in the Group's net profit and capital.

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. Judgment 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 judgment and are subject to uncertainty. As of 31 March 2014, the Group had recognised deferred tax assets of €477.6 million, mainly as a result of Laiki Bank's tax losses transferred to the Bank in accordance with the Laiki Transfer Decrees. The deferred tax asset recognised on the transfer of these tax losses from Laiki Bank amounted to €417 million and can be set off against the taxable future profits of the Bank for a period of 15 years at the prevailing tax rate (currently 12.5%). If it is possible that the Bank will not generate sufficient future taxable profits to utilise its deferred tax assets fully within their expiry period, it will have to write-off these deferred tax assets which would reduce the Group's net profit and, in turn, the Group's capital. For example, the Group's loss on disposal of its Greek operations resulted in a write-off in 2012 of deferred tax assets of €0.3 billion as this was no longer considered as recoverable.

The Group's results of operations for certain of the financial periods discussed in this Information Memorandum are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.

The changes carried out in the Recapitalisation during 2013 have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations and the conversion of a significant proportion of its liabilities into equity. In addition, the transfer to the Bank of a substantial portion of Laiki Bank's assets and liabilities pursuant to the Laiki Transfer Decrees have significantly impacted both the Group's balance sheet and results of operations.

As a result of the foregoing events, most of which commenced during the first quarter of 2013, the Group was not in a position to prepare financial statements for the quarter ended 31 March 2013 and, therefore, the Group's financial statements for the quarter ended 31 March 2014 do not contain comparative information for the quarter ended 31 March 2013. In addition, the financial statements for the quarter ended 31 March 2014 contains certain comparative balance sheet items as at 31 December 2013 which have been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. Further, the financial information for the year ended 31 December 2013 contains comparative information for 2012 which has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. Accordingly, the consolidated financial statements of the Group contained in, and the discussion contained in the "*Operating and Financial Review and Prospects*" section of, this Information Memorandum are limited in their ability to demonstrate the evolution of the Group's results of operations.

The independent auditors' report in respect of the Bank's consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter.

The independent auditors' report in respect of the Bank's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS as a result of the bail-in of uninsured deposits, subordinated securities and other products of the Bank pursuant to the Recapitalisation in 2013 due to the specific conditions and uncertainties that existed at the time of the transaction and (b) for any adjustments that could have been determined to be necessary had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued as a result of the bail-in of uninsured deposits, subordinated securities and other products of the Bank pursuant to the Recapitalisation in 2013 and as the consideration for the acquisition of certain assets and liabilities of Laiki Bank. The Group's equity and financial position were not affected by the transactions giving rise to the above qualifications. For a discussion of the resolution of Laiki Bank and the Recapitalisation, see "*Restructuring of the Bank and Laiki Bank*".

In relation to the Recapitalisation, under IFRS, the difference between the carrying amount of the financial liabilities (i.e., uninsured deposits, subordinated securities and other products of the Bank) extinguished and the consideration paid (i.e., shares issued by the Bank), should have been recognised as a profit or loss. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation.

In relation to the ordinary shares issued to Laiki Bank in compensation for its assets and liabilities transferred to the Bank, 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, as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued at the date of this transaction. By analogy to other standards that deal with the exchange of assets, the Bank has concluded that it was 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 the above accounting treatment, no profit or loss arises from these transactions.

In addition, the independent auditors' report contained an emphasis of matter in relation to the material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern. These uncertainties include:

- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario which formed the basis of its preparation. For a more detailed discussion of the Restructuring Plan, see "*Business Description of the Group—Strategy*" and see also "*—There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital*" above and "*—Regulatory and Legal Risks—The Restructuring Plan agreed with the CBC restricts certain actions of the Group*" below.

- The period over which the restrictive measures and capital controls are in place. See "*—A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in*

Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus" above.

- The continuing reliance on and availability of the central bank liquidity facilities. See "*—The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance ("ELA")) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*" above.

- 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 Bank. See "*—Regulatory and Legal Risks—The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its recapitalisation from March to July 2013 and regulatory investigations*" below.

- The outcome of the ECB's comprehensive assessment, which may reveal additional capital requirements for the Group. See "*—Risks Relating to the Group's Business—The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank*".

The emphasis of matter described above is not a qualification to the audit opinion contained in the independent auditor's report.

A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors.

As of 31 December 2013 and 31 March 2014, 48.6% of the Group's gross loan portfolio was 90+DPD. In particular, a significant proportion of its non-performing loans are comprised of loans to large corporates which are in the real estate and construction sector of the Cypriot economy. As of 31 March 2014, the Group's loan and advances to corporate borrowers and borrowers in the real estate and construction sectors comprised 45.4% and 31.7% of the Group's gross loan portfolio. The Group's ability to recover on these loans remains limited, mainly as a result of the continuing depression in the Cypriot real estate market in terms of demand and price (see *"—Risks Relating to the Economic Crisis in Cyprus—Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*" above). Any failure by the Group to reduce its portfolio of non-performing loans could negatively impact its ability to increase its new lending business.

In addition, as a result of the current economic environment, the quality of the Group's Cypriot loan portfolio may continue to decline, particularly because there is a limited number of high credit quality customers to whom banking services may be provided in the Group's target markets. Developments in the Bank's loan portfolio will be affected by, among other factors, the overall health of the Cypriot economy. The continuing decline in the quality of the Group's loan portfolio, in combination with past due loans, may limit its net interest income, and this could have a material adverse effect on its business, results of operations and financial condition.

A substantial increase in new provisions could adversely affect the Group's financial condition and results of operations.

In connection with its lending activities, the Group regularly establishes provisions for loan losses, which are recorded in its profit and loss account. The Group's overall level of provision is based on its assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. As a result of deteriorating economic conditions or other causes it is possible that the Group's lending businesses may have to increase its provisions for loan losses substantially in the future. For a discussion of the Group's provisioning policies, see "*Risk Management – Credit Risk – Provisioning*".

Any significant increase in provisions for loan losses or a significant change in the Group's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the related provisions, may have a material adverse effect on the Group's business, financial condition and results of operations.

Deteriorating asset valuations resulting from poor market conditions may adversely affect the Bank's future earnings and its capital adequacy.

An increase in financial market volatility or adverse changes in the marketability of the Bank's assets could impair its ability to value certain of its assets and exposures. The value ultimately realised by the Bank will depend on their fair value determined at that time and may be materially different from their current value. Any decrease in the value of such assets and exposures could require the Bank to realise additional impairment charges, which could adversely affect the Bank's financial condition and results of operations, as well as the Bank's capital.

The global economic slowdown and economic crisis in Cyprus from 2009 to the present day have resulted in an increase in past due loans and significant changes in the fair values of the Bank's financial assets. The sharp increase in unemployment during the economic crisis, which in the fourth quarter of 2013 reached 16.7% on a seasonally adjusted basis, aggravated the situation, with mortgage delinquencies increasing further.

Adverse developments could be triggered by any further significant deterioration of global economic conditions, including the credit profile and ratings of Cyprus and other EU countries such as Ireland, Portugal, Greece and Spain or international banks. Any of these events may give rise to concerns regarding the ability of Cyprus to meet its funding needs. These developments could:

- further directly impact the impairment losses for receivables relating to Cyprus;
- severely affect the Bank's ability to raise capital and meet minimum regulatory capital requirements; and
- severely limit the Bank's ability to access liquidity.

A continued decline in the Cypriot economy, or a deterioration of economic conditions in any industry in which the Bank's borrowers operate or in the market of the collateral, may result in the value of collateral falling below the outstanding principal balance for some loans, particularly those disbursed in the years prior to the crisis. A decline in the value of collateral, or the Bank's inability to obtain additional collateral, may require the Bank to establish additional allowance for loan losses.

The Bank is exposed, as a counterparty, to risks potentially faced by other financial institutions as well as the risk that its ability to enter into transactions with other financial institutions may be limited by its current credit rating and risk profile.

The Bank routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Sovereign credit pressures may weigh on Cypriot financial institutions, limiting their funding operations and weakening their capital adequacy by reducing the market value of their sovereign and other fixed income holdings. These liquidity and capital concerns have negatively impacted inter-institutional financial transactions in general. In particular, as a Cypriot financial institution, the Bank's ability to enter into what would have been routine transactions with international counterparties has been negatively affected as a result of these counterparties' concerns as to the credit risk they would be taking with respect to the Bank. While credit market conditions have improved in the last few months and most of the counterparties have reopened lines of credit with the Bank, the risk remains that the credit situation may deteriorate as a result of deterioration in the sovereign credit outlook and the credit outlook for Cypriot financial institutions. In addition, the Bank's current credit rating and risk profile has led to the Bank having to provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties. This has had, and may continue to have, a negative impact on the Bank's ability to hedge its foreign currency and other market risk exposures and to manage its liquidity reserves.

In addition, many of the transactions into which the Bank enters expose it to significant credit risk in the event of default by one of its significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

Risk of fluctuation of prevailing share and other securities prices.

The risk of fluctuations in the market price of shares and other traded securities arises from adverse changes in the prices of securities (mainly equity and bond securities) held by the Group. Changes in the prices of equity securities that are classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of equity securities classified as "available for sale" affect the equity of the Group. 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. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments, particularly the debt securities issued by the Government. As of 31 March 2014, the Group had a €2.6 billion portfolio of Cyprus government bonds. Changes in the prices of debt securities classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of debt securities classified as "available for sale" affect the equity of the Group (assuming no impairment).

In addition, the Group's insurance and investment businesses are subject to the risk of negative price adjustments in the value of shares and other securities held in their investment portfolios.

Volatility in interest rates and interest rate risk may negatively affect the Group's income and have other adverse consequences.

Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies and domestic and international economic and political conditions. There is a risk that future events, in view of the tight liquidity conditions in the domestic deposit market, may alter the interest rate environment.

Interest rate risk is the risk faced by the Group of a reduction of the fair value of future cash flows of a financial instrument because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities.

Changes in market interest rates may affect the interest rates the Bank charges on its interest-earning assets differently from the interest rates it pays on its interest-bearing liabilities. This difference could reduce the Group's net interest income. Since the majority of the Group's loan portfolio effectively re-prices within a year, rising interest rates may also result in an increase in the Group's allowance for the impairment of loans and advances to customers if customers cannot refinance in a higher interest rate environment. Further, an increase in interest rates may reduce the Group's clients' capacity to repay in the current economic circumstances, increasing the Group's non-performing loans. A decrease in interest rates may cause, among other things, loan prepayments and increased competition for deposits thus adversely affecting the Group's financial results.

Competitive pressures and/or fixed rates in existing loan commitments or loan facilities may restrict the Group's ability to increase interest rates in the event of an increase in lending interest rates.

Although the Group carries out hedges with the aim of minimising the risk of interest rate fluctuations via entering into derivative contracts, this hedging could be inadequate. As a result, changes in interest rates could have a material adverse impact on the business, financial condition and results of operations of the Group.

Changes in currency exchange rates may adversely affect the Group.

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. These fluctuations and the degree of volatility with respect thereto may affect earnings reported by the Group. Foreign exchange rate fluctuations expose the Group to risks that arise from transactions in foreign currency as well as changes in the value of the Group's assets and liabilities denominated in foreign currencies which may affect the Group's financial results and equity. Losses may also arise during the management of the Group's assets/liabilities and investments in foreign countries, particularly in relation to the Group's Russian bank subsidiary. Although the Group carries out hedges with the aim of minimising the risk of fluctuations in foreign exchange rates, such hedging could be inadequate. As a result, such fluctuations in foreign exchange rates may have a material effect on the business, financial condition and results of operations.

The Group's businesses are conducted in a highly competitive environment.

The general scarcity of wholesale funding since the onset of the economic crisis has led to a significant increase in competition for retail deposits in Cyprus. In particular, the Bank faces significant competition from both domestic banks and banks in general because, unlike the Bank, they were not subject to bail-in or resolution. By contrast, domestic cooperative credit institutions ("**CCIs**") were consolidated and recapitalised in accordance with the MoU and now represent increasing competition to the Bank in the retail and small and medium-sized enterprise ("**SME**") markets. Some of the foreign banks operating in Cyprus have resources greater than that of the Bank's (in particular, many of the Greek banks have received financial support from the Greek government) and, in recent years, have refocused their operations to cater for domestic retail, SME and corporate clients as well as international clients. In addition, with respect to international clients, Cyprus as a country competes with other tax-friendly jurisdictions focused on the provision of financial services. The lifting of capital control measures currently restricting the transfer of funds outside of Cyprus could lead to customers of the Bank transferring their funds to other jurisdictions (see *"—A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus*" above). Further, as the Bank has the ability to issue government guaranteed debt securities and holds government guaranteed debt securities originally issued by Laiki Bank, it is specifically prohibited under Cypriot law from engaging in any aggressive commercial strategies, including any advertising of the government support it is receiving against its competitors that do not receive the same government support. These competitive pressures on the Group may have an adverse effect on its business, financial condition and results of operations.

The Group could fail to attract or retain senior management or other key employees.

The Group relies on an experienced and qualified management team. The loss of the services of certain key employees, particularly to competitors, in circumstances where a suitable replacement cannot be found in a timely manner, and an inability to attract experienced and qualified employees may have a material adverse effect on its business, financial condition and results of operations.

In addition, as a result of the Recapitalisation in 2013, new members were elected to the Board of Directors by the Bank's shareholders, a significant proportion of which were bailed-in depositors and other creditors of the Bank. Accordingly, the Placing, in conjunction with the open offer to existing shareholders, as contemplated in this Information Memorandum could result in further changes to the composition of the Board of Directors.

Further, failure to manage trade union relationships effectively, including the renewal of a collective bargaining agreement with the union of bank employees, may result in disruption to the business and the Group's operations causing potential financial loss. Most of the Bank's employees are members of a union and any prolonged labour unrest could have a material adverse effect on the Bank's operations in Cyprus, either directly or indirectly (for example, on the willingness or ability of the Government to pass the necessary reforms to implement the EAP successfully).

Weaknesses or failures in the Group's financial reporting processes could significantly weaken the Group's ability to assess the financial performance of its business lines and quality of its credit portfolios.

The Group's financial reporting processes are complex and the Group relies on certain manual processes to consolidate its financial results. The manual nature of these processes increases the risk of accounting errors. The Group is also required to make fair value adjustments (for example, from the accounting treatment of the Group's absorption of Laiki Bank's operations as a result of the Laiki Transfer Decrees) and further manual adjustments (usually in relation to key judgments and estimates). Similarly, the production of the monthly management accounts requires the use of spreadsheets and templates to produce the consolidated Group results. Accordingly, the presentation of the financial information resulting from these processes may not be entirely representative of the underlying data used to produce it.

In addition, the quality of the underlying data entered into the Group's financial reporting and management information systems is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes or systems or security could have an adverse effect on the Group's results, the reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period. In particular, any error or employee fraud with respect to the entry of the underlying data concerning the Group's loan portfolio (e.g., loan amounts, interest rate adjustments or dates of default) could impact the Group's ability to assess the quality of its loan portfolio accurately.

The Group is exposed to operational risk.

Operational risk corresponds to the risk of loss due to inadequate or failed internal processes or systems, human error or due to external events, whether deliberate, accidental or natural occurrences. Internal events include, but are not limited to, fraud by employees, clerical errors, record-keeping errors and information system malfunctions or manipulations. External events include floods, fires, earthquakes, riots or terrorist attacks, fraud by outsiders and equipment failures. As a general statement, any significant weaknesses or failures in a financial institution's internal processes and procedures, or any failure to identify and control these operational risks, could result in a material adverse effect on the institution's financial performance and reputation. For example, in February 2014, the Central Bank of the Russian Federation (the "**CBR**") issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, certain deficiencies in Uniastrum's anti-money laundering and counter-terrorism financing ("**AML/CTF**") internal control procedures.

The Group is exposed to conduct risk.

Conduct risk corresponds to risks arising from the way in which the Group and its employees conduct themselves and includes matters such as how customers are treated, organizational culture (in particular, the way in which the Group's senior management affects the ethical conduct of employees), corporate governance, employee remuneration and conflicts of interest. The Group is also required to comply with certain conduct-of-business rules and the CSE's Fourth Edition (Amended) Corporate Governance Code issued in April 2014 (the "**Code**") and any failure to comply with these rules and the Code could result in significant penalties. For example, following its investigations into the Bank concerning its exposure to Greek government bonds during 2013 and 2014, CySEC concluded, amongst other things, that the Bank had corporate governance deficiencies and imposed significant fines on the Bank (see "*Business Description of the Group —Litigation and Related Matters, including Regulatory Proceedings— The Cyprus Securities and Exchange Commission Investigations*"). Any failure to identify and control these conduct risks could result in a material adverse effect on the Group's financial performance and reputation.

The Group is exposed to the risk of fraud and illegal activities.

Like all financial institutions, the Group is exposed to risks of fraud and other illegal activities, which, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The Group's risk management procedures may not be able to eliminate all cases of fraud. The Group is also subject to rules and regulations related to money laundering and terrorism financing. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Group has current AML/CTF policies and procedures which aims to ensure compliance with applicable legislation, it may not be able to comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. For example, in February 2014, the CBR issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, certain deficiencies in Uniastrum's AML/CTF internal control procedures. As a general statement, a violation, or even any suspicion of a violation, of these rules may have serious legal and financial consequences, which could have a material adverse effect on a financial institution's business, reputation, financial condition, results of operations and prospects.

The Bank's information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks.

A significant portion of the Bank's operations relies heavily on the secure processing, storage and transmission of confidential and other information as well as the monitoring of a large number of complex transactions on a minute-by-minute basis. The Bank stores an extensive amount of personal and client-specific information for its retail, corporate and governmental customers and clients and must accurately record and reflect their extensive account transactions. These activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving.

The Bank's computer systems, software and networks have been and will continue to be vulnerable to unauthorised access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events.

These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to the Group's reputation with its clients and the market, additional costs to the Bank (such as for repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses to both the Bank and its clients. Such events could also cause interruptions or malfunctions in the operations of the Bank (such as the lack of availability of the Bank's online banking systems), as well as the operations of its clients, customers or other third parties. Given the volume of transactions at the Bank, certain errors or actions may be repeated or compounded before they are discovered and rectified, which would further increase these costs and consequences.

In addition, third parties with which the Bank conducts business under stringent contractual agreements may also be sources of cyber security or other technological risks. Although the Bank adopts a range of actions to reduce the exposure resulting from outsourcing, such as not allowing third party access to the production systems and operating a highly controlled information technology environment, unauthorised access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences to the Bank as those discussed above.

While the Bank maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks such as fraud and financial crime, such insurance coverage may be insufficient to cover all losses.

The Bank has significant exposures to subsidiaries of Laiki Bank.

As a result of the Bank's acquisition of certain assets and liabilities of Laiki Bank (see "*Restructuring of the Bank and Laiki Bank*"), the Bank inherited Laiki Bank's funding exposures to Laiki Bank's bank and financial services subsidiaries in Romania, Serbia and Greece. Although the Bank has no obligation to fund these subsidiaries, the ability of these subsidiaries to repay the Bank is subject to the risks associated with being subsidiaries of a parent bank under resolution. These risks include the potential nationalisation or restructuring of these subsidiaries and the economic and political risks associated with jurisdictions in which they operate (see "*—Risks Relating to the Global Financial Markets and the Group's Operations Outside Cyprus—The Group's operations and assets in Russia and Romania have been, and may continue to be, adversely affected by recent economic and political events*" above). As of 31 March 2014, the Bank's total net exposure to subsidiaries of Laiki Bank was €488.7 million. Any inability of these subsidiaries to repay the Bank could have a significant negative effect on the Group's liquidity, capital and funding positions.

The Group may face challenges in continuing to improve its operational efficiency.

In 2013, the Group acquired certain assets and liabilities of Laiki Bank, which is discussed in "*Restructuring of the Bank and Laiki Bank*". Since then, the Group has integrated the operations of Laiki Bank into its own, including integrating information technology systems, branches and personnel. In order to improve its operational efficiency after the absorption of the domestic operations of Laiki Bank, the Bank has rationalised its branch network and proceeded with a voluntary retirement scheme ("**VRS**") for its employees in Cyprus, the cost of which amounted to €120.6 million in 2013. In line with the Restructuring Plan, the Group will need to continue reducing its operating expenses in order to improve its operational efficiency and, in turn, its net profits and there can be no assurance that the Group will be able to do so or to do so without incurring further and significant one-off expenditures or requiring the allocation of management and other resources away from daily operations. The Group's failure to continue improving its operational efficiency while at the same time maintaining adequate focus on its current operations could have a material adverse effect on its business, financial condition and results of operations.

The Group is exposed to insurance and reinsurance risks.

Insurance risk is the risk that an insured event under an insurance contract occurs and the Group's insurance subsidiaries will be obligated to pay an uncertain amount for the claim at an uncertain time. By the very nature of an insurance contract, this risk is volatile and therefore unpredictable.

For a portfolio of life insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that Eurolife, the Group's life insurance subsidiary faces under life insurance contracts is that the actual claims and benefit payments 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 unpredictable and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The risk of a general insurance contract derives 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 which are unpredictable both in terms of occurrence and scale.

In addition, although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations.

The way in which the banking sector in Cyprus operates differs in certain significant respects from the way the banking sectors in other countries may operate.

The banking sector in Cyprus operates in a way which is different in certain significant respects from the way that other banking sectors in other countries may operate. Some of these differences increase the risks of lending in Cyprus, such as the complex cross-collateralisation of loans, the limited legal resolution and foreclosure framework and the incomplete nature of credit histories that can currently be obtained from the Cyprus credit bureau. Other differences, such as the recognition of unpaid interest as interest income, materially affect the presentation of a Cypriot bank's results of operations. For more detail on these operational differences, see "*The Banking Sector in Cyprus—Key Operational Features of the Banking Sector in Cyprus*".

Regulatory and Legal Risks

The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its recapitalisation from March to July 2013 and regulatory investigations.

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Legal risk arises from pending or potential legal proceedings against the Group which may result in expenses incurred by the Group. In particular, a significant number of legal proceedings and investigations have been brought against the Bank in relation to the mis-selling to retail investors in Greece and Cyprus of Euro Capital Securities issued by the Bank and the bail-in of shareholders, uninsured depositors and other creditors of Bank pursuant to the Recapitalisation from March to July 2013. In addition, the Bank is under a number of investigations by CySEC and the Hellenic Capital Markets Commission ("**HCMC**") and there is a risk that the outcome or conclusions of these investigations could result in an increase in legal claims brought against the Bank. If the Group is unsuccessful in defending itself against these claims or appealing against the fines and penalties being imposed on it, these claims could have a material adverse impact on its financial condition and reputation. For a discussion of these mis-selling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings to which the Group is a party, see "*Business Description of the Group−Litigation and Related Matters, including Regulatory Proceedings*".

Furthermore, in the event that legal issues are not properly dealt with by the Group, these may give rise to the unenforceability of contracts with customers, legal actions against the Group, adverse judgments and a negative impact on the reputation of the Group. All these events may disrupt the operations of the Group, possibly reducing the Group's equity and profits.

Legislative action and regulatory measures in response to the global financial crisis may materially impact the Bank and the financial and economic environment in which it operates.

Legislation and regulations have recently been enacted or proposed with a view to introducing a number of changes in the global financial environment. While the objective of these new measures is to avoid a recurrence of the global financial crisis, the impact of the new measures could be to change substantially the environment in which the Bank and other financial institutions operate.

The measures that have been or may be adopted include more stringent capital and liquidity requirements (particularly for large global institutions and groups such as the Bank), taxes on financial transactions, limits or taxes on employee compensation over specified levels, limits on the types of activities that commercial banks can undertake (particularly proprietary trading and investment and ownership in private equity funds and hedge funds) or new ring-fencing requirements relating to certain activities, restrictions on certain types of financial activities or products such as derivatives, mandatory write-down or conversion into equity of certain debt instruments, enhanced recovery and resolution regimes, revised risk-weighting methodologies (particularly with respect to insurance businesses) and the creation of new and strengthened regulatory bodies, including the assignment to the ECB of a supervisory role for all banks in the Eurozone area (referred to as the SSM). Some of the new measures are proposals that are under discussion and that are subject to revision and interpretation, and need adapting to each country's framework by national regulators. For example, changes in law to address tax compliance issues such as compliance with FATCA may increase the Group's compliance costs. We cannot predict the effect of any such changes on our business, financial condition, cash flows or future prospects.

The general political environment has evolved unfavourably for banks and the financial industry, resulting in additional pressure on the part of legislative and regulatory bodies to adopt more stringent regulatory measures, despite the fact that these measures can have adverse consequences on lending and other financial activities, and on the economy. Because of the continuing uncertainty regarding the new legislative and regulatory measures, it is not possible to predict what impact they will have on the Bank.

Regulatory action in the event of a bank failure could materially adversely affect the Group and the value of securities issued by the Bank.

In 2013, the Resolution of Credit and other Institutions Law of 2013 (as amended, the "**Resolution Law**") was enacted to provide a regime to allow the CBC, in its capacity as resolution authority (the "**Resolution Authority**"), to resolve failing banks in Cyprus. As a result of amendments made to the Resolution law in August 2013, the Resolution Authority is currently comprised of the Cypriot Minister of Finance, the CBC and the chairman of the board of the Cyprus Securities and Exchange Commission ("**CySEC**").

Under the Resolution Law, the Resolution Authority is provided with wide powers, including:

- the power to write down capital instruments and eligible liabilities of a financial institution and/or the power to restructure or convert them into ordinary shares (so called "bail-in");
- the power to direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;
- the power to transfer all or part of the business of the relevant financial institution to a "bridge bank"; and
- the power to transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

In addition, further amendments to the Resolution Law were passed on 20 June 2014 as a result of the review of the effectiveness of the Resolution Authority conducted by the Government, in consultation with the Troika, in March 2014. These amendments have not yet been published and will take effect on publication. These amendments are expected to include:

- a change in the composition of the "Resolution Authority" so that it will be comprised of the Governor of the CBC together with two executive directors of the CBC;

- the requirement for the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature; and
- additional powers to be granted to the Resolution Authority for the collection of information, the imposition of fines and imposition of specific criminal sanctions.

These amendments, if implemented, would increase the powers of the Resolution Authority under the Resolution Law and there is a risk that further amendments may be made in the future.

The Resolution Law contains general principles in the context of the adoption and implementation of resolution measures which include the principle that the shareholder of a bank should be the first to bear any losses resulting from the implementation of the resolution measures and the creditors of a bank under resolution should bear losses after shareholders. The Resolution Law powers apply regardless of any contractual restrictions. Although the Resolution Law does provide that there should be appropriate protection of security, title transfer financial collateral and set-off and netting arrangements, the form of such protection is subject to the Resolution Law's provision that the implementation of any resolution measures shall not activate, amongst other things (i) 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 qualify as a credit event or an event equivalent to insolvency, or (ii) the rights, contractual or statutory of secured creditors of the bank concerned over assets and rights used as a collateral for their claims against the bank. Further, any member state of the European Union which has nationally implemented Directive 2001/24/EC on the reorganisation and winding up of credit institutions (the "**CIWUD**") is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home member state.

In March 2013, both the Bank and Laiki Bank were placed under resolution by the Resolution Authority under the Resolution Law. For a discussion of the resolution of Laiki Bank and the Bank, see "*Restructuring of the Bank and Laiki Bank*". Both the Bank's and Laiki Bank's shareholders and unsecured creditors suffered losses as a result of these resolution measures. Accordingly, should the Resolution Authority determine that the Bank is no longer viable or is likely to be no longer viable, further resolution measures may be imposed on the Bank and any such measures would have a material adverse impact on the Bank, including its shareholders and unsecured creditors.

The Restructuring Plan agreed with the CBC restricts certain actions of the Group.

The Restructuring Plan was approved by the CBC in November 2013 and, in providing its approval of the Restructuring Plan, the CBC imposed a number of restrictions on the Group, including a prohibition of the distribution of dividends and the payment of bonuses during the period covered by the plan and a requirement to obtain the prior approval of the CBC before providing capital or funding to overseas subsidiaries or selling assets. These restrictions may prevent the Group from undertaking actions that are otherwise in the best interests of the Group. In addition, in accordance with the MoU, the CBC intends to complete, by the end of February 2015, a technical assessment of the Group's Restructuring Plan with the aim of identifying areas that require further strengthening and review. If the CBC imposes additional requirements or restrictions in relation to the Restructuring Plan, the Bank's business, financial condition or results of operations could be adversely affected. For a more detailed discussion of the Restructuring Plan, see "*Business Description of the Group—Strategy*".

The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments.

The Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations. This is particularly the case in the current market environment, which is experiencing increased levels of government and regulatory intervention in the financial sector, which the Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group and could materially adversely affect the Group's business, financial condition and results of operations.

In particular, the CBC has recently issued, at the end of 2013 and in 2014, a number of new directives which have negatively impacted the Bank's ability to originate new loans and imposed new requirements and processes in terms of its management of non-performing loans. See also "*—The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*" below. One of these new directives is the Arrears Management Directive and, as of the date of this Information Memorandum, the Bank is still in the process of implementing, and agreeing with the CBC, some of the technical requirements of the Arrears Management Directive. Although the Bank is engaged with the CBC with respect to its implementation of the requirements under the Arrears Management Directive, there can be no assurance that the CBC will not impose fines or other penalties on the Bank for non-compliance.

In addition, during the first quarter of 2013, a comprehensive review was commissioned by the Government and the Troika of the effectiveness of Cyprus's anti-money laundering regime (the "**AML Review**"). Further, in accordance with the AML action plan on customer due diligence and entity transparency as set out in the MoU, the CBC has recently commenced its onsite inspections of banks in Cyprus to test for compliance with the provisions of its Directive on the Prevention of Money Laundering and Terrorism Financing issued in December 2013. It is expected that the CBC will commence its audit of the Bank later in 2014. There is a risk that financial or other penalties could be imposed on, and/or published in relation to, the Bank as a result of this audit or the AML Review. The CBC is also expected to issue a new governance code for Cypriot banks in the near future which may require the Bank to make additional changes to its existing governance structure and operations.

The Group's operations are contingent upon licences issued by financial authorities in the countries in which the Group operates. Violations of rules and regulations, whether intentional or unintentional, may lead to the withdrawal of some of the Group's licences or the imposition of financial or other penalties. The imposition of significant penalties or the revocation of licences for members of the Group could have a material adverse effect on the Group's reputation, business, results of operations or financial condition.

The Bank is subject to supervision by the CBC regarding, among other things, capital adequacy, liquidity and solvency. Certain of the Group's subsidiaries and operations are subject to the supervision of other local supervisory authorities. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews of past sales and/or sales practices. The Group is unable to predict what regulatory changes may be imposed in the future as a result of regulatory initiatives in the EU and elsewhere or by the CBC and other supervisory authorities. If the Group is required to make additional provisions or to increase its reserves as a result of potential regulatory changes, this could adversely affect the results of operations of the Group. In addition, failure by the Group to comply with regulatory requirements could result in significant penalties. For example, the Bank is currently not in compliance with its regulatory liquidity requirements. For more detail on these regulatory liquidity requirements, see "*Operating and Financial Review and Prospects—Liquidity and Capital Resources—Liquidity Ratios*".

The Group is also subject to EU regulations with direct applicability and to EU directives which are adopted by the European Economic Area Member States and implemented through local laws. For example, on 16 August 2012, the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012) ("**EMIR**") came into force. EMIR introduces certain requirements in respect of derivative contracts, which will apply primarily to financial counterparties, such as investment firms, credit institutions, insurance companies. Broadly, EMIR's requirements in respect of derivative contracts, as they apply to financial counterparties, are (i) mandatory clearing of over-the-counter ("**OTC**") derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the Group. In addition, MiFID II and MiFIR could also require the implementation of additional compliance and other processes which could result in increased costs for the Group. MiFID II and MiFIR will also need to be supplemented by delegated acts and technical standards and, therefore, the scope of the final regulations and their impact on the Group remains unclear.

In addition, on 20 December 2013, the Committee of Permanent Representatives ("**COREPER**") published the final approved informal text agreed between the Council of the EU, the European Parliament and the European Commission for the BRRD. The BRRD was approved by the European Parliament and the Council of the EU on 15 April 2014 and 6 May 2014, respectively, and entered into force on the 20th day following its publication in the Official Journal of the EU on 12 June 2014. The stated aim of the

BRRD is to provide supervisory authorities, including the relevant Cypriot resolution authority, with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses.

Going forward, the BRRD is also likely to have an impact on how large a capital buffer a bank will need, in addition to those set out in the CRR and CRD IV. To ensure that banks always have sufficient loss-absorbing capacity, the BRRD provides for national resolution authorities to set minimum requirements for own funds and eligible liabilities ("**MREL**") for each institution, based on, amongst other criteria, its size, risk and business model. The national resolution authorities will also have powers to request changes in the structure and operations of financial institutions, if such changes are deemed necessary, in order to ensure these institutions are resolvable, in case they become non-viable. The powers granted to supervisory authorities under the BRRD include (but are not limited to) the introduction of a statutory "write-down and conversion power" and a "bail-in" power, which, if implemented into Cypriot law as currently envisaged, should give the relevant Cypriot resolution authority the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving entity, if any. The majority of measures set out in the BRRD will need to be implemented with effect from 1 January 2015, with the bail-in power to apply from 1 January 2016 at the latest. In addition to a "write-down and conversion power" and a "bail-in" power, the powers to be granted to the resolution authorities under the BRRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge bank" (a publicly controlled entity), (iii) transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time and (iv) to write down the claims of unsecured creditors of a failing institution and convert debt claims to equity. In addition, among the broader powers to be granted to the relevant resolution authority under the BRRD is the power to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments. The BRRD contains safeguards for shareholders and creditors in respect of the application of the "write-down and conversion" and "bail-in" powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

Until fully implemented, it is not possible to assess the full impact of the BRRD on the Group, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the relevant resolution authority contemplated in the BRRD would not adversely affect the Group.

In addition, the failure of the Group to effectively manage regulatory risks could have a material adverse effect on the Group's business, financial condition and results of operations.

The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral.

As part of its restructuring of the financial sector of Cyprus, the CBC recently issued, at the end of 2013 and in the first quarter of 2014:

- a directive which, amongst other things, has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history regardless of loan amount.

- a directive which, amongst other things, sets out a code of conduct (including an appeals process) for dealing with borrowers who are in default and parameters for cooperation between banks in relation to borrowers who have borrowed from multiple banks.

- a directive which sets out loan provisioning requirements and procedures in relation to non-performing loans.

For more detail on these directives, see "*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*".

These directives impose significant constraints on the Bank's ability to originate new loans and new requirements and processes in terms of its management of non-performing loans. In addition, certain of the Bank's borrowers, such as individuals and SMEs, may have few or no other sources of income, thereby restricting their restructuring options.

Where the Bank is required to foreclose on collateral securing its loans, the legal system in Cyprus is less favourable to lenders with respect to foreclosure and the legal framework for insolvency proceedings than in many other jurisdictions, making foreclosure and insolvency proceedings more lengthy and costly. For example, insolvency proceedings (including the actual liquidation process) can typically take up to eight years as there are multiple legal and administrative hurdles which can be used by any affected party to delay or contest these proceedings. In addition, foreclosures of immovable property must be implemented through the land registry department of the Government and will typically take five to 13 years to complete. Under the terms of the MoU, the Government has committed to (i) removing all legal, administrative or other hurdles constraining the seizure and sale of loan collateral, (ii) preparing a comprehensive reform framework which establishes appropriate corporate and personal insolvency procedures and (iii) amending the legal framework in relation to foreclosures and forced sales of mortgage property to allow for private auctions to be conducted by mortgage creditors without interference from government agencies. However, there are significant shortcomings in the draft legislation proposed so far with respect to the implementation of these commitments under the MoU. For example, one of the draft bills proposed the introduction of a private auction process for foreclosures without specifying a timeframe for completion. In addition, the concept of a debt moratorium has been proposed but without restrictions on scale or rationale. Further, under the terms of the MoU, it is also clear that additional protections will be provided with respect of mortgaged properties which are primary residences.

Accordingly, there can be no assurance as to when legislative changes will be made to improve a lender's ability to enforce collateral in a timely and cost-effective manner or the efficacy of these legislative changes in practice. If the legal and administrative framework for insolvencies and foreclosures remain lengthy and costly in Cyprus, this could have a material adverse impact on the Bank's ability to reduce its non-performing loan portfolio and, consequently, its financial condition and ability to originate new lending business.

Changes in consumer protection laws might limit the fees that the Group charges in certain banking transactions.

Changes in consumer protection laws in the jurisdictions where the Group has operations could limit the fees that banks can charge for certain products and services such as mortgages, unsecured loans and credit cards. If introduced, such laws could reduce the Group's profit for the period, although the amount of any such reduction cannot be estimated with any accuracy at this time. In addition, Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the SEPA policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine withdrawals within the EU. Accordingly, the Group's ability to increase its fees and charges with respect to the products and services concerned is limited and this could have an adverse effect on the Group's business, results of operations and financial condition.

The results of litigation in which the Bank is not a party may have adverse consequences for the Bank.

Judicial and regulatory decisions that are unfavourable to other banks or related parties may also have implications for the Group, even in cases in which the Group is not a part of the proceedings. This could occur in cases where the contractual practices or clauses in question are in common use throughout the sector and are interpreted against the relevant bank. For example, decisions that have an impact on clauses in general terms and conditions or schedules for repayment of loans could affect the whole sector. This could also be the case in a decision that depends on the special circumstances of an individual case, where its result is used by third parties against the Group. The Bank may, as a consequence, be forced to change its practices or to pay compensation to avoid damage to its reputation. Further, certain depositors and shareholders of the Bank have commenced an action against the Council of the European Union, the Eurogroup, the European Commission and the ECB seeking compensation for damages allegedly suffered as a result of the recapitalisation of the Bank on the basis that the relevant decrees effecting the bail-in violated their right to property. Although the Bank is not named in the action, any determination in favour of the claimants could result in a material increase in legal proceedings brought against the Bank in connection with the bail-in effected pursuant to its recapitalisation from March to July 2013. Accordingly, these judicial and regulatory decisions may have a substantial adverse impact on the financial condition or operating results of the Group.

The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group.

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in an increase in tax charges or the creation of additional tax liabilities. Failure to manage the risks associated with changes in the taxation rates or law, or misinterpretation of the law, could materially and adversely affect the Group's business, financial condition and results of operations.

In addition, in line with the MoU, the Government has amended Cyprus' tax legislation in order to increase its tax revenues. These amendments include an increase of the corporate tax rate from 10% to 12.5%, the immovable property tax rates as of 1 January 2013 and the special levy paid by banking institutions on deposits. Amendments to the MoU are negotiated and agreed between the Government and the Troika from time to time and, accordingly, there is a risk that further additional taxes could be imposed which may have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to the Placing and the Ordinary Shares

The size of the Placing may not be sufficient for the Bank's capital requirements.

Even if the Bank is successful in raising the amount of capital it seeks to raise as a result of the Placing, there can be no assurance that the amount raised will be sufficient for the Bank's capital requirements because the Bank may be subject to additional capital requirements in the future (see "—*Risks Relating to the Group's Business—The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*" above). In particular, the Bank is one of the institutions participating in the ECB's AQR and, the results of these exercises could conclude that the capital requirements for the Bank should be increased (see "—*Risks Relating to the Group's Business— The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank.*"). Accordingly, the Bank may need to strengthen its capital position by raising funds from its shareholders or in the capital markets. If the Bank is unable to raise these funds, it may have to implement other capital enhancement measures such as further asset disposals and other deleveraging techniques. The disposal of further assets could result a material erosion of the Bank's shareholder value.

If asset disposals or the employment of other deleveraging techniques are insufficient for the reinforcement of its capital position, the Bank may need to seek additional funding in the form of state support, thereby increasing the likelihood that its shareholders will be subject to limitations on their rights, suffer significant dilution in their shareholding and/or incur significant losses in their investments. Further, there can be no assurance that the Bank will necessarily be successful in obtaining any additional funding from the Government. In accordance with the Eurogroup Statement on Cyprus, the Recapitalisation of the Bank in 2013 was achieved solely through the bail-in of its depositors and other creditors and the Government was not permitted to use funds provided under the EAP for the recapitalisation of the Bank.

The Ordinary Shares are currently suspended from trading and the Bank may be adversely affected when trading in the Ordinary Shares resumes.

As of the date of this Information Memorandum, 0.5% of the Bank's total issued share capital is admitted for listing on the CSE and ATHEX and the Bank's Ordinary Shares are currently suspended from trading on both stock exchanges. Accordingly, there is no liquid market for the Ordinary Shares and the transfer of the Ordinary Shares (excluding the listed Existing Ordinary Shares) can only be made through the physical submission of an instrument of transfer together with the original share certificate (if any). See "*Description of Ordinary Shares—Form and Transfer of Ordinary Shares*".

Following the Recapitalisation in 2013 and as of the date of this Information Memorandum, Bail-in Shares accounted for 81.4% of the total number of Existing Ordinary Shares and were held by 21,487 shareholders while Diluted Shares accounted for 0.5% of the total number of Existing Ordinary Shares and were held by 88,546 shareholders. For more detail on the composition of the Bank's share capital as a result of the Recapitalisation (including a definition of the Bail-in Shares and Diluted Shares), see

"*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Impact of the Recapitalisation*". It is not known how many of these shareholders will seek to sell their Existing Ordinary Shares if and when trading resumes.

Even if trading does resume, liquidity in the Ordinary Shares may be limited and the share price may be subject to significant volatility. Any significant sales of the Ordinary Shares following the resumption of trading would adversely affect the price of the Ordinary Shares and make it difficult for the Bank to raise Common Equity Tier I capital should it need to do so to meet regulatory requirements.

In addition, pursuant to the provisions of the Laiki Transfer Decrees, Laiki Bank was granted Ordinary Shares representing 18.056371% of the share capital of the Bank as of 30 July 2013 and accordingly currently is the Bank's single largest shareholder. Laiki Bank remains under resolution and the administration of the Ordinary Shares held by it is in the hands of the Resolution Authority. According to the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the Ordinary Shares held by Laiki Bank. It is expected that these Ordinary Shares will be sold with a view to maximizing returns for Laiki Bank's creditors. The Bank will not be able to control to whom these Ordinary Shares are sold and cannot prevent them from being sold to an investor whose interests are adverse to the Bank's other holders of equity or debt securities.

Following the issue of the Bail-in Decrees, certain depositors have secured (on an ex-parte basis) interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of their deposits. Accordingly, on the date of this Information Memorandum deposits totalling approximately €22.0 million (the "**Restricted Deposits**") are still subject to these interim orders and appear in the books of the Bank as if the Bail-in Decrees were not applicable to them. Once these court orders are lifted in full, the Bank's issued share capital will increase by approximately 47.5% of the Restricted Deposits (or approximately 10,422.9 thousand shares, representing the conversion of certain of the Restricted Deposits into shares in accordance with the Bail-in Decrees) and by approximately 2,296.7 thousand shares, representing the additional shares issuable to Laiki Bank in order for it to hold 18.056371% of the Bank's share capital as of 30 July 2013 in accordance with the provisions of the Laiki Transfer Decrees.

Investors' rights as shareholders will be governed by Cypriot law, which may differ from the rights of shareholders under the laws of other countries.

The rights of the Bank's shareholders are governed by the Bank's articles of association and Cypriot corporate and securities laws, regardless of the national law applicable to any shareholder. The ability of shareholders to bring claims against the Bank, its officers and directors under foreign laws and the ability of shareholders to enforce, in the Cypriot courts, judgments obtained in foreign jurisdictions which are neither members of the EU nor party to any bilateral or multilateral conventions on the recognition and enforcement of foreign judgments to which Cyprus is a party are limited. In addition, whenever a pleading relating to the information contained in this Information Memorandum is submitted before a court, pursuant to the internal legislation of the relevant jurisdiction, investors may have to bear the costs of translating this Information Memorandum before the judicial proceedings are initiated. Under Cypriot law, shareholders may seek to invalidate resolutions of a company's corporate bodies that breach the company's articles of association or applicable law. Such actions could be taken, for example, in connection with resolutions adopted with respect to the payment of dividends, share capital increases or reductions and any other amendments to the articles of association or the spin-off or merger of the company.

The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan.

The Bank does not expect to distribute dividends during the period of the Restructuring Plan. Any distribution of dividends would be assessed internally and by the CBC against the Group's Common Equity Tier 1 ratio and the need to retain earnings. In addition, the CBC has imposed a prohibition on the distribution of dividends as a condition to its approval of the Restructuring Plan. Further, the Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time and, therefore, there can be no assurance that the Bank will be able to pay dividends once the Restructuring Plan period has ended.

The issue of the Placing Shares is subject to approval, and clawback, by the Existing Shareholders and the approval of the Cypriot courts and investors participating in the Placing will be subject to restrictions in relation to the trading of Existing Ordinary Shares.

The Bank's ability to issue any Placing Shares offered pursuant to the Placing is subject to prior shareholder approval as required under the terms of its memorandum and articles of association and Cypriot corporate law in general. In particular, the Bank will be unable to issue any Placing Shares unless and until the Existing Shareholders pass the requisite resolutions authorising:

- the Board of Directors to issue and allot the Placing Shares at the Placing Price to the Placees and to any Existing Shareholders who have participated in the Open Offer;
- the Nominal Value Reduction; and
- the disapplication of the Existing Shareholders' pre-emption rights.

The resolutions above will need to be approved by holders of shares representing not less than 75% of the Existing Ordinary Shares voting at the EGM and there can be no assurance that these resolutions will be approved.

In addition, the Bank will, through the Open Offer, provide its Existing Shareholders with the opportunity to subscribe, over a period of 15 business days, for 20% of the total number of Placing Shares at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder. Accordingly, there is a risk that a new investor's allotment of Placing Shares by the Bank could decrease by up to 20%. In addition, investors participating in the Placing will be subject to restrictions in relation to the sale, transfer or disposal (or the entry into any agreement or arrangement which achieves the same effect economically) of any Ordinary Shares without the Bank's prior written consent, from the date on which they commit to subscribe for the Placing Shares to the last date of the Open Offer Period.

Further, under Cypriot corporate law, the Nominal Value Reduction must be approved by the Cypriot courts and the Bank will file an application with the District Court of Nicosia for this purpose. The Nominal Value Reduction is required because, under Cypriot corporate law, the Bank is not permitted to issue Ordinary Shares at a price per Ordinary Share which is below the nominal value of each Ordinary Share. While the Bank believes that it is reasonable to expect the District Court of Nicosia to set a hearing date approximately a week after the application is filed, there can be no assurance as to when the District Court of Nicosia will set the hearing or that it will not require notice of the Nominal Value Reduction to be provided to Existing Shareholders over a certain notice period prior to the hearing.

Accordingly, the timetable for the Placing, the EGM and the court approval of the Nominal Value Reduction in the "*Description of the Placing*" section of this Information Memorandum is purely indicative and there can be no assurance that any of the events set out in the timetable, particularly the approval of the Nominal Value Reduction by the District Court of Nicosia, will occur at all, or will occur at the relevant dates or within the relevant time periods indicated. Accordingly, an investor may not receive its Placing Shares by the closing date indicated in the timetable or, if the relevant shareholder resolutions are not passed and/or the relevant court approval is not obtained, at all.

The existing capital control measures in Cyprus may restrict a shareholders' ability to move out of Cyprus any cash proceeds from the sale of Ordinary Shares or any share dividends that could be distributed in the future.

The Ministry of Finance of Cyprus has imposed capital controls measures in Cyprus which currently restrict, amongst other things, the movement of funds outside of Cyprus (see "*Regulation and Supervision of the Banks in Cyprus—Capital Control Measures*"). So long as these capital controls remain in place, shareholders of the Bank may be restricted in their ability to move cash proceeds from any sale of Ordinary Shares conducted in Cyprus (any movement of funds related to sales of Ordinary Shares which are conducted outside of Cyprus would not be restricted by these capital controls). In addition, although the Bank does not expect to distribute dividends in the near or medium term (see *"—The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan*" above), should the Bank be in a position to distribute dividends in the future, a shareholder of the Bank may be restricted in its ability to move them out of Cyprus if the capital control measures are still in place at that time.

USE OF PROCEEDS

The Bank intends to use the net proceeds to strengthen its capital adequacy position.

THE BANKING SECTOR IN CYPRUS

Recent Developments in the Banking Sector in Cyprus

The banking sector in Cyprus expanded rapidly between 2005 and 2012 due to deregulation, Cyprus' accession to the European Union in 2004, Cyprus' entry into the Eurozone in 2008 and technological advances. The growth of the sector was the result of both organic expansion as well as mergers and acquisitions. Average annual credit growth in Cyprus, based on calculations using CBC data, was approximately 15.0% per year between 2005 and 2012 and the increase was particularly steep in 2007 and 2008 when annual credit growth averaged 31.6% per year. Cyprus' entry into the Eurozone in 2008 has led to significantly lower borrowing costs for borrowers in Cyprus.

The stability of the Cyprus banking sector, however, has been challenged as a result of a combination of factors including:

- the start of the international financial crisis in 2008, which adversely affected the country's economic growth potential and its fiscal health;
- the rise and subsequent decline of the Cypriot property market, which adversely affected lending because most loans in Cyprus are collateralised with property; and
- the rapidly deteriorating economic conditions in Greece from 2010 onwards, which adversely affected Cypriot banks, including the Bank, because of significant exposures to Greek government bonds and loans extended to the private sector.

International credit rating agencies lowered Cyprus' sovereign credit ratings below investment grade through successive downgrades from early 2011 through to the beginning of 2014. This adversely affected the credit ratings of Cypriot banks. The key factors behind the downgrades were the severity of the sovereign debt crisis in Greece and its implications for the Cypriot banking system. Exposure to Greece was a significant vulnerability to Cyprus and its ratings, but a deteriorating fiscal position from 2009 onwards and an escalating current account imbalance in the period from 2006 to 2010 were additional vulnerabilities.

The liquidity positions of Cypriot banks have therefore been materially and adversely affected by:

- the successive downgrades of Cyprus' sovereign credit rating;
- the outflow of customer deposits from the middle of 2011 to the end of 2013 as a result of uncertainty in market conditions and because of the bail-in of uninsured depositors in the second quarter of 2013;
- uncertainty regarding Cyprus' continued participation in the Eurozone;
- the deterioration of the quality of the loan portfolios of Cypriot banks, including Greek government bonds and loans extended to the Greek private sector; and
- the Cypriot banks' lack of access to international capital markets.

As a result of these factors, banks in Cyprus, including the Bank, have been forced to rely on external financial resources. The primary source of liquidity for Cypriot banks in recent years has been funding from central banks (comprising direct ECB funding from monetary operations and ELA through the CBC).

The CBC and the Government have adopted a series of actions pursuant to the EAP to protect and enhance the financial stability of the Cypriot banking system and the safety of customer deposits, including the recapitalisation and restructuring of commercial banks and the cooperative credit sector and significant advancements in banking sector regulation and supervision, such as the Loan Origination Directive, the code of conduct for dealing with troubled borrowers and the Arrears Management Directive. For more information on the Cypriot economic crisis and the current macroeconomic environment in Cyprus, please see "*The Macroeconomic Environment in Cyprus*". For more information on the regulation of banks in Cyprus, please see "*Regulation and Supervision of Banks in Cyprus*".

Key Operational Features of the Banking Sector in Cyprus

In February 2013, PIMCO Europe Ltd published a publicly available study entitled "Independent Due Diligence of the Banking System of Cyprus" which examined the Cypriot banking sector. Among other things, the study identified a number of key operational features of the Cypriot banking sector which differ from other international banking systems. Following the Cypriot economic crisis, the CBC, through a number of recently enacted directives, has attempted to bring certain of these key operational features in line with international standards; however, structural differences remain. For further information on the CBC's recently enacted directives, please see "*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*" and "*Risk Factors—Regulatory and Legal Risks—The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*".

Strict Classification of Non-Performing Loans

As a result of the recently adopted NPL Directive of the CBC, which is applicable to all credit institutions in Cyprus, Cyprus has one of the strictest definitions of non-performing loans ("**NPLs**") of all EU Member States. For example, in Cyprus, restructured loans remain as NPLs for six months following the commencement of a new repayment schedule of principal and interest instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In contrast, in other EU Member States, including Greece, Austria, Germany and the United Kingdom, reclassification from NPL to performing loan can follow from a repayment schedule consisting only of interest payments. In addition, Cyprus relies on a customer rather than facility-based approach to NPL assessment, which means that a customer with greater than 20% of aggregate loan exposure marked as non-performing will automatically have all of its exposure marked as non-performing. Finally, consistent with the majority of EU Member States, housing loans in Cyprus are reclassified as NPLs after the third delayed payment instalment whereas, in Greece, housing loans are reclassified as NPLs only after the sixth delayed payment instalment. The EBA has published draft technical standards that provide common definitions for non-performing exposures and forbearance. The EBA definition of non-performing exposures focuses on a 90-day past due threshold, while the definition of forbearance focuses on concessions extended to debtors who face, or may face, difficulties in meeting payments. The adoption of these standards by the European Commission will harmonise the definition of NPLs across all EU Member States.

Cross-Collateralisation Across Loans

As a result of the prevalence of asset-based lending (see "*—Lending Based on Collateral Rather than Repayment Ability*") and the limited resolution framework (see "*—Limited Legal Resolution and Foreclosure*"), cross-collateralisation of loans is a common feature in Cypriot lending market. The cross-collateralisation of loans in Cyprus is complex: a single property can secure multiple loans, multiple properties can secure a single loan and multiple properties can secure multiple loans. As a result of this feature, lenders in Cyprus may extend additional loans against pledges of additional collateral rather than strictly assessing the ability of a borrower group to service additional loans.

Limited Legal Resolution and Foreclosure

Lengthy foreclosure and repossession timelines are a characteristic feature of the banking system in Cyprus. Under the CBC's Arrears Management Directive, credit institutions are required to apply efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. The Arrears Management Directive favours a negotiated resolution with problem borrowers. In Cyprus, legal proceedings to enforce loan collateral have historically taken between five and 13 years, which is much longer than the international standard. As part of the MoU policy reforms agreed with the Troika, the Government is in the process of amending the legal framework on foreclosures and the forced sales of mortgaged property, which is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to repossess, in the event that negotiations fail.

Recognition of Unpaid Interest as Interest Income

In Cyprus, credit institutions recognise interest income in accordance with IFRS and the relevant CBC Directives. With respect to impaired loans, the CBC's Loan Provisioning Directive addresses income recognition of impaired loans and provides that interest income shall be recognized on the unimpaired part of such a credit facility, using the original effective interest rate of the credit facility. This is also in line with the requirements of IFRS.

Lending Based on Collateral Rather than Repayment Ability

Credit institutions in Cyprus have historically placed more reliance on the collateral securing the loan than on the borrower's ability to service the loan repayments. Additionally, credit institutions in Cyprus often seek guarantees from both the borrower and third parties and the assets of the guarantor may be used as collateral in some circumstances. This cross-collateralization distributes the debt burden across the borrower group (see "—*Cross-Collateralisation Across Loans*"). The CBC has recently considered this practice in its Loan Origination Directive, which requires, among other things, that credit institutions evaluate the borrower's repayment ability, credit rating, loan contribution and collateral quality in deciding whether to extend credit and in its Arrears Management Directive.

Incomplete Information on Customer Financial Status

Currently the Cyprus credit bureau, Artemis, contains information only on problematic borrowers and their guarantors, specifically, borrowers who have had a lawsuit or a legal decision issued against them, borrowers who have filed for bankruptcy and borrowers listed in the CBC's register for issuing uncovered cheques. The information in the Artemis system is therefore incomplete and does not provide any information on a potential borrower's credit risk profile, its loans and deposit accounts with other credit institutions or whether the borrower is performing under its outstanding debt obligations. In connection with the Loan Origination Directive, which requires loan originators to collect a complete financial history from potential borrowers, and the Arrears Management Directive, it is expected that after September 2014 a central credit registry will be created (as required by the Troika), which will contain a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions.

Cyprus Banking System Structure

As of the date of this Information Memorandum, based on information publicly available from the CBC and the Cooperative Central Bank, there were 58 banks and financial institutions, including one representative office, in Cyprus: six domestic banks, 18 domestic CCIs, excluding the Cooperative Central Bank, eight subsidiaries of foreign banks, three of which are from non-EU Member States, and 25 branches of foreign banks, 16 of which are from non-EU Member States. Each category of bank and financial institution is discussed in more detail, below.

Domestic banks

The first category comprises domestic banks, which can be considered as universal banks, catering for domestic retail, SME and corporate clients and the international business segment. In addition, they offer non-credit institution services, such as insurance, brokerage, asset management, leasing and factoring. Traditionally, commercial banks have dominated the Cypriot financial services market. Domestic banks and subsidiaries or branches of foreign banks (see "—*Subsidiaries or branches of foreign banks*") together controlled 78.3% of the banking system's total loans and 74.8% of the banking system's total NPLs as at 31 March 2014.

Domestic cooperative credit institutions

The second category comprises CCIs, a less sophisticated segment of the market offering basic banking products, usually geared towards retail and SME clients.

Following intense consolidation efforts due to EU harmonisation directives, the number of CCIs dropped to 18, based on information available from the Cooperative Central Bank, from around 93 in 2013. In accordance with the MoU, the CCIs were consolidated and recapitalised and now represent increasing competition to the Bank in the retail, and small and SME markets. CCIs controlled 21.7% of the banking system's total loans and 25.2% of the banking system's total NPLs as at 31 March 2014.

Subsidiaries or branches of foreign banks

The third category comprises foreign banks' subsidiaries, or branches that cater for domestic retail, SME and corporate clients as well as for the international business segment. There are currently eight subsidiaries of foreign banks operating in Cyprus, three of which are from non-EU Member States, and 25 branches of foreign banks, 16 of which are from non-EU Member States. The largest entities in this category are subsidiaries of Greek banks.

Cyprus banking system by Assets

The total credit outstanding and market shares of banks (including subsidiaries and branches of foreign banks) and CCIs as at 31 March 2014 is outlined below.

	Total Credit Outstanding			Market Share	
	Banks	CCIs	Total	Banks	CCIs
	(€ in billions)	(€ in billions)	(€ in billions)		
Credit facilities to private individuals					
Purchase of immovable property	9.50	5.15	14.65	64.8%	35.2%
Consumer loans	2.96	4.31	7.27	40.7%	59.3%
Credit cards	0.24	0.04	0.28	85.7%	14.3%
Current accounts	0.59	0.45	1.04	56.7%	43.3%
Credit facilities to sole traders	0.76	0.44	1.20	63.3%	36.7%
Total credit facilities to private individuals	**14.06**	**10.39**	**24.45**	**57.5%**	**42.5%**
Credit facilities to legal entities					
Agriculture, forestry and fishing	0.29	0.05	0.34	85.3%	14.7%
Mining and quarrying	0.78	0.01	0.79	98.7%	1.3%
Manufacturing	1.56	0.23	1.79	87.2%	12.8%
Electricity, gas, steam and air conditioning supply	0.11	0.09	0.20	55.0%	45.0%
Water supply and waste management	0.10	0.09	0.19	52.6%	47.4%
Construction	7.15	0.38	7.53	95.0%	5.0%
Wholesale and retail trade	5.13	0.32	5.45	94.1%	5.9%
Transportation and storage	0.84	0.06	0.90	93.3%	6.7%
Accommodation and food service activities	2.26	0.15	2.41	93.8%	6.2%
Information and communication	0.41	0.01	0.42	97.6%	2.4%
Financial and insurance activities	4.32	0.00	4.32	100.0%	0.0%
Real estate activities	5.02	0.31	5.33	94.2%	5.8%
Professional, scientific and technical activities	0.75	0.14	0.89	84.3%	15.7%
Administrative and support services	0.36	0.02	0.38	94.7%	5.3%
Public administration and defence	0.47	0.80	1.27	37.0%	63.0%
Education	0.15	0.02	0.17	88.2%	11.8%
Human health and social work	0.22	0.03	0.25	88.0%	12.0%
Arts, entertainment and recreation	0.13	0.03	0.16	81.3%	18.8%
Other service activities	0.37	0.18	0.55	67.3%	32.7%
Total credit facilities to legal entities	**30.42**	**2.92**	**33.35**	**91.2%**	**8.8%**
Total intragroup facilities	**3.46**	**0.00**	**3.46**	**100.0%**	**0.0%**
Total facilities	**47.95**	**13.31**	**61.26**	**78.3%**	**21.7%**

Source: CBC

The total banking system NPLs held by banks (including subsidiaries and branches of foreign banks) and CCIs as at 31 March 2014 is outlined below.

	Total NPLs			Market Share	
	Banks	CCIs	Total	Banks	CCIs
	(€ in billions)	(€ in billions)	(€ in billions)		
Credit facility NPLs to private individuals					
Purchase of immovable property	3.69	2.34	6.03	61.2%	38.8%
Consumer loans	1.60	2.64	4.24	37.7%	62.3%
Credit cards	0.08	0.01	0.09	88.9%	11.1%
Current accounts	0.27	0.22	0.49	55.1%	44.9%
Credit facilities to sole traders	0.49	0.33	0.82	59.8%	40.2%
Total credit facility NPLs to private individuals	**6.12**	**5.53**	**11.65**	**52.5%**	**47.5%**
Credit facility NPLs to legal entities					
Agriculture, forestry and fishing	0.18	0.03	0.21	85.7%	14.3%
Mining and quarrying	0.11	0.01	0.12	91.7%	8.3%
Manufacturing	0.70	0.16	0.86	81.4%	18.6%
Electricity, gas, steam and air conditioning supply	0.01	0.00	0.01	100.0%	0.0%
Water supply and waste management	0.01	0.01	0.02	50.0%	50.0%
Construction	4.88	0.26	5.14	94.9%	5.1%
Wholesale and retail trade	2.07	0.20	2.27	91.2%	8.8%
Transportation and storage	0.28	0.01	0.29	96.6%	3.4%
Accommodation and food service activities	1.28	0.08	1.36	94.1%	5.9%
Information and communication	0.15	0.01	0.16	93.8%	6.3%
Financial and insurance activities	0.62	0.00	0.62	100.0%	0.0%
Real estate activities	2.54	0.20	2.74	92.7%	7.3%
Professional, scientific and technical activities	0.41	0.08	0.49	83.7%	16.3%
Administrative and support services	0.20	0.01	0.21	95.2%	4.8%
Public administration and defence	0.01	0.05	0.06	16.7%	83.3%
Education	0.09	0.01	0.10	90.0%	10.0%
Human health and social work	0.11	0.00	0.11	100.0%	0.0%
Arts, entertainment and recreation	0.08	0.02	0.10	80.0%	20.0%
Other service activities	0.17	0.09	0.26	65.4%	34.6%
Total credit facility NPLs to legal entities	**13.91**	**1.22**	**15.13**	**91.9%**	**8.1%**
Total intragroup facility NPLs	**0.00**	**0.00**	**0.00**	**0.0%**	**0.0%**
Total facility NPLs	**20.02**	**6.75**	**26.78**	**74.8%**	**25.2%**

Source: CBC

Competition and the Bank's Position in the Market

Banks in Cyprus and their operations are subject to the Law 13(1)/2008 for the Protection of Competition, which prohibits any actions or conduct which have as their object or effect the restriction or distortion of competition. In addition, Law 13(1)/2008, together with Law 83(I)/2014 on the Control of Concentrations between Undertakings, constitute the foundations of competition policy in Cyprus and regulates significant concentrations in the banking sector.

Following the absorption of Laiki Bank's loan portfolio in Cyprus, the Bank is the single largest provider of credit in Cyprus with a market share of 40% of loans as at 31 March 2014. The Bank's deposit market share in Cyprus was 26.4% at 31 March 2014, compared to 27.5% at 31 December 2013.

THE MACROECONOMIC ENVIRONMENT IN CYPRUS

Overview and Economic Trends

Cypriot Economy by Sector

The GDP and gross value added ("**GVA**") data included in this section is calculated based on publicly available information from the Cyprus Statistical Service.

The economy of Cyprus can generally be characterised as small, service-driven, open and dynamic. There is significant reliance on international trade with imports and exports of goods and services amounting to 90.5% of the GDP in real terms in 2013.

With respect to sector output in real terms, the tertiary sector (service sector) is the biggest contributor to GDP, accounting in 2013 for about 84.3% of GVA, which is the total value of all output before import duties and value-added tax. This development reflects the gradual evolution of the Cypriot economy from an exporter of minerals and agricultural products from 1961 to 1973 and an exporter of manufactured consumer goods in the latter part of the 1970s and the early 1980s into an international tourist centre and a regional services centre during the 1980s and the 1990s. From the 1990s and extending into the current decade, there was a significant expansion of transit trade, shipping, telecommunications, financial and business services and the activities of international companies in Cyprus.

The share of the primary sector, including agriculture, forestry, fishing and mining, in real GVA declined from 3.9% in 2000 to 2.5% in 2013. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 21.5% in 2000 to 13.2% in 2013, with a decline both in manufacturing and construction activity.

In contrast, the tertiary sector's share of real GVA increased from 74.6% in 2000 to 84.3% in 2013. In 2013, shares of real GVA in the tertiary sector included real estate activities (12.7%), wholesale and retail trade, including repair of motor vehicles (12.2%), public administration and defence (11.6%), financial and insurance activities (8.7%), tourism, including accommodation and food services activities (7.6%), education (7.0%), professional, scientific and technical activities (5.8%), information and communication (4.7%), and human health and social work (4.2%).

Recent Economic Trends

International Business Hub for Emerging Europe

Cyprus has been a member state of the European Union since 1 May 2004, a member of the European Monetary Union since 1 January 2008 and has one of the lowest corporate tax rates in the EU (see "*—The Cypriot Economic Crisis—Tax and other fiscal measures*"). Its location in the eastern Mediterranean sea, together with its access to the EU single market and its developed legal, accounting and banking sectors, makes Cyprus a regional international business hub strategically positioned between Western Europe and the Mediterranean region and eastern Europe, including a number of emerging markets, such as Russia and Ukraine.

Additionally, because of its Mediterranean location, its membership in the EU and its developed infrastructure, Cyprus is a popular tourist destination for tourists from both within and outside the EU, with the majority of arrivals in 2013 from the United Kingdom (37.1%) and Russia (25.3%). In 2013, tourism receipts amounted to 12.6% of GDP in nominal terms.

Investment in Natural Resources

Reserves of oil and natural gas have recently been discovered off the coast of Cyprus in the Levant basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus. In 2010, the U.S. Geological Survey estimated that the Levant Basin has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 3.5 trillion cubic meters.

The Ministry of Finance of Cyprus estimates that a significant investment in gas exploration and exploitation for the period from 2013 to 2020 will be required to develop the Levant Basin, which will have a positive contribution on the economy of Cyprus. The Government has adopted an "in principle" decision to proceed with the development of a liquefaction plant and export terminal for the production and export of liquefied natural gas. Upstream infrastructure, including the installation of an upstream production platform, subsea pipelines from production blocks to the shore and an internal gas transmission network to supply power stations in Cyprus, is also being planned to support the extraction of resources in the Levant Basin. The Ministry of Finance of Cyprus expects that development of the natural resource sector in Cyprus will have positive effects on the services industry and will result in lower energy prices. (See "*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful*".)

Post-Crisis Economic Sentiment

The post-crisis economic sentiment for Cyprus has improved as a result of better than expected macroeconomic and fiscal performance to date and positive Troika reviews leading to upgrades of sovereign credit ratings. The fourth Troika review of Cyprus' EAP was performed in 2014 and the Troika concluded that the programme remains on track. The recent performance of the Cypriot economy reflects a number of underlying factors. Some sectors, particularly tourism and business services, have demonstrated resilience. While private consumption actually declined by 5.7% in real terms, the decline nonetheless had been less steep than initially predicted, reflecting the drawing down of personal savings. In the foreign sector, although exports of goods and services declined, a sharp decline in the corresponding imports resulted in net exports having a significant positive contribution to real GDP growth. The improved economic sentiment for Cyprus is also partially due to the flexibility of the Cypriot economy. Wages and prices decreased during 2013. Real unit labour costs declined in 2012 and 2013 and are expected to decline further in 2014 and 2015 according to the European Commission (European Economic Forecast, Spring 2014). Therefore, the economic contraction in 2013 was mitigated by a decrease in prices and quantities. Real GDP contracted by 5.4% and the GDP deflator dropped by 1.5%, resulting in a contraction of nominal GDP by 6.9%. For more information, see "*—The Cypriot Economic Crisis—The Cypriot Macroeconomic Adjustment Programme*".

The Republic of Cyprus has recently regained access to the international financing markets, having completed an offering of €750 million of 4.750% bonds due 2019 on 25 June 2014. The transaction was more than two times oversubscribed and indicates positive investor sentiment on the progress of Cyprus' economic recovery. In addition, on 30 April 2014, the Republic of Cyprus placed €100 million of bonds with a private investor. On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group will realise an accounting profit of approximately €95 million for the second quarter of 2014, which will have a positive impact of approximately €95 million or 0.4 percentage points on the Group's CET1 ratio.

The Cypriot Economic Crisis

Before the emergence of the global economic crisis Cyprus had enjoyed a track record of satisfactory economic growth, low unemployment and relatively stable macroeconomic conditions.

Between 2003 and 2008, real GDP rose at an average annual rate of 3.8% as a result of increasing investment and the growth of private consumption and exports. Consumption was supported by annual employment growth averaging 2.5% over this period, attributable mainly to large inflows of migrant labour, particularly from other EU countries. During this period, per capita income in Cyprus converged rapidly with other EU Member States, with GDP in euro per capita terms reaching €21,800 in 2008, corresponding to 98.8% of the EU average in purchasing power parity terms.

The average annual growth of real GDP in the period from 2008 to 2012 was 0.2%, which includes a 2.4% contraction in 2012, while inflation averaged 2.6% during that same period. Unemployment (as a percentage of the economically active population) rose from 3.7% in 2008 to 7.9% in 2011 and to 11.9% in 2012. The international economic crisis affected Cyprus indirectly mainly through lower external demand in tourism, whilst investment was also affected by lower external demand for housing by foreigners.

However, the crisis highlighted large existing imbalances in the economy stemming from the banking sector's large exposure to Greece, its overall size relative to the economy and domestic overexpansion in the property market. At the same time persistent "twin deficits" in the fiscal and current accounts elevated the Cypriot economy's vulnerability.

Following a series of adverse economic developments in the Eurozone, including the restructuring of Greek government debt and the downgrading of Cyprus' credit rating by several credit rating agencies, the ability of the Government to borrow from international markets was significantly affected. In June 2012, the Government filed an application to the Eurozone for financial assistance through the ESM. The ESM is the crisis resolution mechanism for the Eurozone which issues debt instruments in order to finance loans and other forms of financial assistance to Eurozone members. The Government also applied at the same time to the IMF for external financial assistance to contain the risks to the Cyprus economy. These applications led to negotiations with the Troika on a comprehensive programme of financial assistance.

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme (the "**Eurogroup Statement on Cyprus**"). These key elements and principles include the following:

- An appropriate downsizing of the financial sector.
- A restructuring of the banking sector through:
  - the immediate resolution of Laiki Bank, with the full contribution of shareholders, bondholders and uninsured depositors, by the CBC using the newly adopted bank resolution regime in Cyprus;
  - the split of Laiki Bank into a "good" bank and a "bad" bank with the "bad" bank being run down over time and the "good" bank (including the full amount of the ELA that had been provided by the CBC to Laiki Bank) being absorbed by the Bank; and
  - the recapitalisation of the Bank through a deposit/equity conversion of uninsured deposits with full contribution of shareholders and bondholders. The aim of the conversion was to secure a capital ratio of 9% for the Bank.
- Any funds provided under the macroeconomic adjustment programme would not be used for the recapitalisation of Laiki Bank or the Bank.
- All insured depositors in all banks would be fully protected in accordance with the relevant EU legislation.
- The increase of the withholding tax on capital income and the statutory corporate income tax rate.
- An independent evaluation of the anti-money laundering framework in Cypriot financial institutions.

The financial assistance provided by the Eurogroup was conditional upon implementation of the extensive policy reforms agreed between the Troika and the Government in the MoU. The MoU policy reforms include financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets.

The Cypriot Macroeconomic Adjustment Programme

The Troika agreed an EAP with the Government on 2 April 2013. The EAP was agreed by the Eurozone Member States on 24 April 2013 and by the IMF Board on 15 May 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The ESM will provide up to €9 billion and the IMF will contribute up to €1 billion. The MoU specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance. Amendments to the MoU as agreed between the Troika and the Government were made in November 2013, July 2013, February 2014 and May 2014. To date, the ESM and the IMF have disbursed €4.5 billion and €337 million, respectively, totalling about 48.4% of available programme financing. In July 2014, the Government expects to receive €600 million in disbursements from the ESM and approximately €86 million in disbursements from the IMF.

The EAP's key objectives are:

- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing financial institutions, strengthening supervision and addressing expected capital shortfalls, in line with the political agreement of the Eurogroup of 25 March 2013;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

The implementation of the EAP commenced in April 2013 and, to date, has been the subject of four review missions by the Troika. The latest review mission took place from 6 to 17 May 2014, and, according to a joint statement by the Troika:

- The EAP remains on track with fiscal targets for the first quarter of 2014 having been met with a considerable margin, reflecting better than projected revenue and prudent budget execution.
- Progress has been made with the recapitalisation and consolidation of the cooperative credit sector and banks are advancing with their restructuring plans. This has allowed for a significant liberalisation of domestic payment restrictions, in line with the Government's roadmap (see "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*" below).
- While the recession for 2014 is expected to be somewhat less severe than anticipated, the outlook remains challenging. Real GDP for 2014 is now expected to contract by 4.2% compared to an initial expectation of a 4.8% contraction. However, unemployment remains high, and large non-performing loans are constraining the ability of banks to supply credit to the economy. As a result, the recovery is now expected to be more subdued than previously expected, with real GDP growth projected at 0.4 percent in 2015 and gradually improving thereafter, as domestic demand is weighed down by the need to reduce very high levels of indebtedness.
- There are three major challenges for Cyprus going forward:
    - the reduction of non-performing loans. This requires the reform of the legal framework for foreclosure and insolvency in order to provide balanced incentives to borrowers and lenders to negotiate and reach agreement on restructuring of non-performing loans, while avoiding undue hardship. At the same time, the supervisory authorities need to intensify their monitoring of banks' effective action to collect and restructure debt in compliance with the existing code of conduct and arrears management framework (see "*Risk Factors—Regulatory and Legal Risks—The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral" and "Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*");
    - the return of public finances on a sustainable path amidst macroeconomic uncertainties. Over the medium term, the authorities will need to steadily reduce the fiscal deficit and gradually achieve a primary fiscal surplus of 4% of nominal GDP by 2018 in order to put public debt on a sustained downward path; and

- The strengthening of institutions which includes the reform of the welfare system, revenue administration, tax collection and privatisations (see "—*Tax and other fiscal measures*" below).

However, risks related to the implementation of the EAP remain significant. For a discussion of the risks, see "*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*".

Tax and other fiscal measures

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. These amendments include:

- an increase of the corporate tax rate from 10% to 12.5% as of 1 January 2013;
- from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under the Resolution of Credit and Other Institutions Law of 2013 (the "**Resolution Law**"), any accumulated tax 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;
- 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 who receive interest that is not associated with the ordinary activities of the Bank;
- the Assessment and Collection of Taxes Law of 1978 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 into the Cyprus Companies Law, Cap. 113 (the "**Companies Law**");
- the immovable property tax rates have been increased as of 1 January 2013 at rates which range from 0.6% to 1.9% of the value of the property as of 1 January 1980; and
- 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 of 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 of the end of the previous quarter at the rate of 0.0375%.

Employment

Employment figures in this section are calculated based on publicly available information from Eurostat and the Cyprus Statistical Service.

The rapid growth of the Cypriot economy during the period 2003-2008 led to strong employment conditions. Consequently, unemployment remained below 5% during most of the period. The employment of foreign workers considerably increased the flexibility in labour markets and helped to moderate wage growth in the economy. The economic deceleration that started in 2009 gradually affected the labour market with some time lag, causing significant employment losses and a higher unemployment rate. In particular, the average unemployment rate increased from 5.4% in 2009 to 15.9% in 2013, with the new entrants, mainly young persons and persons employed in the construction and tourism sectors, being severely affected. Youth unemployment (persons aged less than 25 years) rose to 38.9% in 2013, which is the highest in the Eurozone after Greece, Spain and Italy.

The employment rate in Cyprus, the proportion of employed people to the economically active population, dropped to 61.7% in 2013 from 64.6% in 2012, but remains close to the Eurozone average and is higher than in other distressed countries, such as Greece, Spain and Portugal. Cyprus has favourable demographics: the old age dependency ratio in 2013 was 18.8% compared with 28.9% in the Eurozone and

27.5% in the European Union as a whole. The composition of the labour force in Cyprus provides additional cushioning against further steep increases in the unemployment rate: total employment in 2013 was comprised of 78.9% Cypriot nationals and 21.1% non-Cypriot nationals. The drop in total employment in the year was 3.5% of which the drop in the employment of Cypriot nationals was 1.5% and that of non-Cypriot nationals 10.2%. As a percentage of the total unemployed in 2013, Cypriot nationals were 78.8% of the total and non-Cypriot nationals were 21.2% of the total. Finally, while total employment decreased in 2013, wages have exhibited relative flexibility with a decreasing trend, adjusting to the overall economic situation. More specifically, real unit labour costs decreased by 4.3% in 2013 and are expected to decrease by a further 3.1% in 2014 according to the European Commission (European Economic Forecast, Spring 2014), thus improving the overall cost competitiveness of the economy.

Ratings

As of the date of this Information Memorandum, the Republic of Cyprus has been rated by Standard and Poor's, Moody's, Fitch and DBRS. In April 2014, Standard and Poor's raised its long-term foreign and local currency sovereign ratings on the Republic of Cyprus to B from B- with a positive outlook. Moody's Investors Service in March 2014 affirmed Cyprus' Caa3 government bond rating and changed the outlook to positive from negative. Fitch Ratings in May 2014 revised the outlook on long-term foreign currency to stable from negative, affirmed the foreign currency issuer default rating to B- and upgraded the long-term local currency issuer default rating to B- from CCC. DBRS in June 2014 upgraded the long-term foreign and local currency issuer ratings from CCC to B (low) with stable trends.

Main Economic Indicators

The following table summarises the main economic indicators for the period 2010-2013:

	2010	**2011**	**2012**	**2013**
GDP at current market prices (€billion)	17.4	17.9	17.7	16.5
GDP per capita (€thousand)	21.0	21.0	20.5	19.0
GDP in constant prices (% change)	1.3	0.4	-2.4	-5.4
Employment (% change)	0.2	0.5	-3.3	-3.7
Unemployment rate (%)	6.3	7.9	11.8	15.9
Harmonised index of consumer prices (% change)	2.6	3.5	3.1	0.4
Fiscal balance (€billion)	-0.9	-1.1	-1.1	-0.9
Fiscal balance (in% of GDP)	-5.3	-6.3	-6.4	-5.4
Public debt (€billion)	10.7	12.8	15.3	18.4
Public debt (% of GDP)	61.3	71.5	86.6	111.5
Exports of goods and services (% change)	3.8	4.4	-2.5	-4.2
Imports of goods and services (% change)	4.8	-0.2	-5.4	-14.1
Trade balance (€billion)	-4.7	-4.3	-3.9	-2.9
Trade balance (% of GDP)	-26.8	-24.3	-21.8	-17.8
Current account balance (€billion)	-1.7	0.6	-1.2	-0.3
Current account balance (% of GDP)	-9.8	-3.4	-6.9	-1.9

Source: Cyprus Statistical Service, CBC and Eurostat.

RESTRUCTURING OF THE BANK AND LAIKI BANK

In line with the Eurogroup Statement on Cyprus, the MoU required the restructuring of Cyprus' banking sector, the main terms of which are:

- the immediate resolution of Laiki Bank into a "good" bank and "bad" bank;
- the recapitalisation of the Bank through a bail-in of uninsured depositors, shareholders and other creditors of the Bank; and
- the acquisition by Piraeus Bank of the Greek branches of the Bank, Laiki Bank and Hellenic Bank.

Resolution of Laiki Bank

The split of Laiki Bank into a "good" bank and a "bad" bank was achieved by the transfer of certain assets and liabilities of Laiki Bank (which constituted the "good" bank) to the Bank while Laiki Bank remains as the "bad" bank left with a portfolio of assets and liabilities which includes uninsured deposits and hybrid capital instruments.

From 29 March 2013 to 20 December 2013, the Resolution Authority issued the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013 (the "**Laiki Transfer Decrees**") which, amongst other things, effected:

- the transfer to the Bank of:
  - certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities in Cyprus of Laiki Bank, including its shares in subsidiaries incorporated in Cyprus;
  - certain of Laiki Bank's liabilities, mainly comprising insured deposits and €9.1 billion of ELA;
  - certain assets and liabilities of the United Kingdom and Greek operations of Laiki Bank, comprised mainly of loans and any related security originated by Laiki UK, shares in Laiki Bank's subsidiary Marfin Capital Partners Ltd (UK), interbank deposits and real property in the United Kingdom and Greece; and
  - contracts of employment of employees of Laiki Bank in Cyprus; and
- on 1 April 2013, the acquisition of customer deposits amounting to €325.2 million and certain liquid assets of the United Kingdom branch of Laiki Bank by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group.

Under the Laiki Transfer Decrees, the Resolution Authority was required to determine the final value of the assets and liabilities of Laiki Bank transferred to the Bank and, if the final value of the transferred assets exceeded the final value of the transferred liabilities, to determine the number of Class A shares in the Bank to be issued to Laiki Bank as fair compensation for such excess value with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of Laiki Bank's transferred assets and liabilities and, based on this valuation, the Resolution Authority issued a further decree on 30 July 2013 which required the Bank to issue Class A Shares representing 18.056371% of the total share capital of the Bank. As a result of the recapitalisation of the Bank as further described in *"—Recapitalisation of the Bank*" below, Laiki Bank's holding of Class A Shares was converted into ordinary shares of the Bank.

As of the date of this Information Memorandum, Laiki Bank held 856,450,454 ordinary shares in the Bank representing 18.056371% of the Bank's total share capital and is the single largest shareholder in the Bank and the only shareholder with an equity stake exceeding 5% in the Bank. See "*Risk Factors—Risks Relating to the Placing and the Ordinary Shares—The Ordinary Shares are currently suspended from trading and the Bank may be adversely affected when trading in the Ordinary Shares resumes*". Laiki

Bank remains under resolution and is expected to dispose of its assets (comprised primarily of investments in a number of overseas banking subsidiaries and its shareholding in the Bank) over time and be liquidated in line with the Eurogroup Statement on Cyprus. With respect to Laiki Bank's holding of Existing Ordinary Shares in the Bank, the administration of them is in the hands of the Resolution Authority and, in accordance with the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the Ordinary Shares held by Laiki Bank. It is expected that these Ordinary Shares will be sold with a view to maximizing returns for Laiki Bank's creditors.

Recapitalisation of the Bank

From 29 March 2013 to 30 July 2013, the Resolution Authority effected the recapitalisation of the Bank (the "**Recapitalisation**") through the issue of the Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 (the "**Bail-in Decrees**") which can be summarised as follows:

Holders of debt securities of the Bank as of 29 March 2013

The Bail-in Decrees provided that claims in respect of the subordinated debt of the Bank would be converted into 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. Claims in respect of the Bank's subordinated debt were comprised of the following subordinated debt securities:

- Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as of 29 March 2013 was €22,169,560; (the "**2007 Capital Securities**");
- Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as of 29 March 2013 was €27,283,632 (the "**2008 Convertible Bonds**");
- Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as of 29 March 2013 was €73,088,145 (the "**2009 Convertible Capital Securities**");
- Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in euro by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was €428,521,983 (the "**2011 EUR CECS**"); and
- Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was $39,711,653 (the "**2011 USD CECS**" and, together with the 2011 EUR CECS, the "**CECS**").

(collectively, the "**Capital Securities**").

In accordance with the Bail-in Decrees, the 2011 USD CECS were converted to Class D Shares using a conversion rate of 1 share of €1.00 nominal value for each equivalent of €1.00 principal amount of these securities calculated based on the euro to U.S. Dollar exchange rate of €1 to $1.2861 as specified in the reference exchange rates published by the ECB on 26 March 2013.

Holders of ordinary shares of the Bank as of 29 March 2013

The Bail-in Decrees suspended all shareholder rights in relation to the ordinary shares in issue as of 29 March 2013 (the "**Existing Shares**") until 30 July 2013, the date on which these ordinary shares were subject to a share capital reduction as further described in "*—Conversion into shares*".

Holders of deposits and other products of the Bank as of 26 March 2013

The Bail-in Decrees required the calculation of a total "excess amount" per holder of conventional cash deposits, capital guaranteed structured deposit products, investment products and/or schuldschein loans (i.e., fixed-term German law governed loans entered into by the Bank as borrower) of the Bank. This excess amount was subject to conversion into shares of the Bank and cash deposits with the Bank under the Bail-in Decrees.

As the calculation of the excess amount was made per holder and not per product, the calculation of the excess amount for each holder depended on what combination of products and/or deposits it held because:

- any credit claims that the Bank had against the holder (e.g., an outstanding advance or loan by the Bank to the holder) were netted against the total amount of products and/or deposits held by it at the Bank; and
- there were different exemptions from bail-in under the Bail-in Decrees for investment products as compared to capital guaranteed structured deposit products and conventional cash deposits.

The investment products subject to conversion under the Bail-in Decrees consisted of the following products issued by the Bank:

- Exantas USD Index Linked Redemption Notes due 2016;
- Exantas EUR Index Linked Redemption Notes due 2016;
- SEK Autocallable Equity Linked Redemption Notes Linked to a Basket of Shares due 2014; and
- Dual currency products: Non-capital guaranteed structured products convertible under certain conditions into another currency.

The capital guaranteed structured deposit products consisted of the following products issued by the Bank:

- BOC Compass EUR: euro-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Compass USD: U.S. Dollar-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Horizon EUR: euro-denominated capital guaranteed structured product linked to a euro-denominated equity index;
- SEK 100% Capital Guaranteed, 100% Participation Himalayan World Index Linked Deposit: SEK-denominated capital guaranteed structured product with 100% participation in the performance of a basket of equity indices; and
- Avantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

The Bank had two schuldschein loans due March 2038 with a total principal amount of €20 million.

The final conversion of the excess amount for each holder into ordinary shares of the Bank and cash deposits involved prior interim conversions in accordance with the Bail-in Decrees as summarised below:

Excess amount conversion

- 37.5% of the excess amount was converted into Class A Shares;
- 22.5% of the excess amount was converted into a "title" governed by the terms of Annex A to the Bail-in Decrees ("**Title A**"); and
- 40% of the excess amount was converted into a "title" governed by the terms of Annex B to the Bail-in Decrees ("**Title B**").

Title A conversion

Each holder's Title A was converted in accordance with its terms as follows:

- 4/9ths of the principal amount of Title A was converted into Class A Shares; and
- 5/9ths of the principal amount of Title A, together with an additional amount representing interest (if any) thereon as calculated in the manner provided in Annex A to the Bail-in

Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted ("**Deposit A**").

Title B conversion

Each holder's Title B was converted in accordance with its terms as follows:

- 1/4th of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted ("**Deposit B**"); and
- 3/4ths of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted (together with Deposit A, the "**Affected Deposits**").

Deposits conversion

- All of Deposit B and 12% of the Affected Deposits were converted into deposits with no fixed term; and
- 88% of the Affected Deposits were converted, in equal proportions, into three new fixed term deposits with terms of 6, 9 and 12 months, respectively, with the Bank,

(collectively, the "**New Deposits**").

Accordingly, 15.1% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into current cash deposits and 37.4% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into fixed term cash deposits.

Class A Shares conversion

All of the Class A Shares resulting from the interim conversions described above (comprising 47.5% of the excess amount for each holder) were further converted into ordinary shares of the Bank. For more details on the conversion of the Class A Shares into ordinary shares, see "—*Conversion into shares*" below.

Residual holdings

A holder of deposits and other products of the Bank may be only partially converted pursuant to the Bail-in Decrees. Whether or not a holder has a residual holding of deposits or products following the bail-in and conversion described above depended on whether such holder was eligible for:

- in relation to conventional cash deposits and capital guaranteed structured deposit products, €100,000 in protection under the Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013;
- in relation to conventional cash deposits and capital guaranteed structured deposit products, protection pursuant to the provisions of Annex D to the Bail-in Decrees, which provides, amongst other things, additional exceptions for deposits of credit institutions and the Government and lower conversion percentages for deposits of insurance companies (and joint venture insurance companies and supplementary pension funds) and charities approved by the Cypriot Ministry of Finance; and/or
- in relation to investment products, €20,000 in protection under the Establishment and Operation of an Investor Compensation Fund for Clients of Banks Regulations of 2004 to 2007.

Conversion into shares

The Bail-in Decrees effected a reduction in share capital, a share split and the conversion and consolidation of Class A Shares and Class D Shares into only one class of shares, the ordinary shares of the Bank as described in the following paragraphs. Although contemplated by the Bail-in Decrees, there were no conversions into Class B Shares or Class C Shares.

Share capital reduction

The nominal value of each:

- ordinary share was reduced from €1.00 to €0.01; and
- Class D Share was reduced from €1.00 to €0.01.

Share split

Following the share capital reduction, each Class A Share with nominal value of €1.00 was split into 100 Class A Shares with nominal value of €0.01 each.

Share capital conversion and consolidation

Following the share split described above, each Class A Share and Class D Share with nominal value of €0.01 was converted into one ordinary share with nominal value of €0.01.

Following the conversion of Class A Shares and Class D Shares into ordinary shares, every 100 ordinary shares with nominal value of €0.01 held by each shareholder were converted into one ordinary share 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 ordinary shares which was cancelled was applied to write off the accumulated losses of the Bank up to 29 March 2013.

The ordinary shares resulting from the conversion of the classes of shares issued under the Bail-in Decrees comprise the sole class of the Bank's share capital and have the same rights and equal ranking with the Existing Shares.

Share premium reserve

In accordance with the Bail-in Decrees, the balance of the Bank's share premium reserve was reduced to zero and the total amount of the reduction was applied to write off accumulated losses of the Bank up to 29 March 2013.

Impact of the Recapitalisation

The Bank's accumulated losses of €2,786.9 million were written off through a reduction in the Bank's share capital of €2,353.3 million, the utilisation of the Bank's share premium reserves of €428.3 million and the write off of the equity component of convertible subordinated loan stock of €5.3 million. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation. In relation to the ordinary shares issued to Laiki Bank in compensation for its assets and liabilities transferred to the Bank, the Bank accounted for this transaction 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 the above accounting treatment, no profit or loss arises from these transactions. See also "*Risk Factors—Risks Relating to the Group's Business—The independent auditors' report in respect of the Bank's consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter*".

Following the Recapitalisation, the Bank was in compliance with the minimum requirement for Core Tier 1 capital ratio and the Resolution Authority announced, on 30 July 2013, that the Bank was no longer under resolution.

The table below shows the composition of the Bank's share capital as of the date of this Information Memorandum in the following categories:

- Ordinary Shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and schuldschein loans (the "**Bail-in Shares**");

- diluted Existing Shares and Ordinary Shares issued to bailed in holders of Capital Securities (the "**Diluted Shares**"); and
- Ordinary Shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees (the "**Laiki Shares**").

The Bail-in Shares, Diluted Shares and Laiki Shares comprise all of the Existing Ordinary Shares as of the date of this Information Memorandum. However, following the issue of the Bail-in Decrees, certain depositors have secured (on an ex-parte basis) interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of their deposits. Accordingly, on the date of this Information Memorandum, Restricted Deposits totalling approximately €22.0 million are still subject to these interim orders and appear in the books of the Bank as if the Bail-in Decrees were not applicable to them. Once these court orders are lifted in full, the Bank's issued share capital will increase by approximately 47.5% of the Restricted Deposits (or approximately 10,422.9 thousand shares, representing the conversion of certain of the Restricted Deposits into shares in accordance with the Bail-in Decrees) and by approximately 2,296.7 thousand shares, representing the additional shares issuable to Laiki Bank in order for it to hold 18.056371% of the Bank's share capital as of 30 July 2013 in accordance with the provisions of the Laiki Transfer Decrees.

Category	No. of Existing Ordinary Shares	Percentage of total share capital	No. of Shareholders
Bail-in Shares(1)	3,863,020,378	81.4	21,487
Diluted Shares	23,732,848	0.5	88,546
Laiki Shares	856,450,454	18.1	1
Total	4,743,203,680	100.0	110,034

(1) Includes approximately 48,498.7 thousand Existing Ordinary Shares transferred from "Shares subject to interim orders" category to the "share capital" category of the Group's equity up to the date of this Information Memorandum. See "*Operating and Financial Review and Prospects—Presentation and Comparability of Financial Information—Factors Affecting Comparability of Financial Information—The Recapitalisation*".

Release of New Deposits

The Bank has recently released some of the New Deposits issued by the Bank pursuant to the Recapitalisation. See "*Business Description of the Group—Recent Developments*".

The released deposits are still subject to the capital control measures currently applicable in the Cypriot banking system. See "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*".

Piraeus Bank acquisition of the Greek operations of the Bank

In March 2013, the Greek operations of the Bank, Laiki Bank and Hellenic Bank, were acquired by Greece's Piraeus Bank S.A. ("**Piraeus Bank**"), which was selected for this transaction by the Hellenic Financial Stability Fund. Piraeus Bank acquired in total assets with a book value of €20 billion and liabilities of €14 billion of these branches.

The loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece were sold to Piraeus Bank in accordance with a decree issued by the Resolution Authority on 26 March 2013, the Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Greek Operations Decree**"). The Bank's loss on disposal of its Greek operations to Piraeus Bank was €1.4 billion and, as a result of this disposal, 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.

Marfin Bank Romania acquisition of certain of the Romanian operations of the Bank

On 25 April 2013, in accordance with the Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Romanian Operations Decree**"), certain assets (which included customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The gross assets and customer deposits transferred to Marfin Bank Romania amounted to €82.0 million and €77.0 million, respectively and the Group's loss on disposal was €4.5 million.

REGULATION AND SUPERVISION OF BANKS IN CYPRUS

The Regulatory Framework

The Group is subject to financial services laws, regulations, administrative actions and policies in each location where the Group operates. The Bank has a primary listing on the CSE and a secondary listing on ATHEX (although, since, 19 March 2013, the ordinary shares of the Bank have been suspended from trading on the CSE and ATHEX) and, therefore, the Group is also subject to the applicable capital markets laws.

In this section, references are made to laws, directives and regulations on an as amended basis.

The CBC is responsible for the licensing and supervision of credit institutions in Cyprus in accordance with (i) the Business of Credit Institutions Law of 1997, (ii) the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the regulations issued thereunder on the Cypriot Deposit Protection Scheme, (iii) the Regulations on the Establishment and Operation of an Investor Compensation Fund for Clients of Banks of 2004 and 2007 on the Cypriot investor compensation fund, established under the Investment Firms Law of 2002, (iv) the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2013 on anti-money laundering activities, (v) the Payment Services Laws of 2009 and 2010 on payment services and credit institutions and (vi) other relevant laws of Cyprus. Furthermore, in accordance with the Central Bank of Cyprus Law of 2002, the CBC has additional regulatory and supervisory powers relating to the operation of credit institutions in Cyprus.

The CBC issues a banking licence to credit institutions meeting the requirements set out in the provisions of the Business of Credit Institutions Law of 1997. Specifically, the Business of Credit Institutions Law of 1997 regulates or determines, inter alia, the criteria to be considered in the granting of an establishment and operation licence of a credit institution in Cyprus and in the revocation of such licence, the business of credit institutions, the establishment and provision of services by credit institutions, relations with third countries, matters relating to the capital of a credit institution, matters relevant to special participations of credit institutions in other businesses and the participations of individuals or entities in credit institutions, the maintenance of liquidity, the supervision and inspection of credit institutions by the CBC, both on a unconsolidated and a consolidated basis, bank secrecy, professional secrecy, matters relating to reorganisation measures, the winding up and dissolution of credit institutions and penalties. In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions.

The ECB is the central bank for the Eurozone and administers the monetary policy of the Eurozone. With the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone, Regulation (EU) No 1024/2013 (the "**ECB Regulation**"), adopted on 15 October 2013, confers on the ECB prudential supervisory responsibility over credit institutions in the Eurozone and other EU Member States that participate in the SSM (together with the Member States of the Eurozone, "**participating Member States**"), with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the EU and each Member State. The ECB will fully assume the following supervisory responsibilities, among others, in November 2014 (subject to implementation arrangements and measures set forth in article 33(2) of the ECB Regulation):

- to grant and revoke authorisations regarding all credit institutions established in participating Member States;
- with respect to significant credit institutions in a participating Member State establishing a branch or providing cross-border services in non-participating Member States, to carry out the tasks of the national competent authority (each, an "**NCA**") of the Member State;
- to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;

- in relation to significant credit institutions, to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- in relation to significant credit institutions, to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- in relation to significant credit institutions, to carry out supervisory reviews, including, where appropriate and in coordination with the European Banking Authority ("**EBA**"), stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- in relation to significant credit institutions, to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating Member States; and
- in relation to significant credit institutions, to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The ECB and the national central banks together constitute the Eurosystem, the central banking system of the Eurozone. The ECB will exercise its supervisory responsibilities under the ECB Regulation in cooperation with the national central banks in the participating Member States. As such, in Cyprus, the ECB cooperates with the CBC and the Bank is a significant credit institution for the purposes of the ECB Regulation.

The methodology and scenarios used in the stress tests were published on 29 April 2014, and banks' individual results are expected to be released at the end of October 2014 (see "*Risk Factors—Risks Relating to the Group's Business— The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank*").

As regards the monitoring of financial institutions, the NCAs will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, will be exclusively responsible for prudential supervision, which includes, among other things, the power to: (i) authorise and withdraw authorisation (this applies to all credit institutions in participating Member States; the ECB will, however, only authorise a credit institution if the NCA of the relevant participating Member State has confirmed that relevant authorisation requirements in that state's laws have been met); (iii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) impose robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a credit institution exist, in coordination with the relevant resolution authorities.

The operation and supervision of credit institutions within the EU is governed by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**CRD IV**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**", and together with CRD IV, "**CRD IV/CRR**"). CRD IV was required to be transposed into the national law by 31 December 2013, though certain provisions (including provisions relating to the requirements to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer, the global and other systematically important institutions, the recognition of a systemic risk buffer rate, the setting of countercyclical buffer rates, the recognition of countercyclical buffer rates in excess of 2.5%, the decision by designated authorities on third country countercyclical buffer rates, the calculation of institution-specific countercyclical capital buffer rates and restrictions on distributions) shall enter into force from 1 January 2016. As of the date of this Information Memorandum, CRD IV has not been implemented into Cypriot law but it is expected that implementation will occur during 2014.

The CRR is directly applicable in all EU Member States from 1 January 2014, with the exception of certain of its provisions related to the application of the liquidity requirements on an individual basis and the disclosure of leverage ratios (which will apply from 1 January 2015) and stable funding (which will apply from 1 January 2016).

Under the current regulatory framework, credit institutions operating in Cyprus are required to, among other things:

- comply with the capital adequacy ratios determined by the CBC;
- observe the liquidity ratios prescribed by the CRD IV/CRR;
- comply with certain concentration ratios determined by the CBC;
- maintain efficient internal control, compliance and risk management systems and procedures;
- adopt a remuneration policy and set up a remuneration committee of the board of directors;
- submit to the CBC periodic reports and statements;
- disclose data regarding the credit institution's financial position and the risk management policy;
- provide the CBC with such further information as it may require;
- in connection with certain operations or activities, notify or request the prior approval of the CBC, in each case in accordance with the applicable laws of Cyprus and the relevant acts, decisions and circulars of the CBC; and
- permit the CBC to conduct audits and inspect books and records of the credit institution, in accordance with Cyprus law.

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC is empowered to, amongst other things:

- require the relevant credit institution to take appropriate measures to remedy the breach or to restrict its operations by imposing conditions on its license (which may include, requiring the relevant credit institution to take certain actions or refrain from taking certain actions, imposing limitations on the acceptance (and solicitation) of deposits, the granting of credit or the making of investments, prohibiting the entering into of certain transactions, requiring the removal of corporate officers, requiring the holding of own funds in excess of prescribed levels and requiring the implementation of policies on the treatment of certain assets and risk);
- impose fines;
- assume control of, and carry on in the credit institution's name, the business of the credit institution, for so long as the CBC considers necessary;
- demand the increase of a credit institution's share capital;
- demand that the credit institution prepares and submits a recovery plan and submit information so that the CBC can prepare a resolution plan in its capacity as Resolution Authority;
- demand that dividends be limited or withheld; and

- revoke the licence of the credit institution where the breach cannot be remedied and place it in a state of special liquidation (i.e., where a court application is made for liquidation on an ex-parte basis where services performed by the relevant credit institution concern the public interest).

In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions (see "—*Resolution Law*" below).

In relation to the recovery and resolution of credit institutions, the European Commission submitted a "Proposal for a directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No. 1093/2010" on 6 June 2012. This proposal formed the basis of the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the "**BRRD**") which was adopted by the European Parliament and the Council of the EU on 15 April and 6 May 2014, respectively, and was published in the Official Journal of the EU on 12 June 2014 and entered into force on 2 July 2014, the 20th day following its publication. Following the implementation of the BRRD in Cyprus, many of the Cypriot law provisions summarised above and contained in the Resolution Law will need to be amended or replaced in order to be consistent with the BRRD's provisions.

The BRRD equips the NCAs with common and effective tools and powers to tackle bank crises pre-emptively, safeguarding financial stability and minimising taxpayer exposure to losses in insolvency. The framework is meant to apply in relation to banks of all sizes and consists of three pillars: preparatory and preventative measures, early intervention, and resolution tools and powers, within a framework of improved cross-border cooperation.

The range of powers available to the relevant authorities consist of three elements: (i) preparatory steps and plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a bank's deteriorating situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of an institution presents a concern as regards the general public interest, a clear means to reorganise or wind down the bank in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses in insolvency (resolution). In addition, the BRRD provides a framework to improve cooperation across borders to coordinate resolution measures in all affected Member States in the event that a cross-border banking group should fail.

The BRRD establishes common parameters for triggering the application of resolution tools. The conditions that have to be met before the competent authorities take a resolution action in relation to a credit institution are: (a) the competent authority determines that the institution is failing or likely to fail; (b) there is no reasonable prospect that any alternative private sector or supervisory action taken would prevent the failure of the institution within a reasonable timeframe; and (c) a resolution action is necessary in the public interest. When the trigger conditions for resolution are satisfied, the BRRD provides a set of resolution tools that resolution authorities have the power to apply singly or in conjunction. These tools are the following:

- *Sale of business*. Resolution authorities may effect a sale of the institution, in whole or in part, on commercial terms, without requiring the consent of the shareholders or complying with other procedural requirements.
- *Bridge Institution*. Resolution authorities may transfer all or part of the business of an institution to a publicly controlled entity. The operations of a bridge institution are temporary, the aim being to sell the business to the private sector when market conditions are appropriate.

- *Asset Separation*. Resolution authorities may transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time.
- *Bail-In*. Resolution authorities may write down the claims of unsecured creditors of a failing institution and/or convert such claims into equity.

According to the transposition provisions of the BRRD, Member States are to adopt and publish by 31 December 2014 at the latest the laws and regulations necessary to implement it. Member States shall apply these laws and regulations from 1 January 2015. However, Member States shall apply the provisions adopted in order to implement the bail-in tool from 1 January 2016 at the latest.

The BRRD relies on a network of NCAs and resolution funds to resolve banks. Nevertheless, according to the European Commission, such an approach is not sufficient for those Member States which share the supervision of credit institutions within the SSM, which is expected to be operational in November 2014. The European Council has recognised that in the banking union, bank supervision and resolution need to be exercised by the same level of authority, thus making the need for the establishment of the Single Resolution Mechanism (the "**SRM**") with a central decision-making body and a Single Bank Resolution Fund (the "**SRF**") obvious.

On 15 April 2014, the European Parliament adopted a proposed regulation for the SRM. This regulation must still be formally adopted by the Council. The regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and the SRF (the "**SRM Regulation**").

The SRM Regulation builds on the rulebook on bank resolution set out in the BRRD and establishes the following:

- the SRM applies to all banks within the SSM. The single resolution board (the "**SRB**") will prepare resolution plans for and directly resolve all banks directly supervised by the ECB and for cross-border banks. National resolution authorities will prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this will not involve any use of the SRF. Member States can opt to have the SRB directly responsible for all their banks. The SRB will decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, whether resolution will involve the use of the SRF;
- centralised decision-making will be built around a strong SRB and will involve permanent members as well as the European Commission, the Council, the ECB and the national resolution authorities. In most cases, the ECB will notify that a bank is failing to the SRB, the European Commission, and the relevant national resolution authorities. The SRF will then assess whether there is a systemic threat and the availability of any private sector solution. If no private sector solution exists, it will adopt a resolution scheme including the relevant resolution tools and any use of the SRF. The European Commission, is responsible for assessing the discretionary aspects of the SRB's decision and endorsing or objecting to the resolution scheme. The European Commission's decision is subject to approval or objection by the Council only when the amount of resources drawn from the SRF is modified or if there is no public interest in resolving the bank. If the Council or the European Commission objects to the resolution scheme, the SRB will need to amend the resolution scheme. The resolution scheme will be implemented by the national resolution authorities. If resolution entails state aid, the European Commission will need to approve the aid prior to the adoption of the resolution scheme by the SRB;
- in its plenary session, the SRB will take all decisions of a general nature and any individual resolution decisions involving the use of the SRF in excess of €5 billion. In its executive session, the SRB will take decisions in respect of individual entities or banking groups where the use of the SRF remains below this threshold. The composition of the executive session of the SRB will include the chair, the executive director and three other permanent members, with the European Commission and the ECB sitting as permanent

observers. In addition, to ensure that the interests of all Member States on which the resolution had an impact were considered, Member States that can potentially be affected by the resolution based on the institution being resolved will also participate in the session. None of the participants in the deliberation will have a veto;

- all the banks in the SSM will contribute to the SRF. The SRF has an estimated target level of €55 billion and can borrow from the markets if decided by the SRB in its plenary session. The SRF will be owned and administrated by the SRB. The SRF will reach a target level of at least 1% of covered deposits over an eight-year period. During this transitional period, the SRF, established by the SRM Regulation, will comprise national compartments corresponding to each participating Member State. The resources accumulated in those compartments will be progressively mutualised over a period of eight years, starting with 40% of these resources in the first year. The establishment of the SRF and its national compartments and decisions as to their use will be regulated by the SRM Regulation, while the transfer of national funds into the SRF and the activation of the mutualisation of the national compartments will be provided for in an inter-governmental agreement established among the participating Member States in the SSM; and
- the SRF will be funded through contributions made by all credit institutions established in participating Member States. Each year, the SRB, after consulting the ECB or the NCAs, and in close cooperation with the national resolution authorities, will calculate the individual contributions. The European Commission will adopt delegated acts to specify, among other things, the criteria for establishing the annual contributions payable by credit institutions. The European Commission published a consultation paper on the contributions of credit institutions to the resolution funding arrangements under the BRRD and the SRF on 20 June 2014. The consultation will close on 14 July 2014. The consultation will further inform the work of the European Commission on the delegated act under the BRRD and the proposal for a Council implementing act under the SRM, which the European Commission intends to adopt simultaneously in September 2014.

The SRM is scheduled to enter into force on 1 January 2016 with certain exceptions.

Guidelines for Capital Requirements

Regulation of the banking industry in Cyprus has changed in recent years as Cypriot law has changed largely to comply with applicable EU directives. In June 2004, the Basel Committee for Banking Supervision (the "**Basel Committee**") issued a revised capital adequacy framework and final proposals on capital standards, known as "Basel II". Basel II's aim was to promote the adoption of certain enhanced risk management practices. It introduced conceptually sound approaches for the calculation of capital requirements that take into account the sophistication of risk management systems and methodologies applied by credit institutions. The Basel II framework was implemented in the EU in June 2006 by means of EU Directives 2006/48 and 2006/49 ("**CRD I**"). CRD I was subsequently amended and on 24 November 2010 EU Directive 2010/76/EU was issued amending all previous related EU directives.

CRD I was transposed into Cypriot law through the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006, and was subsequently amended to capture all related EU Directives by the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 to (No. 2) 2011.

In December 2010, the Basel Committee issued two prudential framework documents ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", December 2010 and "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010) which contain the Basel III capital and liquidity reform package ("**Basel III**"). The Basel III documents were revised in June 2011. The Basel III framework has been implemented in the EU through new banking regulations adopted on 26 June 2013: CRD IV and the CRR. Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for the phase-in until

2024) but it is possible that in practice implementation under national laws may be delayed until after such date.

Some important points of CRD IV/CRR framework include:

- *Quality and Quantity of Capital*. CRD IV/CRR revised the definition of regulatory capital and its components at each level. It also proposed a minimum common equity Tier I capital ratio of 4.5% and Tier I capital ratio of 6.0% and introduced a requirement for additional Tier I and Tier II capital instruments to have a mechanism that requires them to be written-off on the occurrence of certain triggering events (e.g., a bail-in of the institution), which would apply to internationally active credit institutions;
- *Capital Conservation Buffer*. In addition to the minimum common equity Tier I capital ratio and Tier I capital ratio, credit institutions will be required to hold an additional buffer of 2.5% of common equity as capital conservation buffer. Depletion of the capital conservation buffer will trigger limitations on dividends, distributions on capital instruments and compensation and it is designed to absorb losses in stress periods;
- *Systemic Risk Buffer*. According to CRD IV/CRR, Member States may require the creation of a buffer against systemic risk in the financial sector or subsets thereof in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not covered by CRD IV/CRR. The buffer should be at least 1% and is constituted by common equity Tier I elements;
- *Deductions from common equity Tier I*. CRD IV/CRR revises the definition of items that should be deducted from regulatory capital. In addition, most of the items that are now required to be deducted from regulatory capital will be deducted in whole from the common equity Tier I component;
- *A Grandfathering Period for Existing "own funds" items*. Capital instruments that qualify as own funds under Directive 2006/48/EC will be phased out over a period that began on 1 January 2014 and ends on 31 December 2021. The regulatory recognition of capital instruments that qualified as own funds prior to 31 December 2011 will be reduced by a specific percentage in subsequent years. Step-up instruments will be phased out at their effective maturity date (i.e., their call and step-up date) if the instruments do not meet CRD IV/CRR criteria for inclusion in Tier I or Tier II. Existing public sector capital injections will be grandfathered until 31 December 2017;
- *No Grandfathering for Instruments issued after 1 January 2012*. Only those instruments that were issued before 31 December 2011 qualify for the transition arrangements discussed above;
- *Countercyclical Buffer*. To protect the banking sector from excess aggregate credit growth, CRD IV/CRR gives Member States the right to require an additional buffer of 0% to 2.5% of common equity Tier I, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;
- *Central Counterparties ("**CCPs**")*. A 2.0% risk-weight factor is introduced to certain trade exposures to qualifying CCPs (replacing the current 0% risk-weighting). The capitalisation of credit institution exposures to CCPs will be based in part on whether the CCP is a qualifying CCP, i.e., a CCP authorised or recognised under Regulation (EU) No 648/2012 (since non-qualifying CCPs will be treated as bilateral exposures and will not receive the preferential capital treatment referred to above). As mentioned above, a credit institution's collateral and mark-to-market exposures to CCPs meeting these enhanced principles will be subject to 2.0% risk-weight, and default fund exposures to CCPs will be capitalised based on a risk-sensitive waterfall approach;
- *Asset Value Correlation Multiplier for Large Financial Institutions*. A multiplier of 1.25 is proposed to be applied to the correlation parameter of all exposures to financial institutions meeting particular criteria;

- *Counterparty Credit Risk*. CRD IV/CRR raises counterparty credit risk management standards in a number of areas, including for the treatment of so-called wrong-way risk, i.e., cases where the exposure increases when the credit quality of the counterparty deteriorates. For example, a capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty and the calculation of expected positive exposure by taking into account stressed parameters;
- *Leverage Ratio*. Credit institutions are required under CRD IV/CRR to submit to their NCA all necessary information on the leverage ratio and its components and, from 1 January 2015, to disclose information on the leverage ratio publicly. In this regard, the Basel Committee has stated that it intends to make final adjustments to the definition and calibration of the Basel III leverage ratio before 2017 based on its findings during the "parallel run period" between 1 January 2013 and 1 January 2017 during which it is testing a minimum requirement of 3% for the leverage ratio, with a view to migrating to a binding minimum requirement from 1 January 2018;
- *Systemically Important Institutions*. Systemically important credit institutions should have loss-absorbing capacity beyond the minimum standards and work on this issue is ongoing. Under CRD IV/CRR, global systemically important institutions will, and other systemically important institutions may, be required to maintain a buffer of up to 3.5% and 2% of the total risk exposure amount, respectively, taking into account the criteria for its identification as a systematically important credit institution. That buffer shall consist of and be supplemental to common equity Tier I capital; and
- *Liquidity Requirements*. CRD IV/CRR contains high level provisions on the liquidity coverage ratio (which is an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30-day stress scenario, and will be phased in gradually, starting at 60% in 2015, and expected to be 100% in 2018) and the net stable funding ratio (which is the amount of longer-term, stable funding that must be held by a credit institution over a one year timeframe based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures, and which is being developed). The European Commission is required under CRD IV/CRR to adopt a delegated act on the liquidity coverage ratio by 30 June 2014; this act should apply from 1 January 2015 at the earliest. The European Commission is also required to produce a report on the net stable funding ratio by 31 December 2016, containing a legislative proposal if appropriate. The Basel Committee's aim is that the net stable funding ratio should be the minimum binding standard by 1 January 2018.

Although the CRR is directly applicable in each Member State, it leaves a number of important interpretational issues to be resolved through technical standards, and leaves certain other matters to the discretion of the NCA in each Member State. In addition, CRD IV/CRR contemplates that, beginning in November 2014, the ECB will assume certain supervisory responsibilities formerly handled by national regulators. The ECB may interpret CRD IV/CRR or exercise discretion accorded to the NCA under CRD IV/CRR in a different manner than national regulators. The manner in which many of the new concepts and requirements under CRD IV/CRR will be applied to the Bank and the Group remains uncertain. Although it is difficult to predict with certainty the impact of the full implementation of CRD IV/CRR and its transposition into Cypriot law, changes arising in the transposition may lead to an increase in the Bank's capital requirements and capital costs (see "*Risk Factors—Risks Relating to the Group's Business—The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*").

In addition to the substantial changes in capital and liquidity requirements introduced by CRD IV/CRR, there are several new global initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (see *"—MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))"* below) and the European Market Infrastructure Regulation (see "—*The European Market Infrastructure Regulation*" below) .

The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

In April 2014, the implementing technical standards for supervisory reporting were adopted by the European Commission and enter into force once they are published in the Official Journal of the European Union. These implementing technical standards establish rules on prudential reporting laid down in CRD IV/CRR and set out the content and format of data to be reported by credit institutions to their respective NCAs. The scope of the reporting requirements extend to reporting on the following items:

- own funds;
- financial information, including "FINREP" reporting for IFRS credit institutions;
- real estate losses;
- large exposures;
- leverage ratio;
- liquidity coverage ratio; and
- liquidity net stable funding ratio.

Solvency II

The directive on the undertaking and pursuit of the business of insurance and reinsurance "**Solvency II**" (Directive 2009/138/EC) of 25 November 2009 is a fundamental review of the capital adequacy regime for the European insurance sector business. When implemented the capital structure and overall governance of the Group's insurance business will alter and this may have an impact on the Group's capital position and the allocation of capital within the Group. The Group's insurance companies, General Insurance of Cyprus Ltd ("**GIC**"), EuroLife and CNP Cyprus Insurance Holdings Ltd, do not anticipate any material issues in complying with Solvency II requirements on the current timetable. Directive 2013/58 set the date for transposition of the Solvency II framework into national law at 31 March 2015, and 1 January 2016 was set as the date of application and subsequent removal of the existing relevant insurance and reinsurance directives.

MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))

Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006) ("**MiFID**") provides for the regulation of firms that provide investment services and advice and introduced a regulatory regime for the trading of financial instruments on securities markets and other trading platforms. MiFID was incorporated into Cypriot law by the Investment Services and Activities and Regulated Markets Law and the CBC and CySEC have issued several directives with respect to the requirements of this law.

MiFID introduced significant changes in Cyprus' regulatory framework with a view to: improving investor protection, increasing transparency, requiring investment services providers to categorise their clients as per the client's risk profile, offering increased transparency on fees and expenses charged to clients, ensuring the timely and duly forwarding of clients' orders to exchanges, improving procedures to identify and prevent conflicts of interest and other relevant matters.

The Group has instituted appropriate procedures to comply with the requirements of MiFID, as implemented into Cypriot legislation and regulations, and to be in line with applicable guidelines and best practices in relation to the provision of investment services and advice as well as the trading of financial instruments.

MiFID will be amended by a new European Union Directive (commonly referred to as "**MiFID II**") and Regulation (commonly referred to as "**MiFIR**"). MiFID II and MiFIR are intended to improve the functioning of financial markets in light of the financial crisis and to establish a safer and more transparent financial system by enhancing regulatory requirements, market transparency and strengthening investor protection. MiFID II and MiFIR were published in the Official Journal of the European Union on 12 June 2014. Member States are required to implement MiFID II by 3 July 2016 and the national implementing measures shall apply, in relation to most provisions, from 3 January 2017. MiFIR will apply directly to investment firms regulated under MiFID from 3 January 2017 (with the exception of certain provisions).

Investor Compensation Fund

The Bank is a member of the Investor Compensation Fund for Clients of Banks (the "**Fund**") which was established pursuant to the Investment Firms Law of 2002 and the Establishment and Operation of an Investor Compensation Fund for Customers of Banks Regulations of 2004 (Regulations 530/2004).

The Fund was established on 1 May 2004 and is administered by a management committee of five members, two of which must be the Governor of the CBC and the Senior Manager of the Banking and Supervision and Regulation Division of the CBC. All Cypriot incorporated banks, which offer certain investment services, are required to become members of the Fund. In addition to the Bank's initial contribution to the Fund (which was a lump sum payment fixed in accordance with the covered services which the Bank is licensed to provide, the Bank is obligated to contribute annually an amount of up to 0.001% of the eligible funds and financial instruments of the Bank's clients (as defined in Regulations 530/2004). This contribution is required to be paid between the 16 and 31 of March of each year, and is calculated on the basis of the eligible funds and financial instruments of the Bank's clients for the previous year. Moreover, the management committee of the Fund may decide to call upon the members of the Fund to pay an extraordinary supplementary contribution if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure occurring in respect of a member bank.

The object of the Fund is provide compensation to certain clients to whom member banks have provided investment services in cases where the relevant bank is unable, due to its financial circumstances:

- to return to these clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the member bank in the context of providing investment services to the such clients; or
- to hand over to these clients financial instruments which belong to them and which the member bank concerned holds, manages or keeps on their account.
- The total amount of compensation payable per client is €20,000 and the Fund does not cover certain types of clients, the most notable exception being clients which are institutional and professional investors.

Deposit Protection Scheme

The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013 (the "**Deposit Protection Scheme**") was established and has been in operation since March 2013. The relevant legal framework is Article 34 of the Business of Credit Institutions Laws, the Laws on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the Establishment and Operation of the Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013.

The Deposit Protection Scheme is comprised of three funds: the Deposit Protection Fund for banks, the Deposit Protection Fund for cooperative credit institutions and the Resolution of Credit and Other Institutions Fund. The Deposit Protection Scheme is administered by a management committee, the members of which are representatives from the Ministry of Finance of Cyprus and the CBC.

The purpose of the funds administered under the Deposit Protection Scheme is:

- to compensate depositors of a bank in the event that the bank is unable to repay its deposits; and
- to fund the implementation of resolution measures in respect of banks.

The Deposit Protection Scheme is denominated in all currencies and participation in the Deposit Protection Scheme is compulsory for all credit institutions with authorisation to operate and accept deposits in Cyprus from the CBC. Accordingly, all credit institutions incorporated in Cyprus (including their branch operations located in other Member States of the EU) and all Cypriot branches of credit institutions incorporated in countries other than EU Member States are required to contribute to the relevant funds under the Deposit Protection Scheme. The Cypriot branch operations of credit institutions incorporated in other EU Member States are covered by the corresponding deposit protection schemes in the applicable EU Member State. The management committee has the power to exempt, from the obligation to contribute to the funds under the Deposit Protection Scheme, credit institutions established in other countries which are licensed to carry on banking business in another country. The Bank is obligated to contribute, within 21 business days of receipt of notice from the management committee requesting a contribution to the Deposit Protection Fund for banks, the percentage, determined by the management committee, based on the average deposit base as reported on the last day of each month of the year prior to the decision of the management committee to require payment of a contribution to the Deposit Protection Fund for banks. The management committee may also, in limited circumstances to recover amounts paid out of the Deposit Protection Funds and to ensure that there is available capital, require a special contribution. If a covered credit institution's contribution to the applicable Deposit Protection Fund exceeds 1% of its deposit base, it is not required to make any additional contributions to the applicable Deposit Protection Fund. The general parameters of the Deposit Protection Scheme are that:

- the payment of compensation is triggered if it is determined that a credit institution is unable to repay deposits. This determination can be made by the CBC or through an order issued by a Cypriot court or the competent court in the jurisdiction where the credit institution is incorporated, for the special liquidation of the credit institution concerned; and
- the maximum amount of compensation, per depositor per credit institution, is €100,000.

The Deposit Protection Scheme does not provide compensation in relation to certain categories of deposits such as bank deposits (interbank), deposits by cooperative credit institutions, insurance companies, government departments, semi-government organisations and local authorities, deposits by collective investment schemes and deposits by financial institutions. In addition, deposits by persons:

- against which criminal proceedings have been instigated or for which a confiscation order has been made, under the Money Laundering Activities Laws or a corresponding law of another country; or
- who, in the opinion of the management committee, are responsible for the credit institution's bankruptcy or have profited out of circumstances which led to the credit institution's bankruptcy or any other similar situation,

are also excluded from compensation under the Deposit Protection Scheme.

Cypriot Guarantee Scheme for Credit Institutions

In 2012, the Government established a €6 billion guarantee scheme for credit institutions incorporated in Cyprus and licensed by the CBC (including subsidiaries of foreign financial institutions) and the Cooperative Central Bank to facilitate the access by eligible credit institutions to medium-term funding and to reinforce the overall stability of the banking system.

Pursuant to the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012, and implementing decrees, the maximum amount of Government guarantees that may be allocated to any credit institution cannot exceed 15% of the total domestic deposits of such credit institution and guarantees can only be granted in respect of debt obligations for a term between 3 months and 5 years. In addition, pursuant to the relevant Cypriot legislation, as long as the Government guarantee is in place, the relevant credit institution is, among other things, not allowed to repurchase its own shares, provide any discretionary bonuses to members of its board of directors or senior management or engage in aggressive commercial strategies which would not otherwise take place without the guarantee.

Before a Government guarantee can be granted, the relevant credit institution is required to provide the CBC with a plan for its mid-to-long term funding requirements and provide (subject to limited exceptions) eligible collateral to cover the guarantee allocated. In addition, the government guarantee scheme for credit institutions provides for the payment of a fee calculated based on the tenor of the debt obligation subject to the guarantee and the risk profile of the credit institution (based on an analysis of its credit default swap data or sample bank credit default swap data).

On 6 November 2012, the European Commission approved the establishment of the bank guarantee scheme under EU state aid rules, and in June 2014, the European Commission announced that the fourth extension of the bank guarantee scheme until 31 December 2014 was in line with EU state aid rules (having confirmed the same in January 2013, July 2013 and June 2014). For more information, see "*Risk Factors—Risks Relating to the Group's Business—The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance ("ELA")) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*".

Payment Services and Single Euro Payments Area

Payment Services

Cyprus has transposed Directive 2007/64/EC on payment services, also known as the "Payment Services Directive" (the "**PSD**"), into the Payment Services Law of 2009 and 2010, requiring every payment service provider, such as the Bank, to ensure in an accessible form a minimum level of information and transparency regarding the provided payment services, under the terms and conditions set forth in such law. The PSD also provides further protection regarding the rights of the users of the payment services, but it only applies where both the payer's payment service provider and the payee's payment service provider are located in the EU, with the exception of the provision regarding the value date of the transaction.

On 24 July 2013, the European Commission published a proposal for a new payment services directive to incorporate and repeal the PSD. This proposal, referred to as the "**PSD2**", is expected to improve the functioning of the internal market for payment services and more broadly for all goods and services.

*Single Euro Payments Area ("**SEPA**")*

Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the SEPA policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine ("**ATM**") withdrawals within the EU. After the publication of the PSD, Regulation (EC) No 924/2009 on cross-border payments in the European Community, which repealed Regulation (EC) No 2560/2001, came into force on 1 November 2009 and introduced additional provisions that further promoted EU financial integration in general and SEPA implementation in particular and reduced significantly the charges payable by consumers and other payment service users for regulated payment services, such as credit transfers, direct debits, cash withdrawals and money remittance. Regulation (EC) No 924/2009 applies to payments in euro in all EU member States.

Regulation (EC) No 924/2009 has been amended by Regulation (EU) No 260/2012 which is also known as the SEPA (migration) Regulation (the "**SEPA Regulation**"). The SEPA Regulation established technical and business requirements for credit transfers and direct debits in euro. According to its transitional provisions, credit transfers and direct debits shall be carried out in accordance with the relevant requirements set out in it by 1 February 2014, subject to certain limited exemptions mentioned in such regulation. In January 2014, the European Commission introduced an additional transition period of six months (ending 1 August 2014), which permits payments that differ from a SEPA-compliant format. In non-euro countries, the provisions of the SEPA Regulation will become effective as of 31 October 2016. Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes will be replaced by SEPA credit transfer and SEPA direct debit schemes, which should comply with the technical requirements detailed in the SEPA Regulation. The currency of the funds exchanged though such schemes is also euro.

Full compliance with the SEPA Regulation is expected to lead to more streamlined internal processes, lower information technology costs, reduced costs based on bank charges, a consolidated number of bank accounts and cash management systems, and more efficiency and integration with an organisation's payment business.

Capital Control Measures

In order to address the risk of a significant outflow of funds from the Cypriot banking sector as a result of negotiations between the Government and the Troika for financial assistance, the first Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree (each such decree, a "**Capital Controls Decree**") was issued by the Ministry of Finance of Cyprus on 27 March 2013 and imposed a wide ranging set of restrictions and controls on the flow of funds from within and outside of Cyprus including:

- a limit on the amount of cash that can be withdrawn daily to €300 per natural person and €500 per legal person (or their equivalent in foreign currencies) in each credit institution irrespective of the number of accounts held;
- the prohibition on the cashing of cheques;
- the prohibition on the transfer of funds of more than €5,000 per month to accounts held outside of Cyprus or in any other bank, subject to limited exceptions; and
- increased scrutiny of large cashless payments or transfers of deposits/funds from Cyprus to accounts held outside of Cyprus.

The Ministry of Finance of Cyprus issued a Capital Controls Decree on 25 April 2013, which permitted the transfer of funds by international customers of credit institutions which are a branch or a more than 50% subsidiary of a foreign bank operating in Cyprus unless the transfer of funds involved domestic customers or domestic banks. On 30 July 2013, the Ministry of Finance of Cyprus issued a Capital Controls Decree that specified restrictions on the Affected Deposits, which originated on 30 July 2013 as a result of a written notification of the Resolution Authority, from the conversion of titles, governed by the terms of Annexes A and B of the Bail-in Decrees (see "*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Holders of deposits and other products of the Bank as of 26 March 2013—Deposits conversion*") into deposits, and which included a prohibition on the termination of any Affected Deposits (subject to limited exceptions), set the interest rates applicable to the Affected Deposits and provided the Bank with the option of rolling over the Affected Deposits into another fixed term deposit of an equal term. The Bank has not exercised this option in relation to New Deposits with a fixed term of 6 months and has chosen to exercise this option in a limited manner with respect to New Deposits with a fixed term of 9 months (see "*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Release of New Deposits*" for more details on the release of the 6-month and 9-month new deposits).

However, the Ministry of Finance of Cyprus has progressively relaxed the restrictions and prohibitions contained in each successive Capital Controls Decree issued since March 2013. In June 2014, the Ministry of Finance of Cyprus abolished the €300 daily cash withdrawal limits from all bank accounts, along with the restrictions on breaking fixed-interest time deposits prior to maturity. Although the domestic capital controls have essentially been lifted (including the ability to open domestic bank accounts freely), the restrictions on the transfer of funds of more than €5,000 outside of Cyprus remains. The Government, in August 2013, published a roadmap which provides for the relaxation of capital controls in Cyprus in line with targets being met in relation to stabilisation measures being implemented with respect to the Cypriot banking sector. Accordingly, the Ministry of Finance of Cyprus has indicated that the lifting of domestic capital controls was linked to the completion of the merger of Cyprus' CCIs, a network of small lenders which were recapitalised under terms of the EAP. Subject to continued progress with the Cypriot economic recovery, the Ministry of Finance of Cyprus has publicly stated that it expects all capital controls to be lifted by the end of 2014.

Resolution Law

In 2013, the Resolution Law was enacted to provide a regime to allow the CBC, in its capacity as Resolution Authority, to resolve failing banks in Cyprus. As a result of amendments made to the Resolution Law in August 2013, the Resolution Authority is currently comprised of the Cypriot Minister of Finance, the CBC and the chairman of the board of CySEC.

Under the Resolution Law, the Resolution Authority is provided with broad resolution powers, including:

- the power to write down capital instruments and eligible liabilities of a financial institution and/or the power to restructure or convert them into ordinary shares (so called “bail-in”);
- the power to direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;
- the power to transfer all or part of the business of the relevant financial institution to a “bridge bank”; and
- the power to transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

The Resolution Law contains general principles in the context of the adoption and implementation of resolution measures which include the principle that the shareholder of a bank should bear any losses resulting from the implementation of the resolution measures and the creditors of a bank under resolution should bear losses after shareholders. The Resolution Law powers apply regardless of any contractual restrictions. Although the Resolution Law does provide that there should be appropriate protection of security, title transfer financial collateral and set-off and netting arrangements, the form of such protection is subject to the Resolution Law’s provision that the implementation of any resolution measures shall not activate, amongst other things (i) 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 qualify as a credit event or an event equivalent to insolvency, or (ii) the rights, contractual or statutory of secured creditors of the bank concerned over assets and rights used as a collateral for their claims against the bank. Any member state of the European Union which has nationally implemented the CIWUD is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home member state.

In addition, further amendments to the Resolution Law were passed on 20 June 2014 as a result of the review of the effectiveness of the Resolution Authority conducted by the Government, in consultation with the Troika, in March 2014. These amendments have not yet been published and will take effect on publication. These amendments are expected to include:

- a change in the composition of “Resolution Authority” so that it will be comprised of the Governor of the CBC together with two executive directors of the CBC;
- the requirement for the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature; and
- additional powers to be granted to the Resolution Authority for the collection of information, the imposition of fines and imposition of specific criminal sanctions.

In addition, it is expected that the Resolution Law will be further amended in due course to reflect the provisions of the BRRD.

CBC Credit Risk Directives

As part of the restructuring of the financial sector in Cyprus, the CBC issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Bank’s credit risk policies and the management of its credit risk. The Group has instituted, or is in the process of instituting, appropriate procedures to comply with the requirements of the directives described below.

Directive on Loan Origination Processes and Processes of Reviewing Existing Loans

The Directive on Loan Origination Processes and Processes of Reviewing Existing Loans (the "**Loan Origination Directive**") prescribes new minimum practices to be followed by, and new documentation requirements for, credit institutions during the process of assessing and granting or reviewing the provision of credit facilities. In particular, this directive has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history, regardless of loan amount. Credit institutions were required to be in full compliance with the Loan Origination Directive by 31 March 2014.

The Loan Origination Directive:

- includes detailed requirements for the type of information credit institutions are required to collect during the loan origination process. The information requirements are specific to the category of borrower and type of loan for which the application has been made;
- includes detailed criteria that credit institutions must consider in the evaluation of credit applications, such as the borrower's repayment ability, credit rating, loan contribution and collateral quality, among others;
- creates new guidelines for lending in foreign currencies;
- creates procedures and guidelines that credit institutions must adhere to when extending credit to real estate companies or for the purchase of real property;
- creates procedures for the review of existing credit facilities and for type of information credit institutions are required to collect during the review process;
- includes guidelines for the selection and use of property surveyors and the preparation of property valuation reports; and
- provides a set of best practises to be followed by credit institutions in granting credit facilities to customers.

Directives on Arrears Management of 2013 and 2014

The consolidated Directives on Arrears Management of 2013 and 2014 (the "**Arrears Management Directive**") requires the establishment of internal divisions and processes (including an appeals process for borrowers) in relation to the management of delinquent loans, sets out a code of conduct for dealing with borrowers who are in default and parameters for cooperation between credit institutions in relation to borrowers who have borrowed from multiple credit institutions.

The Arrears Management Directive requires credit institutions to ensure the application of efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. At a minimum this includes:

- the establishment of policies on arrears management for each category of credit facility;
- the implementation of appropriate governance structures and control mechanisms by the credit institution with regard to arrears management;
- the implementation of new portfolio segmentation requirements to permit credit institutions to segment and analyse their loan books in granular detail;
- the establishment of a clear and determined approach to arrears management for each category of credit facility;
- the establishment of procedures, mechanisms and systems, including data requirements, for arrears management;

- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties";
- the establishment of an independent, centralised arrears management unit within the credit institution (see "*Business Description of the Group—Banking and financial services—Restructuring and Recoveries Division*"); and
- the establishment of an independent internal appeals process for borrowers and the establishment of an appeals committee within the credit institution that is independent from the credit granting, monitoring and restructuring functions.

The Bank has developed a comprehensive strategy for the management of arrears, which it has submitted to the CBC. The CBC will, with assistance of an external expert, review credit institutions' arrears management policies and practices in light of international best practice. The preliminary findings of this review are expected to be presented to the Troika in July 2014. Following the completion of this review, the CBC is expected to revise the Arrears Management Directive. In addition, the CBC is expected to examine the implementation of the credit institutions' arrears management action plans in order to correct deficiencies identified by the external expert, and the CBC will then submit its main findings and recommendations to the board of the CBC in November 2014. For more information, see "*Risk Factors—Regulatory and Legal Risks—The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

Directive on Loan Impairment and Provisioning Procedures of 2014

The Directive on Loan Impairment and Provisioning Procedures of 2014 (the "**Loan Provisioning Directive**") sets out loan provisioning requirements and procedures and requires credit institutions to include appropriate disclosure in their financial statements which reflect the quality of their loan portfolio and provisioning policies and levels. Credit institutions are required to submit a detailed action plan leading to full compliance with the provisions of the Loan Provisioning Directive in their annual financial statements for 2014.

Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013

The Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013 (the "**NPL Directive**") provides for a new definition of non-performing loans which came into effect on 1 July 2013. The new definition of non-performing loans is stricter than the more common definition of non-performing loans which is based on a loan being more than 90 days past due.

In accordance with the NPL Directive, an NPL is defined as a loan which is:

- in arrears of interest or capital or any other charges for a period of more than 90 days;
- in excess of its contractual limit on a continuous basis for a period of more than 90 days; and/or
- 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 or bullet payments at maturity in excess of 20% of the loan amount, the loan remains as an NPL until its maturity.

Consumer Protection

Banks in Cyprus are subject to consumer credit legislation that seeks to protect consumers from abusive contractual terms and conditions. This legislation also sets forth rules on the distance marketing and advertisement of consumer financial services, prohibits unfair and misleading commercial practices and includes penalties for violations of such rules and prohibitions.

In 2010, Cyprus transposed Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers (repealing the previous Directive 87/102/EEC) through the passing of the Consumer Credit Agreements Law of 2010 (No. 2) to 2013 which in respect of certain consumer credit arrangements and amongst other things, provides the minimum content of pre-contractual information, introduces the obligation to assess the creditworthiness of the consumer, determines the minimum content of credit agreements, establishes the "Real Total Annual Interest Rate" and regulates issues regarding credit providers and credit intermediaries and other specific issues.

Moreover, the Consumer Credit (Housing Loans and Hire Purchase Agreements) Law of 2001 includes provisions for the protection of consumers in relation to certain housing loans and hire purchase agreements.

Money Laundering and Terrorist Financing

As a fully cooperative member of the Financial Action Task Force ("**FATF**") and a Member State of the European Union, Cyprus abides by FATF recommendations and has transposed into national law Council Directives 2005/60/EC and 2006/70/EC and has adopted the International Convention for the Suppression of the Financing of Terrorism through the passing of the Prevention and Suppression of Money Laundering Activities Law 2007 and the issue by the CBC of the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing (together, the "**Money Laundering Activities Laws**").

The Money Laundering Activities Laws, *inter alia*, cover the following and establishes that:

- money laundering, including money laundering deriving from tax evasion, and terrorist financing are criminal offences;
- credit institutions and financial organisations, including credit companies and insurance companies that provide life insurance or/and services related to investments, are included among the persons being bound by the provisions of the law;
- credit institutions are obliged to apply measures for verifying the identity of their customers, ongoing monitoring of the business relationship, holding files and reporting suspicious transactions to competent authorities;
- the CBC is the competent authority supervising, among others, credit institutions in relation to their compliance with the requirements prescribed by the Money Laundering Activities Laws and responsible for issuing implementing administrative and regulatory acts, while the Ministry of Finance of Cyprus is the central coordinator regarding the implementation of such law, assessment of the effectiveness of the mechanisms put in place for this purpose and coordination and enhancement of the actions of all competent authorities involved;
- banking secrecy related restrictions do not apply in the context of the exchange of information for the purpose of money laundering prevention and suppression; and
- the Cypriot Unit for Combating Money Laundering ("**Mokas**") is responsible for investigating reports filed by all persons subject to the requirements of the Money Laundering and Activities Law with respect to suspicious transactions; and
- a money laundering compliance officer (approved by the CBC) is required to be appointed by the board of directors of each credit institution and that such compliance officer is required to file an annual report on compliance matters with the relevant credit institution's board of directors and the CBC. This reporting obligation is separate from the obligation to report certain suspicious transactions to Mokas.

The CBC has issued a number of decisions which are applicable to credit and financial institutions supervised by them and, where relevant, take into account and reflect the FATF recommendations and the common position regarding the obligations imposed by Regulation (EC) No 1781/2006 "on information on the payer accompanying transfers of funds". These decisions relate to, among other matters, the "know-your-customer" process and related documentation, an indicative typology of unusual or suspicious transactions and the framework of administrative sanctions that may be imposed upon credit and financial institutions supervised by the CBC. Furthermore, the CBC has adopted regulations generally providing guidance on matters relating to tax evasion (for example, recommending that due diligence is performed on cash withdrawals in excess of €15,000).

The MoU includes an anti-money action plan focused on: strengthening customer due diligence procedures; ensuring the transparent and timely access to information on the beneficial ownership of trusts; and the implementation of a risk-based approach to supervision for financial and non-financial institutions.

The Group has put in processes to procure compliance with the Money Laundering Activities Laws as well as the sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

Equity Participation in Companies

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. Under the Business of Credit Institutions Laws of 1997, unless the CBC grants its prior written approval and subject to any conditions connected to such approval, an authorised credit institution cannot acquire or hold (directly or indirectly) more than 10% of the share capital of any other company or otherwise exercise control (10% or more of the voting rights of credit institution or its holding company or the power to elect the majority of the directors of a credit institution) over such company. An authorised credit institution incorporated in Cyprus is also subject to two additional requirements: (i) the value of any share capital held in any other company cannot exceed 15% and (ii) the total value of its shareholdings in other companies cannot exceed 60%, in each case, of its own funds.

Excluded from this restriction are arrangements where a credit institution acquires or holds:

- any part of the share capital of a company under an underwriting or sub-underwriting contract (subject to certain time-related conditions);
- any holding of share capital in a company which carries out functions integral to or closely related to the business of credit institutions (e.g., lending services, payment services, security-related services and trustee functions); and
- any part of the share capital of a company acquired or held as a result of the satisfaction of a debts due to it (subject to certain time-related conditions).

The CRR, which, since 1 January 2014, applies directly in all Member States (including Cyprus) provides that NCAs of Member States shall publish their choice of the requirements applicable to acquisitions by credit institutions of qualifying holdings in other companies, based on the choices made available in article 89 of the CRR (i.e., for qualifying holdings exceeding certain thresholds, whether the NCA chooses to apply a risk weight of 1250% or to prohibit such qualifying holdings in excess of certain thresholds). Currently no such publication has yet been made by the CBC.

New and significant holdings (concentrations) must be reported to the Cyprus Commission for the Protection of Competition according to the Control of Concentrations between Undertakings Law of 2014 (Law 83(I)/2014), and, if such transactions have a European Community dimension within the meaning of Regulation (EC) No 139/2004 on the control of concentrations between undertakings (as supplemented by Commission Regulation (EC) 802/2004), these new and significant holdings must also be notified to the European Commission. With respect to listed companies, the CySEC and the CSE must be notified once the ownership threshold of 5% is exceeded (whether in a single transaction or in a series of transactions), in accordance with the Securities and Cyprus Stock Exchange Laws of 1993 to 2012. Moreover, pursuant to the provisions of the Takeovers Bids Law of 2007, a person or persons acting in concert who acquire(s) 30% or more of the voting rights of a company registered in Cyprus and whose shares are traded on a regulated market in Cyprus is generally under an obligation to make an offer to buy all remaining shares.

Constraints on the Use of Capital

There are no constraints on the use of capital that have or may have a significant impact, directly or indirectly, on the Group's activities, except for the constraints imposed by the banking regulations discussed above and the legal framework applicable to credit institutions operating in Cyprus.

Part of this framework, includes a prohibition set out in the Business of Credit Institutions Laws of 1997 requiring CBC written approval (with such approval subject to the provisions set out in Cypriot company law) for any transaction which relates to a credit institution acquiring or dealing for its own account in its own shares. The granting, directly or indirectly, of credit facilities for the purchase of a credit institution's own shares or the shares of a holding company or subsidiary is also prohibited.

Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions

Any individual or legal entity that has decided to acquire "control" (10% or more of the voting rights of credit institutions or its holding company or the power to elect the majority of the directors of a credit institution) or further increase its equity participation beyond, directly or indirectly, certain legally defined thresholds (20%, 30% or 50%) of equity participation in a Cypriot credit institution (or its parent) must notify the CBC of this decision and obtain the CBC's approval for such acquisition, pursuant to the Business of Credit Institutions Laws of 1997.

The CBC will conduct an assessment of the acquirer and approve or reject the contemplated acquisition. If a person fails to comply with the CBC notification requirement, the CBC may, among other things, declare ineffective the legal documentation underlying the acquisition, suspend the voting rights attached to the relevant shares and impose fines.

The notification obligations also exist in the case where an individual or legal entity decides to cease to hold, directly or indirectly, an equity participation or voting rights in a Cypriot credit institution or to reduce its current participation or voting rights resulting in a decrease thereof below the legally defined thresholds set out above, or to cease to "control", directly or indirectly, a Cypriot credit institution. In connection with this notification requirement, there is also an obligation on Cypriot credit institutions to inform the CBC annually on changes to the percentages of holding in its capital structure so that the CBC is aware of the identity of any beneficial owner holding at least 5% of the voting rights in any Cypriot credit institution.

Interest Rates

Under Cypriot law, as of 1 January 2001, interest rates applicable to credit institution loans are not subject to a legal maximum, but they must comply with certain requirements intended to ensure clarity and transparency, including with regard to their re-adjustments. The CBC has issued a directive on 24 April 2013 requiring credit institutions to maintain an additional special reserve relating to high deposit interest rates. The special reserve applies to deposits with an interest rate higher than the relevant Euribor/Libor plus 3%.

Compulsory Deposits with the CBC

The compulsory reserve requirement framework has been amended in accordance with EU regulations. As from January 2012, the compulsory reserve requirement ratio set by ECB Regulation (EU) No 1745/2003 and ECB Regulation (EU) No 1358/2011 is 1% for all categories of deposits to clients comprising the commitment base, with the exception of the following categories, to which a zero ratio applies:

- deposits with agreed maturity over two years;
- deposits redeemable at notice over two years;
- repurchase agreements; and
- debt securities with agreed maturity over two years.

As of the date of this Information Memorandum, the Bank is in compliance with the applicable compulsory reserve requirements.

Loan Collateral

Banks are allowed to provide loans and credit to their customers on an unsecured and secured basis against real estate and movable property, assets and receivables including cash deposits.

Mortgages, charges (fixed and floating), pledges and assignments are all recognised as valid security interests in Cypriot law. The primary step for the perfection of security in Cyprus is registration with either the Registrar of Companies and/or registration with a specialist register (e.g., the Districts Lands Office in respect of mortgages).

In general, loan collateral can be enforced by obtaining a judgment of a competent court in Cyprus or through the appointment of a receiver or manager in the manner set out in the relevant security agreement. The general timeframe for the enforcement of loan collateral after a court judgment has been obtained has historically taken between five and 13 years, which is much longer than the international standard. In general, the appointment of a receiver or manager takes immediate effect.

Capital Requirements in Foreign Markets

Group subsidiaries are regulated and supervised by the regulator in their respective jurisdictions of incorporation and are subject to local guidelines and directives. All Group subsidiaries comply with their applicable minimum capital requirement ratios.

Amendments to Cyprus Tax Legislation

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. For more information, see "*The Macroeconomic Environment in Cyprus—The Cypriot Economic Crisis—Tax and other fiscal measures*".

The Foreign Account Tax Compliance Act ("FATCA")

FATCA was enacted in 2010 by the U.S. Congress as part of the Hiring Incentives to Restore Employment (HIRE) Act. FATCA requires Foreign Financial Institutions ("**FFIs**"), such as the Bank and many entities in its Group, to report to the U.S. Internal Revenue Service (the "**IRS**") information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

In order to avoid withholding under FATCA, a participating FFI will have to enter into an agreement with the IRS to: (a) identify U.S. accounts; (b) report certain information to the IRS regarding U.S. accounts; and (c) withhold a 30% tax on certain U.S.-connected payments to non-participating FFIs and account holders who are unwilling to provide the required information.

FFIs that do not enter into an agreement with the IRS will be subject to a 30% withholding tax on certain U.S.-source payments made to them. The FATCA rules will apply beginning 1 July 2014.

Registration of FFIs will take place through the "FATCA Registration Website" and, upon approval, the FFIs will receive a Global Intermediary Identification Number ("**GIIN**") from the IRS. Every month, beginning 2 June 2014, the IRS will publish a list of registered and approved FFIs and their GIINs. Withholding agents will rely on this list to verify an FFI's GIIN and not withhold on payments made to the FFI.

The U.S. Department of the Treasury has collaborated with foreign governments to develop two alternative model intergovernmental agreements ("**IGAs**") that facilitate FATCA implementation and further reduce burdens on FFIs in partner jurisdictions. Under a Model 1 IGA, reporting Model 1 FFIs would report specified information about U.S. accounts to their government, followed by the automatic exchange of that information on a government-to-government basis with the United States. Under a Model 2 IGA, reporting Model 2 FFIs would report specified information about U.S. accounts directly to the IRS in a manner consistent with the final FATCA regulations (as modified by the applicable Model 2 IGA), supplemented by a government-to-government exchange of information on request.

The U.S. Treasury has engaged with more than 80 countries and jurisdictions around the world to combat offshore tax evasion and improve global tax compliance. Currently, more than 30 countries have signed or initialled these agreements, specifically (for example): for Model 1 IGA — the United Kingdom, Mexico, Bermuda, Guernsey, Isle of Man, Italy, Jersey, Malta, the Netherlands, Denmark, Ireland, Spain, Norway, Germany, France, Costa Rica and Cayman Islands; and for Model 2 IGA — Austria, Bermuda, Chile, Japan and Switzerland and more signed agreements are expected to follow in the near future. The Government has reached an agreement in substance in respect of a Model 1 IGA with the United States, and this agreement is expected to be signed during 2014.

All Group FFIs (except for Uniastrum) have registered with the IRS as Model 1 IGA Registered Deemed Compliant FFIs and have obtained their GIINs. In the absence of an IGA, Uniastrum is expected to be registered as a Participating FFI.

Taking into consideration the impact that FATCA will have on Group entities that are considered FFIs, as well as the fact that Cyprus is expected to sign an intergovernmental agreement with the IRS during 2014, the Bank is closely following developments regarding FATCA and is coordinating with all relevant authorities.

The European Market Infrastructure Regulation

On 16 August 2012, EMIR came into force. EMIR introduces certain requirements in respect of derivative contracts, which will apply primarily to financial counterparties ("**FCs**"), such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties ("**NFCs**") which are entities established in the EU which are not FCs. The Bank is classified as an FC under EMIR.

Broadly, EMIR's requirements in respect of derivative contracts, as they apply to FCs, are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty (a "**CCP**"); (ii) the implementation of risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. These requirements are described in more detail below.

- *Clearing Obligation*. The "frontloading" period with respect to the clearing obligation began on 18 March 2014, which means that any OTC derivative contracts entered into by FCs from such date which fall within the classes of derivative contracts ultimately declared subject to the clearing obligation may need to be cleared (subject to certain phase-in and remaining maturity requirements, which have not yet been published); provided such contracts are entered into with entities who are also subject to the clearing obligation (such as another bank).

- *Risk Mitigation Techniques.* The Bank is required to apply certain risk mitigation techniques in relation to timely confirmation, portfolio reconciliation and compression and dispute resolution to any OTC derivatives contracts which it enters into that are not cleared by a CCP. In due course, the Bank will also be required to comply with mandatory margining requirements in respect of any uncleared OTC derivative contracts which it enters into with certain counterparties; although the technical standards which will contain the detail relevant to EMIR's mandatory margining requirement have not yet been finalised.

- *Reporting Obligation.* The Bank is required to report certain information about the derivative contracts which it enters into, modifies or terminates, to a trade repository registered or recognised under EMIR.

- *Record-Keeping Obligation.* EMIR imposes a record-keeping requirement on FCs, such as the Bank, pursuant to which counterparties, such as the Bank, must keep records of any derivative contracts they have concluded and any modification thereto for at least five years following the termination of the contract.

Regulatory Proposals in Cyprus

One of the pillars of the MoU requires the implementation of structural reforms to support competitiveness and the sustainable growth of the Cypriot banking sector and the wider economy (see "*The Macroeconomic Environment in Cyprus*").

Some of the initiatives currently being formulated by the Government include:

- amendments to the legal framework for private debt restructuring, including, among other things, removing obstacles to the enforcement of collateral within a reasonable timeframe, establishing a regime for the proper licensing and regulation of insolvency practitioners, amending the legal framework in relation to foreclosures and the forced sale of mortgage property to allow for private auctions to be conducted by mortgage creditors without interference from government agencies (see "*Risk Factors—Regulatory and Legal Risks—The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*");

- the creation of a central credit register (expected to be operational in autumn 2014) for credit assessment purpose, which is expected to record a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions; and

- various tax reforms aimed at reinforcing the efficiency and effectiveness of revenue collection, bolstering tax administration agencies and infrastructure, improving the effectiveness of the immovable property tax and facilitating the exchange of information of tax matters across Member States (see "*Risk Factors—Regulatory and Legal Risks—The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group*").

Generally, see "*Risk Factors—Regulatory and Legal Risks—The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*").

EU Regulatory Proposals

Proposed EU regulation on mandatory separation of certain banking activities

On 29 January 2014, the European Commission adopted a proposal for a new regulation following the recommendations released on 31 October 2012 by the High Level Expert Group (the Liikanen Group) on the mandatory separation of certain banking activities. The proposed regulation contains new rules to stop the biggest and most complex banks from engaging in the activity of proprietary trading. The new rules would also give supervisors the power to require those banks to separate certain trading activities from their deposit-taking business if the pursuit of such activities compromises financial stability. In connection with this proposal, the Commission has adopted accompanying measures aimed at increasing transparency of certain transactions in the shadow banking sector.

The proposed regulation will apply to European banks that will eventually be designated as global systemically important banks under CRD IV/CRR or that exceed the following thresholds for three consecutive years: (a) total assets are equal to or exceed €30 billion and (b) total trading assets and liabilities are equal to or exceed €70 billion or 10% of their total assets. The banks that meet the aforementioned conditions will be automatically banned from engaging in proprietary trading, defined narrowly as activities with no hedging purposes or no connection with customer needs. In addition, such banks will also be prohibited from investing in or holding shares in hedge funds, or entities that engage in proprietary trading or acquires units/shares in hedge funds. Other trading and investment banking activities—including market-making, lending to venture capital and private equity funds, investment and sponsorship of complex securitisation, sales and trading of derivatives—are not subject to the ban, however they might be subject to separation.

The proprietary trading ban is proposed to apply as of 1 January 2017 and the effective separation of other trading activities is proposed to apply as of 1 July 2018.

EU Financial Transactions Tax

On 14 February 2013, the European Commission published a legislative proposal on a new Financial Transactions Tax (the "**FTT**"). The proposal followed the Council's authorisation to proceed with the adoption of the FTT through enhanced cooperation (i.e., adoption limited to 11 countries, including Cyprus). Although implementation was originally envisaged for 1 January 2014, the process has been delayed.

Given the concerns voiced by both the financial sector and business associations, it is unclear how the FTT will proceed and when it will be implemented. If adopted, the impact could be severe as many financial transactions are made on behalf of businesses that would bear the additional costs of the tax. For example, a transaction tax would raise the cost of the sale and purchase of corporate bonds in a time where it is widely acknowledged that access to capital markets by corporate issuers has to be incentivised.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial and other information provided below should be read in conjunction with the audited and unaudited consolidated financial statements and the notes thereto and "Operating and Financial Review and Prospects" included elsewhere in this Information Memorandum. The Group's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) included in this Information Memorandum were prepared in accordance with IFRS as adopted by the European Union. The Group's unaudited interim condensed consolidated financial statements as at and for the three months ended 31 March 2014 included in this Information Memorandum were not prepared in accordance with IAS 34, since the Group did not present comparative information as no information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events of March 2013. In addition, the comparability of the financial information below is limited in certain respects. See "Presentation of Financial and Other Information".

Consolidated Income Statement Data

	Year ended 31 December		Three months ended	
	2012[(1)]	2013[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
	(€'000)			
Continuing operations				
Turnover	1,859,797	1,966,621	467,197	480,026
Interest income	1,415,611	1,660,461	421,570	392,716
Interest expense	(713,835)	(661,030)	(148,002)	(125,758)
Net interest income	701,776	999,431	273,568	266,958
Fee and commission income	191,566	193,458	49,989	48,180
Fee and commission expense	(18,881)	(24,639)	(6,571)	(2,901)
Net foreign exchange gains/(losses)	24,948	(5,148)	(3,560)	(5,571)
Net (losses)/gains on financial instrument transactions and disposal of subsidiaries	(27,899)	10,589	26,513	19,570
Insurance income net of claims and commissions	62,972	64,956	14,171	13,126
Other (expense)/income	(15,099)	(64,282)	(40,437)	491
Total income	**919,383**	**1,174,365**	**313,673**	**339,853**
Staff costs	(293,556)	(442,797)	(66,008)	(67,456)
Other operating expenses	(260,553)	(277,196)	(89,536)	(61,043)
Profit before impairment of loans and advances and goodwill and intangible assets	**365,274**	**454,372**	**158,129**	**211,354**
Provisions for impairment of loans and advances	(1,339,269)	(1,067,345)	(267,897)	(146,465)
Impairment of goodwill and intangible assets	(359,746)	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,333,741)**	**(612,973)**	**(109,768)**	**64,889**
Share of profit from associates and joint ventures	222	1,885	8	2,135
(Loss)/profit before tax	**(1,333,519)**	**(611,088)**	**(109,760)**	**67,024**
Tax	43,463	5,184	2,126	(2,232)
(Loss)/profit after tax	**(1,290,056)**	**(605,904)**	**(107,634)**	**64,792**

	Year ended 31 December		Three months ended	
	2012[(1)]	2013[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
	(€'000)			
Loss after tax from discontinued operations	(932,290)	(1,455,604)	–	(35,987)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**
Attributable to:				
Owners of the Bank – continuing operations	(1,280,825)	(593,898)	(102,732)	67,257
Owners of the Bank – discontinued operations	(932,290)	(1,455,604)	–	(35,948)
Total (loss)/profit attributable to the owners of the Bank	**(2,213,115)**	**(2,049,502)**	**(102,732)**	**31,309**
Non-controlling interests – continuing operations	(9,231)	(12,006)	(4,902)	(2,465)
Non-controlling interests – discontinued operations	–	–	–	(39)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011). The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Consolidated Balance Sheet Data

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)		
Assets			
Cash and balances with central banks	1,272,424	1,240,043	963,963
Placements with banks	1,768,836	1,290,102	1,141,169
Investments	1,135,333	2,759,855	2,809,356
Investments pledged as collateral	734,747	672,809	665,382
Derivative financial assets	26,794	28,765	27,877
Loans and advances to customers	24,374,531	21,764,338	21,233,958
Life insurance business assets attributable to policyholders	495,756	443,579	449,907
Property and equipment	483,193	414,404	403,424
Intangible assets	123,555	130,580	129,967
Other assets	613,760	1,401,833	1,347,334
Investments in associates and joint ventures	3,107	203,131	205,932
Total assets	**31,032,036**	**30,349,439**	**29,378,269**

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Liabilities			
Amounts due to banks	341,044	196,422	171,236
Funding from central banks	–	10,956,277	10,905,788
Repurchase agreements	607,773	594,004	582,489
Derivative financial liabilities	183,826	83,894	77,662
Customer deposits	28,442,152	14,971,167	14,065,675
Insurance liabilities	604,170	551,829	556,143
Debt securities in issue	44,775	1,515	1,493
Other liabilities	339,727	251,979	253,482
Subordinated loan stock	133,294	4,676	4,743
Total liabilities	**30,696,761**	**27,611,763**	**26,618,711**
Equity			
Share capital	1,795,141	4,683,985	4,699,503
Shares subject to interim orders	–	58,922	46,244
Share premium	428,271	–	–
Convertible Enhanced Capital Securities (CECS)	428,835	–	–
Revaluation and other reserves	106,336	72,251	67,099
Accumulated losses	(2,500,530)	(2,151,835)	(2,123,523)
Equity attributable to the owners of the Bank	258,053	2,663,323	2,689,323
Non-controlling interests	77,222	74,353	70,235
Total equity	**335,275**	**2,737,676**	**2,759,558**
Total liabilities and equity	**31,032,036**	**30,349,439**	**29,378,269**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Selected Financial Ratios and Other Data

	As of and for the year ended 31 December		As of and for the three months ended 31 March
	2012[1]	2013[1]	2014[1]
	(€ billion except % and x)		
Key figures and ratios			
Net interest margin	2.9%	3.5%	4.0%
Cost to income ratio (excluding one-off expenses)[2]	59%	47%	36%
Gross loans	28.1	26.7	26.3
Customer Deposits	28.4	15.0	14.1
Loans to deposits ratio	86%	145%	151%
Provisioning charge (cost of risk)[3]	8.1%	4.7%	2.2%
90+DPD provision coverage ratio[4]	48%	38%	39%
90+DPD[4] loans	7.7	13.0	12.8
90+DPD ratio[4]	27%	49%	49%
Leverage ratio[5]	92.6x	11.1x	10.6x
Basel II Regulatory Capital[6]			
Core tier 1 capital ratio	-1.9%	10.2%	N/A
Tier 1 capital ratio	0.6%	10.2%	N/A
Total capital ratio	0.9%	10.5%	N/A
Risk-weighted assets	21.6	22.4	N/A
	(€'000 except %)		
CRD IV/CRR Regulatory Capital[7]			
Transitional Common Equity Tier 1 (CET1)	N/A	2,495,585	2,496,549
Transitional Additional Tier 1 capital (AT1)	N/A	-	-
Tier 2 capital (T2)	N/A	45,204	51,794
Transitional total regulatory capital	N/A	2,540,789	2,548,343
Risk-weighted assets – credit risk	N/A	21,788,374	21,417,827
Risk-weighted assets – market risk	N/A	3,398	54,379
Risk-weighted assets – operational risk	N/A	2,057,687	2,058,000
Total risk-weighted assets	N/A	23,849,459	23,530,206
Transitional Common Equity Tier 1 (CET1) ratio	N/A	10.5%	10.6%
Transitional total capital ratio	N/A	10.7%	10.8%

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

(2) One-off expenses include restructuring expenses (€4.6 million and €167.3 million as at 31 March 2014 and 31 December 2013, respectively).

(3) Provisioning charge (cost of risk) is the ratio of provision charge excluding discontinued operations to the average balance of gross loans, with the average balance calculated as the average of the opening balance and the closing balance.

(4) 90+DPD is all loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired.

(5) The leverage ratio is the ratio of total assets to total equity for the relevant period.

(6) On 31 December 2013, the minimum requirements for Tier 1 and total capital ratios were abolished.

(7) The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014. The Group's CET1 on a fully loaded basis is estimated at 9.7%, primarily affected by the deduction of the deferred tax asset, which will be phased in starting from 1 January 2014.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the audited and unaudited consolidated financial statements and the notes thereto included elsewhere in this Information Memorandum. The Group's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) and its unaudited consolidated financial statements as at and for the three months ended 31 March 2014 are included elsewhere in this Information Memorandum.

Overview

The Group is the leading bank and financial services group in Cyprus, with total assets of €29.4 billion at 31 March 2014. The Group currently operates through a total of 300 branches, of which 130 operate in Cyprus, 164 in Russia, 1 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. As at 31 March 2014, the Group employed 7,400 staff worldwide.

From 25 March through 30 July 2013 the Bank was under resolution, during which:

- the Group disposed of the loans, fixed assets and deposits of its Greek banking operations to Piraeus Bank;
- the Group acquired certain assets and liabilities, including insured deposits and ELA funding of €9.1 billion, of Laiki Bank;
- the group disposed of certain assets and liabilities of its Romanian operations to Marfin Bank Romania; and
- the Resolution Authority effected the Recapitalisation, in which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity.

Following its resolution, the Group has prepared a Restructuring Plan which was approved by the CBC in November 2013 and which defines the Group's strategy, business model and risk appetite. The Restructuring Plan aims to enable the Group to overcome its current difficulties and gradually normalise its performance. The Restructuring 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 the Group's Common Equity Tier 1 remaining above the CBC's target of 8% plus Pillar II add-ons, throughout the Restructuring Plan period. The Group considers the achievement of a superior Common Equity 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.

Presentation and Comparability of Financial Information

Presentation of Financial Information

The discussion below relates to the results of the Group for the years ended 31 December 2012 and 2013 and for the three months ended 31 March 2014.

The unaudited consolidated financial statements for the three months ended 31 March 2014 contain comparative balance sheet information as at 31 December 2013. Certain of the comparative consolidated balance sheet items have been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. In the discussion below, the 31 December 2013 balance sheet items presented include the restated items rather than those contained in the 2013 annual report, which used provisional valuations and classifications in respect of Laiki Bank.

The Group did not prepare consolidated financial statements for the quarter ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time as a result of the agreement between the Government and the Eurogroup announced on 25 March 2013 regarding the macroeconomic adjustment programme for Cyprus, which included the restructuring of the Cypriot banking sector and the recapitalisation of the Group. Accordingly, the consolidated financial statements for the three months ended 31 March 2014 do not contain comparative information for the quarter ended 31 March 2013. Instead, in the discussion below regarding the first quarter of 2014, certain comparative information is presented from the unaudited consolidated income statement for the three months ended 31 December 2013.

The audited consolidated financial statements for the year ended 31 December 2013 contain comparative information for the year ended 31 December 2012. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See notes 3.2.3 and 3.35 to the consolidated financial statements for the year ended 31 December 2013. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 annual report.

The consolidated financial statements for the three months ended 31 March 2014 do not comply with IAS 34 because they do not contain comparative information for the three months ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time. See note 4.1 to the consolidated financial statements for the three months ended 31 March 2014. The independent auditors' report in respect of the Group's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS in consideration of the bail-in of uninsured deposits and debt securities due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the Laiki Bank acquisition. The Group's equity and financial position were not affected by the transactions giving rise to these qualifications and the Bank does not expect this qualification to be repeated in 2014. See notes 3.2.2 and 54.2 to the consolidated financial statements for the year ended 31 December 2013. The opinion of Ernst & Young Cyprus Ltd also contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 4.1 of the consolidated financial statements for the year ended 31 December 2013.

Non-Performing Loans

The Group classifies its loan portfolio into three categories: neither past due nor impaired, past due but not impaired, and impaired. Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectible and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

In February 2013, the CBC issued the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning procedures for the identification of credit losses and prudent application of IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and level of provision. The disclosures are in addition to and do not replace the disclosures contained in the Group's consolidated financial statements. The Loan Provisioning Directive is effective from 21 February 2014 and requires the new disclosure requirements to be published on an annual and semi annual basis, starting from 31 December 2013. Information from the Group's disclosures under the Loan Provisioning Directive for the year ended 31 December 2013 are included (1) in the table entitled "Encumbered and unencumbered assets" in "*—Liquidity and Capital Resources—Encumbered and unencumbered assets*" and (2) in "*Selected Statistical and Other Information−Credit Risk−Non-performing loans".*

The disclosures required include NPLs, which are defined in the NPL Directive, which became effective as of 1 July 2013. In accordance with the NPL 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; and/or
- it has been restructured and at the time of restructuring was classified as an NPL or was in arrears or in 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 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 or bullet payments at maturity in excess of 20% of the loan amount, the loan remains as an NPL until its maturity. For a further discussion of the Group's NPLs, see "*Selected Statistical and Other Information*".

Factors Affecting Comparability of Financial Information

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank and changes in the Group's funding. As a result, the Group's management believes that the financial results of the Group for periods prior to the year ended 31 December 2012 are not relevant to an understanding of the financial condition and results of operations of the Group following the Recapitalisation, and accordingly no such prior periods are presented.

As a result of the factors discussed below, the Group's operating results for certain of the financial periods discussed in the Information Memorandum are not directly comparable to the operating results for other financial periods discussed herein.

The Recapitalisation

From 25 March to 30 July 2013, the Group was under resolution and was recapitalised pursuant to a number of decrees issued by the Resolution Authority, as a result of which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity. The Recapitalisation is described in greater detail in "*Restructuring of the Bank and Laiki Bank−Recapitalisation of the Bank*". In the Recapitalisation, €3,863.0 million of customer deposits, €122.5 million of debt securities and subordinated loan stock and €459.4 million of CECS were converted into common shares of the Bank. Existing shareholders and holders of debt securities converted into equity also contributed €2,353.3 million through the reduction in the nominal value of share capital and the utilisation of share premium. Following the Recapitalisation, and up to the date of this Information Memorandum, share capital increased by approximately €2,948.1 million.

Following the issue of the Bail-in Decrees, a number of the affected depositors have filed claims against the Bank and other parties (including the CBC and the Ministry of Finance) 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 of Cyprus and the European Convention on Human Rights. In some of the actions, interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as bailed-in, i.e., converted into shares. These actions are being contested by the Bank and are pending before the District Courts.

The ordinary shares which under the Bail-in Decrees correspond to the deposits which are subject to these interim orders 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. During the three months ended 31 March 2014, 12,678 thousand Existing Ordinary Shares transferred from "Shares subject to interim orders" category to the "share capital" category of the Group's equity. The Existing Ordinary Shares which are subject to interim orders as at 31 March 2014 amount to 46,244 thousand Existing Ordinary Shares. Following the issue of the Bail-in Decrees, certain depositors have secured (on an ex-parte basis) interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of their deposits. Accordingly, on the date of this Information Memorandum, Restricted Deposits totalling approximately €22.0 million are still subject to these interim orders and appear in the books of the Bank as if the Bail-in Decrees were not applicable to them. Once these court orders are lifted in full, the Bank's issued share capital will increase by approximately 47.5% of the Restricted Deposits (or approximately 10,422.9 thousand shares, representing the conversion of certain of the Restricted Deposits into shares in accordance with the Bail-in Decrees) and by approximately 2,296.7 thousand shares, representing the additional shares issuable to Laiki Bank in order for it to hold 18.056371% of the Bank's share capital as of 30 July 2013 in accordance with the provisions of the Laiki Transfer Decrees. For more information, see "*Business Description of the Group—Litigation and Related Matters, including Regulatory Proceedings—Bail-in related litigation—Shareholders*".

Laiki Bank Acquisition

In March 2013, the Group acquired certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. In connection with the acquisition, the Resolution Authority appointed an international firm to carry out a valuation of the assets and liabilities transferred to the Group. The fair value of the assets transferred was €15.1 billion (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations), including €8.7 billion of loans and advances to customers and €2.7 billion of investments. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of ELA funding. The compensation transferred by the Bank to Laiki Bank was set pursuant to a decree issued on 30 July 2013 at 18.056371% of the total share capital of the Bank. Because of the suspension of trading of the Bank's Ordinary Shares and the significant uncertainties present at the time, the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued in connection with the acquisition of the assets and liabilities of Laiki Bank and in its 2013 financial statements set the fair value of the Ordinary Shares issued to equal the carrying amount of the liabilities derecognised.

The fair value of assets and liabilities acquired from Laiki Bank was finalised during the three months ended 31 March 2014.

The table below sets out the final 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 Group.

Fair values recognised on acquisition	**(€'000)**
Assets	
Cash and balances with central banks	406,685
Placements with banks	1,294,458
Amounts receivable from the Bank	1,153,000
Investments	2,430,044
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 and joint ventures	236,977
Other assets	374,083
Total assets	**15,101,028**
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	**449,887**
Fair value of consideration transferred (comprising 848,560 thousand shares of nominal value €1.00 each)	**449,887**

On 1 April 2013 the Group also acquired the customer deposits of the UK branch of Laiki Bank, amounting to €325.2 million.

The fair value of loans and advances to customers acquired from Laiki Bank amounts to €8,659.0 million. The gross amount of loans and advances to customers before fair value on initial recognition is

€10,688.9 million. Of the total gross amount, €3,902.6 million were considered to be impaired as of the acquisition date. The fair value of these impaired loans amounts to €2,420.4 million.

The contribution to losses for the year ended 31 December 2013 by the acquired operations of Laiki Bank in the Group's consolidated income statement amounted to losses of €49.3 million. From the date of acquisition to 31 December 2013, the operations of Laiki Bank have contributed €334.9 million to net interest income.

For information regarding the loans and advances to customers acquired from Laiki Bank, see "*Selected Statistical and Other Information—Credit Risk—Credit Quality of Loans and Advances to Customers*".

Disposals

During the financial periods under review, the Group disposed of a number of its international operations, including the following:

- In March 2013, the banking and leasing operations of the Group in Greece were sold to Piraeus Bank for a total cash consideration paid by the Group to Piraeus Bank of €1,153.0 million. The loans and fixed assets sold amounted to €7,866.3 million and the deposits sold amounted to €7,653.7 million. The loss on the disposal was €1,365.6 million. As a result of this transaction, the Group wrote off in the 2012 financial year a deferred tax asset of €0.3 billion in Greece, as this was no longer considered recoverable.
- In April 2013, the Group disposed of certain assets of its Romanian branch (including customer loans and related collateral, cash and other liquid assets) amounting to €82.0 million and liabilities including customer deposits amounting to €77.0 million to Marfin Bank Romania. The loss on disposal was €4.5 million.
- In October 2013, the Group completed the sale of its Greek subsidiary Kyprou Asset Management AEDAK to Alpha Trust Mutual Fund Management S.A., resulting in a loss to the Group which is not material.

In addition, in the period since 31 March 2014, the Group carried out the following disposals:

- In April 2014, the Group sold its business in Ukraine comprising its 99.77% holding in PJSC Bank of Cyprus, the funding provided by the Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, the Russian banking group. The total consideration was €202.5 million, comprising €102.5 million received and €100.0 million deferred until 31 March 2015. The accounting loss resulting from the sale is estimated at approximately €115 million and will have a negative impact on the Group's capital of approximately €24 million. This loss will be recognised in the Group's results for the period ended 30 June 2014.
- In April 2014, the Group sold its 9.99% equity stake in Banca Transilvania, in Romania, for approximately €82 million. The transaction resulted in an accounting gain of approximately €47.0 million, which will be recognised in the Group's results for the period ended 30 June 2014. The positive impact on the Group's capital is estimated to be approximately €55 million.
- In May 2014, the Group sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, which represented one of the Group's largest concentration of non-performing loans, to Piraeus Bank, for approximately €165 million. The transaction resulted in an accounting gain of €27.0 million which will be recognised in the period ended 30 June 2014. The positive impact on the Group's capital is estimated to be approximately €46 million.

Repayment of Cyprus sovereign bond

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group will realise an accounting profit of approximately €95 million for the second quarter of 2014, which will have a positive impact of approximately €95 million or 0.4 percentage points on the Group's CET1 ratio.

Factors Affecting Results of Operations

The Cypriot Economy and the Macroeconomic Adjustment Programme

The Cypriot economy entered into a deep recession in 2013 following the bailout agreement signed with the European Union and the International Monetary Fund. Real GDP contracted by 5.4% in the year following a contraction of 2.4% the year before. The average unemployment rate rose to 15.9% and consumer prices declined by 0.4%.

The Troika agreed the Economic Adjustment Programme with the Cypriot Government on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. To date €4.84 billion of financing has been disbursed, with a further €685 million scheduled to be disbursed in July 2014.

While the recession in 2013 has been deep, the contraction of real GDP was considerably less than initially anticipated. This better performance reflects a number of factors. Some sectors, particularly tourism and business services, proved more resilient than expected. Also, private consumption was influenced by smoothing effects and the drawing down of past savings. In the foreign sector, a steep drop in imports resulted in net exports having a significant positive contribution to growth. In all, the economy showed significant flexibility, as evidenced in declining inflation rates and falling unit labour costs, with the result that the contraction in nominal GDP was steeper than for real GDP.

Given the improved performance of the economy in 2013, the European Commission and the International Monetary Fund revised their 2014 growth forecasts upwards. Real GDP for 2014 is now expected to contract by 4.2%, compared to an initial expectation of 4.8%. However, unemployment remains very high and large non-performing loans are constraining the ability of banks to supply credit to the economy. Consequently growth in later years may be more subdued. See "*The Macroeconomic Environment in Cyprus*".

Liquidity

In connection with the Recapitalisation, €3,863.0 million of customer deposits were converted into common equity of the Bank, significantly reducing its deposit base. The majority of the uninsured deposits that were not converted into equity were converted into fixed-term deposits with a term of six, nine and twelve months beginning on 1 August 2013, renewable by the Bank at its option for a further equal term. On 31 January 2014, the six-month time deposits maturing on that date were released by the Bank and amounts thereunder can be withdrawn by depositors. On 30 April 2014, the nine-month deposits of €930.0 million maturing on that date were partially released in three equal tranches, effective 30 April, 31 July and 31 October 2014. Amounts released are subject to the general restrictive measures applicable in the Cypriot banking system.

The bail-in of depositors in the Recapitalisation significantly eroded investor confidence in Cyprus. In response to this, in March 2013, the Ministry of Finance of Cyprus imposed temporary restrictive measures on the free flow of funds in order to limit deposit outflows that could lead to instability of the financial system. These measures included maximum limits on withdrawals, transfers to other financial institutions within Cyprus, the movement of funds out of Cyprus and mandatory rollovers of maturing fixed deposits and notice accounts. All restrictions relating to domestic transfers within Cyprus have been lifted, with only the restrictions relating to the flow of funds out of Cyprus remaining in place.

As a result of the financial crisis in Cyprus, the Bank has had limited access to other sources of liquidity, particularly the interbank and wholesale markets. Consequently, the Bank has relied increasingly on central bank funding, which represented 39.7% of total liabilities as at 31 December 2013, including €9.1 billion of ELA funding transferred from Laiki Bank.

In August 2013, the Bank was reinstated by the ECB as an eligible counterparty for monetary policy operations, allowing the Bank to obtain liquidity from the ECB. Following this, the Bank had €1.4 billion of ECB funding as at 31 March 2014.

Critical Accounting Estimates and Judgments

In connection with the preparation of its consolidated financial statements in accordance with IFRS, the Group is required to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in IFRS financial statements and accompanying notes.

Various elements of the Group's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, the Group has identified the following accounting policies which, due to the judgments, estimates and assumptions inherent to those policies, and the sensitivity of the Group's financial condition and results of operations to those judgments, estimates and assumptions, are critical to an understanding of the Group's financial statements.

Going Concern

The Board of Directors has made an assessment of the Bank's and Group's ability to continue as a going concern. The Bank's management and Board of Directors, taking into consideration certain factors deemed relevant and the measures taken to support the Cypriot economy and the realised and planned actions as detailed in the 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 pursuant to the MoU.
- The implementation of additional actions pursuant to the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the 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 Cypriot banking system.

Notwithstanding this assessment and the conclusion reached, the Board of Directors considers that material uncertainties remain that may cast significant doubt upon the Bank's ability to continue as a going concern. For additional information, see note 6.1 to the consolidated financial statements for the three months ended 31 March 2014 and note 4.1 to the consolidated financial statements for the year ended 31 December 2013. See "*Risk Factors—Risks Relating to the Group's Business—The independent auditors' report in respect of the Bank's consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter.*"

Recognition of 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.

Provisions 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 judgment. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ. A significant factor for the estimation of provisions is the timing and the net recoverable amount from the foreclosure of collateral, which mainly comprises 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.

Indexation has been used to reach updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be two years for loans that have been managed by the RRD for more than three years, and four years for customers that have been managed by the RRD for less than three years. For all other loans a maximum expected recovery period of five years is assumed.

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 judgments are made in the calculation of future cash flows. Furthermore, judgments 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.

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 judgment 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 judgment 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.

Fair value of investments

The best evidence of fair value of investments 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 judgment 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.

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 judgment 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 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 and the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgment.

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, these differences will impact income tax expense, 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. Judgment 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 judgment 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.

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 European Union 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. See note 20 to the Group's consolidated financial statements for the year ended 31 December 2013 for further information on the assets reclassified by the Group.

Management judgment 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 judgment 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 judgment. 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 judgment 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.

For a further discussion of the Group's critical accounting estimates and judgments, see note 4 to the Group's consolidated financial statements for the year ended 31 December 2013.

Results of Operations

Consolidated Income Statement Data

	Year ended 31 December		Three months ended	
	2012(1)	**2013**(1)	**31 December 2013**(1)	**31 March 2014**(1)
		(€'000)		
Continuing operations				
Turnover	1,859,797	1,966,621	467,197	480,026
Interest income	1,415,611	1,660,461	421,570	392,716
Interest expense	(713,835)	(661,030)	(148,002)	(125,758)
Net interest income	701,776	999,431	273,568	266,958
Fee and commission income	191,566	193,458	49,989	48,180
Fee and commission expense	(18,881)	(24,639)	(6,571)	(2,901)
Net foreign exchange gains/(losses)	24,948	(5,148)	(3,560)	(5,571)
Net (losses)/gains on financial instrument transactions and disposal of subsidiaries	(27,899)	10,589	26,513	19,570
Insurance income net of claims and commissions	62,972	64,956	14,171	13,126
Other (expense)/income	(15,099)	(64,282)	(40,437)	491
Total income	**919,383**	**1,174,365**	**313,673**	**339,853**
Staff costs	(293,556)	(442,797)	(66,008)	(67,456)
Other operating expenses	(260,553)	(277,196)	(89,536)	(61,043)
Profit before impairment of loans and advances and goodwill and intangible assets	**365,274**	**454,372**	**158,129**	**211,354**
Provisions for impairment of loans and advances	(1,339,269)	(1,067,345)	(267,897)	(146,465)
Impairment of goodwill and intangible assets	(359,746)	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,333,741)**	**(612,973)**	**(109,768)**	**64,889**
Share of profit from associates and joint ventures	222	1,885	8	2,135
(Loss)/profit before tax	**(1,333,519)**	**(611,088)**	**(109,760)**	**67,024**
Tax	43,463	5,184	2,126	(2,232)
(Loss)/profit after tax	**(1,290,056)**	**(605,904)**	**(107,634)**	**64,792**
Loss after tax from discontinued operations	(932,290)	(1,455,604)	-	(35,987)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**

	Year ended 31 December		Three months ended	
	2012[(1)]	2013[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
	(€'000)			
Attributable to:				
Owners of the Bank – continuing operations	(1,280,825)	(593,898)	(102,732)	67,257
Owners of the Bank – discontinued operations	(932,290)	(1,455,604)	–	(35,948)
Total (loss)/profit attributable to the owners of the Bank	**(2,213,115)**	**(2,049,502)**	**(102,732)**	**31,309**
Non-controlling interests – continuing operations	(9,231)	(12,006)	(4,902)	(2,465)
Non-controlling interests – discontinued operations	–	–	–	(39)
(Loss)/profit for the year/period	**(2,222,346)**	**(2,061,508)**	**(107,634)**	**28,805**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011). The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Total income

Group total income comprises net interest income, net fee and commission income, foreign exchange gains/(losses), net gains/(losses) on financial instrument transactions and disposal of subsidiaries, insurance income net of claims and commissions, and other income/(expense).

Total income increased by €255.0 million or 27.7% to €1,174.4 million in the year ended 31 December 2013 compared to €919.4 million in the year ended 31 December 2012. Total income for the first quarter of 2014 was €339.9 million, an increase of €26.2 million or 8.3% over the fourth quarter of 2013. Net interest income is the largest component of total income, representing 76.3% of total income in the year ended 31 December 2012, 85.1% in the year ended 31 December 2013 and 78.6% in the first quarter of 2014.

Net interest income

Net interest income represents interest income less interest expense. Interest income includes interest received on loans and advances to customers and on interest bearing investments. Interest expense includes interest paid on customer deposits and other funding costs, primarily funding from central banks, including ELA funding from the CBC and funding from the ECB monetary policy operations. Interest expense also includes funding costs relating to the €1 billion of guaranteed bonds issued by the Cypriot Government and which are pledged as collateral for obtaining funding from central banks. Since 2013, net interest income has been positively impacted by ELA and ECB funding, which give the Group lower cost of funding than customer deposits.

Net interest income increased by €297.7 million or 42.4% to €999.4 million in the year ended 31 December 2013 compared to €701.8 million in the year ended 31 December 2012, reflecting a 17.3% increase in interest income and a 7.4% decline in interest expense.

Net interest income in 2013 includes nine months of net interest income of the assets and liabilities acquired from Laiki Bank. The increase in interest income in 2013 was mainly driven by a €167.4 million increase in interest income from loans and advances from customers, principally resulting from the Laiki Bank acquisition and a €151.5 million increase in interest income from investments classified as loans and receivables driven by the acquisition of Cyprus government bonds acquired from

Laiki Bank. Interest income on the recoverable amount of impaired loans and advances from customers was €188.5 million in 2013 compared to €53.0 million in 2012, reflecting the increase in impaired loans.

The decline in interest expense in 2013 was mainly driven by a €156.1 million decrease in interest expense from customer deposits and a €27.9 million decrease related to derivative financial instruments, which was offset in part by a €150.2 million increase in interest expense on funding from central banks and amounts due to banks.

Net interest income for the first quarter of 2014 was €267.0 million, compared to €273.6 million for the fourth quarter of 2013, a decrease of €6.6 million or 2.4%. Interest income was €392.7 million for the first quarter of 2014 compared to €421.6 million for the fourth quarter of 2013. Interest income on the recoverable amount of impaired loans and advances from customers was €60.9 million for the first quarter of 2014 compared to €80.6 million for the fourth quarter of 2013. Interest expense was €125.8 million for the first quarter of 2014 compared to €148.0 million for the fourth quarter of 2013.

Net interest margin was 2.94% in the year ended 31 December 2012, 3.54% in the year ended 31 December 2013, 3.80% in the fourth quarter of 2013 and 3.99% in the first quarter of 2014.

Net fee and commission income

Net fee and commission income decreased by €3.9 million or 2.2% to €168.8 million in 2013 as the increase in fee and commission expense (principally related to banking commissions) more than offsets the increase in fee and commission income (where increases in credit-related fees and commissions and other commissions offset a decline in other banking commissions).

Net fee and commission income for the first quarter of 2014 was €45.3 million, compared to €43.4 million for the fourth quarter of 2013, an increase of €1.9 million or 4.3%.

Net foreign exchange gains/(losses)

Net foreign exchange gains/losses represent the conversion of monetary assets in foreign currency at the reporting date, realised gains and losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives. The Group had net foreign exchange gains of €24.9 million in the year ended 31 December 2012, compared to losses of €5.1 million in the year ended 31 December 2013 and €5.6 million in the first quarter of 2014.

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

Net gains on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2013 were €10.6 million and consisted principally of a €26.6 million gain on derecognition of loans, a €14.7 million gain on derivative financial instruments in the trading portfolio, a €6.7 million net gain on disposal of debt securities in the loans and receivables portfolio, a €15.9 million impairment of debt securities excluding government guaranteed bonds, an €11.5 million loss on the disposal of debt securities in the available-for-sale investments portfolio, a €6.9 million realised loss on disposal of loans and deposits and a €6.6 million impairment of available-for-sale equity securities.

Net losses on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2012 were €27.9 million and consisted principally of a €22.3 million loss on disposal of debt securities in the held-to-maturity investments portfolio, an €11.6 million gain on derivative financial instruments in the trading portfolio and a €8.0 million net loss on the disposal of debt securities in the available-for-sale investments portfolio.

Net gains on financial instrument transactions and disposal of subsidiaries in the first quarter of 2014 was €19.6 million and consisted principally of a €7.1 million gain on derecognition of loans, a €6.5 million gain on trading derivatives and a €4.1 million gain on disposal of available-for-sale investments.

Insurance income net of claims and commissions

Insurance income net of claims and commissions increased by €2.0 million or 3.2% to €65.0 million in the year ended 31 December 2013, as a €26.9 million decrease in income was more than offset by a €28.9 million decrease in claims and commissions. Insurance income net of claims and commissions was €13.1 million in the first quarter of 2014 compared to €14.2 million in the fourth quarter of 2013.

Other income/expense

Other expense increased by €49.2 million to €64.3 million in the year ended 31 December 2013, mainly driven by a €53.8 million increase in losses from revaluation of investment properties which relate principally to a decline in the fair value of properties. Other income for the first quarter of 2014 was €0.5 million.

Expenses

Staff costs

Staff costs increased by €149.2 million or 50.8% to €442.8 million in the year ended 31 December 2013, driven principally by a €120.5 million increase in voluntary retirement scheme costs resulting from staff reductions and the addition of staff from Laiki Bank. Staff costs were broadly stable, at €66.0 million in the fourth quarter of 2013 and €67.5 million in the first quarter of 2014, which did not include any voluntary retirement scheme costs. The Group had 10,772 employees as of 31 December 2012, 7,752 employees as of 31 December 2013 and 7,400 employees as of 31 March 2014, of which 502 were employed in Ukraine. In April 2014, the Group completed the sale of its Ukrainian business.

Other operating expenses

Other operating expenses include operating lease rentals, repairs and depreciation of property and equipment, communication expenses, provision for settlement of litigations or claims, advisory or other restructuring costs and impairment of assets held for sale. Other operating expenses increased by €16.6 million or 6.4% to €277.2 million in the year ended 31 December 2013, driven principally by a €27.5 million increase in advisory and other restructuring costs and a €9.6 million impairment of assets held for sale recognised in respect of the Group's Ukrainian operations, which more than offset a €20.4 million decrease in other operating expenses.

Other operating expenses were €61.0 million in the first quarter of 2014 and included €11.2 million of provisions and settlements of litigations or claims (compared to €7.4 million for the 2013 financial year) and €4.6 million of advisory and restructuring costs. Other operating expenses for the fourth quarter of 2013 were €89.5 million and reflect higher restructuring costs and other costs in the fourth quarter of 2013 compared to the first quarter of 2014.

Impairment

Provisions for impairment of loans and advances

Provisions for impairment of loans and advances decreased by €271.9 million or 20.3% in the year ended 31 December 2013, to €1,067.3 million, driven by the increased quality of the Group's loan portfolio and collateral. Provisions for impairment of loans and advances were €146.5 million in the first quarter of 2014 compared to €267.9 million in the fourth quarter of 2013.

Impairment of goodwill and intangible assets

In 2012, the Group recognised impairment of goodwill in connection with the acquisitions of PJSB Bank of Cyprus and CB Uniastrum Bank LLC in a total amount of €338.2 million. In addition, an impairment charge in an aggregate amount of €21.5 million was recognised in respect of customer relationships and brands. As a result, goodwill and the carrying amounts for customer relationships and brands for these two subsidiaries were fully written off in 2012. The Group did not record any impairment of goodwill or intangible assets in 2013 or the first quarter of 2014.

Impairment of Greek government bonds

In 2012 the Group participated in the exchange offer for Greek government bonds which included, among other things, the write off of 53.5% of the value of the existing bonds and the issue of new bonds with a nominal value of 31.5% of the exchanged bonds. This, together with the change in fair value of related hedging instruments, resulted in an impairment charge of €143.6 million in 2012 which is included in discontinued operations. In December 2012, the Group participated in the voluntary repurchase of new bonds by the Greek Republic, realising a gain of €96.5 million, which is included in discontinued operations. The Group currently does not hold any Greek government bonds.

Share of profit of associates and joint ventures

Share of profit from associates and joint ventures increased by €1.7 million to €1.9 million in the year ended 31 December 2013. The increase reflects the acquisition by the Group of 49.9% of CNP Cyprus Insurance Holdings Ltd ("**CNP**"), the parent company of a group of insurance companies in Cyprus and Greece, from Laiki Bank. In the first quarter of 2014, share of profit from associates and joint ventures was €2.1 million compared to €8 thousand in the fourth quarter of 2013.

Loss/profit before tax

As a result of the foregoing factors, loss before tax decreased by €722.4 million or 54.2% to €611.1 million in the year ended 31 December 2013. In the first quarter of 2014, profit before tax was €67.0 million compared to a loss before tax of €109.8 million in the fourth quarter of 2013.

Tax

Tax credit decreased by €38.3 million to €5.2 million in the year ended 31 December 2013. This mostly reflects tax credit in Cyprus and overseas operations in 2012 that was not repeated in 2013. The tax charge for the first quarter of 2014 was €2.2 million, reflecting the write-off of tax assets, compared to a tax credit of €2.1 million in the fourth quarter of 2013.

Loss after tax from discontinued operations

Loss after tax from discontinued operations increased by €523.3 million or 56.1% in the year ended 31 December 2013. The increase reflected the disposals carried out by the Group during the year, particularly its banking and leasing operations in Greece. Loss after tax from discontinued operations was €36.0 million in the first quarter of 2014, reflecting the reclassification of the Group's operations in Ukraine to discontinued operations.

Segmental analysis

The tables below present income statement and total revenue information by operating segment based on geographical location of each unit for the three months ended 31 March 2014 and the year ended 31 December 2013.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group, the Russian banking group, and as a result, the Ukrainian operations are presented as discontinued in the three months ended 31 March 2014. On 26 March 2013, the Group's banking and leasing activities in Greece were sold to Piraeus Bank and are presented as discontinued operations in the year ended 31 December 2013. The Ukrainian operations are presented as continuing operations for the year ended 31 December 2013.

The Group's activities in Greece (other than those sold to Piraeus Bank), the United Kingdom and Romania are separate operating segments for which information is provided but, due to their size, have been aggregated for disclosure purposes into the "Other countries" segment, which also includes Ukraine for 2013. 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 the 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 Group's total profit as presented in the consolidated income statement is not affected. 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.

Income statement	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Three months ended 31 March 2014[1]					
Net interest income	235,739	18,675	12,544	266,958	4,064
Net fee and commission income	39,681	4,157	1,441	45,279	270
Net foreign exchange (losses)/gains	(6,535)	680	284	(5,571)	617
Net gains on financial instrument transactions	19,474	–	96	19,570	–
Insurance income net of claims and commissions	11,905	–	1,221	13,126	–
Other (expenses)/income	(811)	177	1,125	491	1,051
	299,453	23,689	16,711	339,853	6,002
Staff costs	(54,770)	(9,389)	(3,297)	(67,456)	(1,233)
Other operating expenses	(35,573)	(9,505)	(11,376)	(56,454)	(2,882)
Restructuring costs	(4,589)	–	–	(4,589)	–
Profit before impairment of loans and advances	**204,521**	**4,795**	**2,038**	**211,354**	**1,887**
Provisions for impairment of loans and advances	(108,531)	(17,557)	(20,377)	(146,465)	(38,528)
Share of profit from associates and joint ventures	2,135	–	–	2,135	–
Profit/(loss) before tax	**98,125**	**(12,762)**	**(18,339)**	**67,024**	**(36,641)**
Tax	(1,007)	15	(1,240)	(2,232)	654
Profit/(loss) after tax	**97,118**	**(12,747)**	**(19,579)**	**64,792**	**(35,987)**
Non-controlling interests (profit)/loss	(38)	2,503	–	2,465	39
Profit/(loss) after tax attributable to the owners of the Bank	**97,080**	**(10,244)**	**(19,579)**	**67,257**	**(35,948)**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Income statement	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Year ended 31 December 2013[(1)]					
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	(156,808)	(172)	(771)	(157,751)	–
Impairment of assets held for sale	–	–	(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	–	–	–	–	(1,365,624)
Share of profit/(loss) from 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 Bank	**(367,363)**	**(33,695)**	**(192,840)**	**(593,898)**	**(1,455,604)**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Total Revenue	**Cyprus**	**Russia**	**Other countries**	**Total continuing operations**	**Discontinued operations**
			(€'000)		
Three months ended 31 March 2014(1)					
Banking and financial services	280,970	28,291	16,793	326,054	6,351
Insurance services	12,276	–	1,368	13,644	–
Property and hotel business	(115)	–	(79)	(194)	–
Total revenue from third parties	293,131	28,291	18,082	339,504	6,351
Inter-segment revenue/(expense)	6,322	(4,602)	(1,371)	349	(349)
Total revenue	**299,453**	**23,689**	**16,711**	**339,853**	**6,002**
Year ended 31 December 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**

(1) The financial information presented for the three month periods ended 31 December 2013 and 31 March 2014 is unaudited. The consolidated income statement for the year ended 31 December 2013 includes the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

Balance Sheet Items

Assets

	31 December		**31 March**
	2012(1)	**2013**(1)	**2014**(1)
		(€'000)	
Assets			
Cash and balances with central banks	1,272,424	1,240,043	963,963
Placements with banks	1,768,836	1,290,102	1,141,169
Investments	1,135,333	2,759,855	2,809,356
Investments pledged as collateral	734,747	672,809	665,382
Derivative financial assets	26,794	28,765	27,877
Loans and advances to customers	24,374,531	21,764,338	21,233,958
Life insurance business assets attributable to policyholders	495,756	443,579	449,907
Property and equipment	483,193	414,404	403,424
Intangible assets	123,555	130,580	129,967
Other assets	613,760	1,401,833	1,347,334
Investments in associates and joint ventures	3,107	203,131	205,932
Total assets	**31,032,036**	**30,349,439**	**29,378,269**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Total Assets

Total assets decreased by €682.6 million or 2.2%, to €30,349.4 million at 31 December 2013, and by a further €971.2 million or 3.2% to €29,378.3 million at 31 March 2014. The decrease in each period reflects the result of a deliberate effort by the Group to deleverage and de-risk its balance sheet. This process has continued after 31 March 2014, for example through the sale of the Group's operations in Ukraine. Loans and advances to customers are the largest component of total assets, representing 78.5% at 31 December 2012, 71.7% at 31 December 2013 and 72.3% at 31 March 2014.

Investments

Total Investments (both unencumbered investments and investments pledged as collateral) increased by €1,562.6 million to €3,432.7 million in 2013, driven principally by the acquisition of Cyprus government bonds acquired from Laiki Bank, and increased a further €42.1 million to €3,474.7 million at 31 March 2014.

In June 2013, the Group exchanged €180.0 million of government bonds issued by the Republic of Cyprus pursuant to an exchange offer conducted by the Government. The new bonds bore equal rates to those being exchanged and had maturities of five to ten years. The exchange constituted a modification of terms, rather than resulting in the derecognition of the bonds being exchanged. For the bonds offered for exchange, there was objective evidence of impairment, as among other things there was 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 had recognised impairment losses of €6.9 million relating to the exchanged bonds.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group will realise an accounting profit of approximately €95 million for the second quarter of 2014, which will have a positive impact of approximately €95 million or 0.4 percentage points on the Group's CET1 ratio.

The table below shows the carrying value of the Group's investments at the dates indicated:

	31 December		31 March
	2012(1)	2013(1)	2014(1)
		(€'000)	
Investments			
Investments at fair value through profit or loss	21,818	25,160	27,178
Investments available-for-sale	402,547	161,258	163,273
Investments classified as loans and receivables	710,968	2,573,437	2,618,905
Total	**1,135,333**	**2,759,855**	**2,809,356**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Certain of the Group's investments have been pledged as collateral under repurchase agreements with banks as set forth in the table below. All investments pledged as collateral can be sold or repledged by the counterparty.

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Investments pledged as collateral			
Investments available-for-sale	694,287	672,809	665,382
Investments classified as loans and receivables	40,460	–	–
Total	**734,747**	**672,809**	**665,382**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

The table below analyses investments at fair value through profit or loss:

Investments at fair value through profit or loss	**Trading investments**	**Other investments at fair value through profit or loss**	**Total**
		(€'000)	
31 March 2014[1]			
Debt securities	44	16,464	16,508
Equity securities	3,882	–	3,882
Mutual funds	6,788	–	6,788
	10,714	**16,464**	**27,178**
Cyprus Government	–	16,402	16,402
Banks and other corporations	44	62	106
	44	**16,464**	**16,508**
31 December 2013[1]			
Debt securities	103	15,549	15,652
Equity securities	2,953	–	2,953
Mutual funds	6,555	–	6,555
	9,611	**15,549**	**25,160**
Cyprus Government	–	15,413	15,413
Banks and other corporations	103	136	239
	103	**15,549**	**15,652**
31 December 2012[1]			
Debt securities	96	13,955	14,051
Equity securities	2,557	–	2,557
Mutual funds	5,210	–	5,210
	7,863	**13,955**	**21,818**
Cyprus Government	–	13,042	13,042
Banks and other corporations	96	913	1,009
	96	**13,955**	**14,051**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

The table below analyses investments available-for-sale:

Investments available-for-sale	31 December 2012[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
		(€'000)	
Debt securities	1,032,302	733,658	721,921
Equity securities	64,532	98,606	105,595
Mutual funds	–	1,803	1,139
	1,096,834	**834,067**	**828,655**
Geographical distribution by country of issuer			
Cyprus	2,119	7,571	3,723
United Kingdom	9,867	6,365	6,181
France	509,745	476,818	484,427
Germany	59,688	58,258	58,537
Ukraine	3	1	1
Italy	51,536	52,211	52,811
Other European countries	102,572	106,175	90,549
Other countries	2,197	2,052	1,856
European Financial Stability Facility and European Investment Fund	284,787	14,617	14,169
Supranational organisations	9,788	9,590	9,667
	1,032,302	**733,658**	**721,921**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

The table below analyses investments classified as loans and receivables:

Investments classified as loans and receivables	31 December 2012[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
		(€'000)	
Debt securities	751,428	2,573,437	2,618,905
Cyprus government	749,981	2,572,940	2,618,403
Banks and other corporations	1,275	300	306
Local authorities	172	197	196
	751,428	**2,573,437**	**2,618,905**
Geographical distribution by country of issuer			
Cyprus	**751,428**	**2,573,437**	**2,618,905**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Reclassification of Investments

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, 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. The Group has undertaken the following reclassifications 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 (with a carrying value of €34.8 million at the date of reclassification) 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 (with a carrying value of €163.4 million and €164.0 million, respectively, at the date of reclassification) 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 (with a carrying value of €87.7 million at the date of reclassification) 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 IFRS, the Group is not allowed to classify any investments as held-to-maturity until November 2014.

There were no reclassifications during 2013 or in the first three months of 2014.

Loans and Advances to Customers

The Group's lending consists of extensions of credit by the Bank and its subsidiaries, including hire purchase and leasing facilities. The discussion below relates to the Group's gross loans and advances to customers before fair value adjustments on initial recognition. However, loans and advances to customers in the consolidated financial statements are presented net of provisions for impairment.

The gross amount of loans and advances to customers acquired from Laiki Bank before fair value adjustment was €10,688.9 million. The fair value of these loans and advances on initial recognition was €8,659.0 million, resulting in a fair value adjustment of €2,029.9 million. The fair value adjustment reduces over time driven by loan repayments. 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, this adjustment is not presented within the gross balances of loans and advances.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

The following table reconciles gross loans and advances to customers before fair value adjustment on initial recognition and provisions for impairment to net loans as at the dates indicated.

Net loans and advances to customers	31 December 2012[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
		(€'000)	
Gross loans and advances to customers before fair value adjustment on initial recognition	28,050,587	26,743,319	26,262,862
Fair value adjustment on initial recognition	–	(1,902,711)	(1,812,838)
Loans and advances to customers after fair value adjustment on initial recognition	**28,050,587**	**24,840,608**	**24,450,024**
Provisions for impairment of loans and advances to customers	(3,676,056)	(3,076,270)	(3,216,066)
Total	**24,374,531**	**21,764,338**	**21,233,958**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Loans and advances to customers decreased by €2,610.2 million or 10.7%, to €21,764.3 million at 31 December 2013, and by a further €530.4 million or 2.4% to €21,234.0 million at 31 March 2014. The decrease in 2013 was driven principally by the sale of the Group's operations in Greece, notwithstanding the acquisition of loans from Laiki Bank. The decrease in all periods also reflects the decision of the Group to reduce its loan portfolio in order to improve its capital position.

Customer Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by type of customer at the dates indicated below.

	31 December 2012[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
		(€'000)	
Gross loans and advances to customers			
Corporate	12,770,764	12,241,613	11,933,267
SMEs	5,938,350	6,115,702	6,093,185
Retail			
- Housing	5,507,210	5,374,666	5,304,688
- Credit cards	379,358	272,588	256,388
- Consumer and other	3,454,905	2,738,750	2,675,334
Total	**28,050,587**	**26,743,319**	**26,262,862**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Corporate customers are the largest category of borrower, representing 45.5% of gross loans and advances to customers at 31 December 2012, 45.8% at 31 December 2013 and 45.4% at 31 March 2014. Housing loans and advances remained largely stable at 19.6% at 31 December 2012, 20.1% at 31 December 2013 and 20.2% at 31 March 2014. SME loans grew marginally, from 21.2% at 31 December 2012 to 22.9% at 31 December 2013 and 23.2% at 31 March 2014.

Sector Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by economic sector at the dates indicated below.

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Gross loans and advances to customers			
Trade	3,462,621	2,833,112	2,821,485
Manufacturing	1,952,021	999,057	952,055
Hotels and catering	2,276,944	1,887,832	1,854,062
Construction	3,609,851	4,248,650	4,205,328
Real estate	3,351,249	4,201,181	4,124,365
Private individuals	8,631,837	8,539,115	8,405,040
Professional and other services	2,776,244	2,306,763	2,182,187
Other sectors	1,989,820	1,727,609	1,718,340
Total	**28,050,587**	**26,743,319**	**26,262,862**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Private individuals are the largest economic sector, representing 30.8% of total loans and advances as at 31 December 2012, 31.9% at 31 December 2013 and 32.0% at 31 March 2014. The construction sector represented 12.9%, 15.9% and 16.0% of gross loans and advances, respectively. Real estate was 11.9% at 31 December 2012, 15.7% at 31 December 2013 and 15.7% at 31 December 2014.

Geographical Analysis

The following table shows a breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by geographical area as of the dates indicated. The analysis is generally based on the country in which the transaction originated rather than the country in which the transaction is recorded.

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Gross loans and advances to customers			
Cyprus	14,872,936	22,964,204	22,762,856
Greece	9,437,677	172,007	171,921
Russia	2,024,524	1,429,161	1,289,944
United Kingdom	834,006	1,283,749	1,194,420
Romania	550,154	492,983	472,366
Ukraine	331,290	401,215	371,355
Total	**28,050,587**	**26,743,319**	**26,262,862**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Advances extended in Cyprus remain the core of the Group's business, representing 53.0%, 85.9% and 86.7% of the Group's gross loans and advances to customers at 31 December 2012, 31 December 2013 and 31 March 2014, respectively. However, the geographical distribution of the Group's loan portfolio has been significantly impacted by the disposal of the Group's Greek operations.

The Group's operations in Cyprus were significantly affected by the acquisition of Laiki Bank in 2013, which contributed €8.7 billion of gross loans after fair value adjustment on initial recognition to the Group's portfolio.

Following the disposal of its operations in Greece in 2013, the Group's gross loans and advances to customers in Greece fell from €9.4 billion (33.6% of total loans and advances to customers) at 31 December 2012 to €172.0 million (0.6%) at 31 December 2013. Following the disposal, the Group's gross loans and advances to customers in Greece remained relatively stable, at €171.9 million (0.7%) as at 31 March 2014.

The Group's gross loans and advances to customers in Russia experienced a decline during each of the periods under review, partly due to exchange rate fluctuations. Loans declined from €2,024.5 million at 31 December 2012 to €1,429.2 million at 31 December 2013 and €1,289.9 million at 31 March 2014. As a percentage of total gross loans and advances to customers, Russia declined from 7.2% as at 31 December 2012 to 5.3% as at 31 December 2013 and 4.9% at 31 March 2014.

The Group's gross loans and advances to customers in the United Kingdom increased by €449.7 million or 53.9% in 2013, mainly due to the acquisition of the operations of Laiki Bank's branch operations in the United Kingdom. As a percentage of total loans and advances, the UK grew from 3.0% at 31 December 2012 to 4.8% at 31 December 2013. However, UK loans and advances contracted by €89.3 million or 7.0% in the first quarter of 2014, reflecting loan repayments. In April 2014, the Group announced that it is considering the disposal of a UK loan portfolio largely composed of residential and commercial real estate backed facilities, acquired from Laiki Bank.

The Group's gross loans and advances to customers in Romania also experienced a decline during each of the periods under review. The €57.2 million decrease in 2013 was driven by the sale of certain assets and liabilities of the Romanian branch to Marfin Bank Romania. The €20.6 million decrease in the first quarter of 2014 largely reflects loan repayments.

In April 2014, the Group sold its operations in Ukraine. This sale will be reflected in the Group's financial statements for the period ending 30 June, 2014.

Other Assets

The table below sets out other assets of the Group as at the dates indicated:

	31 December		31 March
	2012(1)	2013(1)	2014(1)
		(€'000)	
Other assets			
Debtors	26,400	22,956	24,809
Stock of property held for sale	11,624	14,110	13,611
Investment properties	316,378	495,658	473,700
Taxes refundable	41,459	48,544	48,282
Deferred tax asset	50,829	479,060	477,627
Retirement benefit plan assets	1,610	1,319	1,497
Reinsurers' share of insurance contract liabilities	65,927	68,387	66,362
Prepaid expenses	5,004	2,840	4,349
Receivable relating to acquisitions and disposals of operations	–	90,219	90,411
Other assets	94,529	178,740	146,686
Total	**613,760**	**1,401,833**	**1,347,334**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Investment properties principally consist of properties pledged as collateral for loans that were acquired upon foreclosure of the loan. At 31 March 2014, investment property includes property amounting to €34,395 thousand (€49,430 thousand at 31 December 2013) which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale.

As of 31 March 2014, the Group had recorded deferred tax assets of €477.6 million, mainly as a result of the transfer of Laiki Bank's deferred tax assets to the Bank. The deferred tax asset recognised on the acquisition of these deferred tax assets from Laiki Bank amounted to €417 million and can be set off against the future profits of the Group for a period of 15 years at a tax rate of 12.5%. In 2012, the Group wrote-off deferred tax assets in Greece of €0.3 billion upon the disposal of its Greek operations as this was no longer deemed recoverable.

Liabilities

	31 December		31 March
	2012[(1)]	**2013**[(1)]	**2014**[(1)]
		(€'000)	
Liabilities			
Amounts due to banks	341,044	196,422	171,236
Funding from central banks	–	10,956,277	10,905,788
Repurchase agreements	607,773	594,004	582,489
Derivative financial liabilities	183,826	83,894	77,662
Customer deposits	28,442,152	14,971,167	14,065,675
Insurance liabilities	604,170	551,829	556,143
Debt securities in issue	44,775	1,515	1,493
Other liabilities	339,727	251,979	253,482
Subordinated loan stock	133,294	4,676	4,743
Total liabilities	**30,696,761**	**27,611,763**	**26,618,711**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Liabilities principally comprise the Group's sources of funding, in particular customer deposits and funding from central banks. Liabilities have decreased during each of the periods under review, by €3,085.0 million or 10.0% from 31 December 2012 to 31 December 2013, and by a further €933.1 million or 3.4% to €26,618.7 million at 31 March 2014.

Liquidity and Capital Resources

The Group's main source of funding has traditionally been customer deposits. The Group also issued debt securities and took deposits on the interbank market. Following the Recapitalisation, in which a significant proportion of the Group's deposits and most of the Bank's medium-term senior debt were bailed-in pursuant to the Bail-in Decrees, the Group's funding profile has changed significantly. Currently, the Group has limited access to interbank and wholesale funding markets, which together with a reduction in deposits in Cyprus, has resulted in an increased reliance on central bank funding (comprising ECB funding for monetary operations and ELA). In addition, the acquisition of the ex-Laiki Bank operations (including deposits and ELA) by the Group and the sale of the Group's Greek operations (including deposits), further changed the composition of the Group's funding.

Liquidity Ratios

The table below sets forth the Group's liquidity ratio (liquid assets to total deposits and other liabilities falling due in the next twelve months) as at the dates and for the periods indicated. 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:

Liquidity ratio	As at and for the year ended 31 December		As at and for the three months ended 31 March
	2012	2013	2014
		(%)	
At period end	8.79	12.28	12.36
Average ratio during the period	14.99	11.16	12.39
Highest ratio during the period	23.93	14.42	12.67
Lowest ratio during the period	7.08	8.69	12.14

The Bank is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus. The minimum euro liquidity ratio (which is the ratio of the Bank's euro-denominated liquid assets to total euro-denominated deposits and other liabilities falling due in the next 12 months) established by the CBC for operations in Cyprus is 20%. The minimum liquidity ratio for foreign currencies (which is the ratio of the Bank's foreign currency-denominated liquid assets to total foreign currency-denominated deposits) established by the CBC for operations in Cyprus is 70%. At 31 March 2014, the euro liquidity ratio and liquidity ratio for foreign currencies were 6% and 12%, respectively. In addition, the Bank is not in compliance with the minimum euro currency mismatch ratios established by the CBC for operations in Cyprus. The mismatch ratios for assets minus liabilities in the seven-day and 30-day periods over total customer deposits is minus 10% for the seven-day period and minus 25% for the 30-day period. At 31 March 2014, the mismatch ratios were minus 31% for the seven-day period and minus 47% for the 30-day period. The liquidity ratios presented in the table above are the Group liquidity ratios calculated by management as part of its internal systems and are not comparable to the Bank's regulatory liquidity requirements as set by the CBC. See "*Risk Factors—Regulatory and Legal Risks—The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

The liquidity ratios remained at low levels during each of the periods under review due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

The table below sets forth the Group's loan to deposit ratio (loans and advances to customers to total deposits) as at the dates and for the periods indicated:

Net loan to deposit ratio	As at and for the year ended 31 December		As at and for the three months ended 31 March
	2012	2013	2014
		(%)	
At period end	85.70	145.38	150.96
Average ratio during the period	91.65	128.84	148.17
Highest ratio during the period	93.85	145.95	150.96
Lowest ratio during the period	85.70	85.70	145.38

Encumbered and unencumbered assets

Certain of the Group's funding is secured by assets. The carrying value of the Group's encumbered assets is set forth below:

Encumbered assets	31 December 2012	31 December 2013	31 March 2014
		(€'000)	
Cash and other liquid assets	707,749	367,080	278,252
Other investments	853,617	3,289,810	3,279,952
Loans and advances	1,830,000	15,136,002	14,915,805
Property	−	90,181	93,646
	3,391,366	**18,883,073**	**18,567,655**

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result it is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €18,883.0 million at 31 December 2013. These primarily consist of loans and advances to customers, investments in debt securities (primarily Government bonds) and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as for covered bonds. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA Master Agreements €388.8 million at 31 December 2012, €221.3 million at 31 December 2013 and €177.6 million at 31 March 2014) which are not immediately available for the Group but are released once the transaction is terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under credit support annexes executed in connection with an ISDA Master Agreement and repurchase agreements, and (ii) trade finance transactions and guarantees issued.

In addition, bonds guaranteed by the Government amounting to €1 billion are pledged as collateral for obtaining funding from the CBC.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank that was pledged as collateral with the ECB.

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.

At 31 December 2013, the Group held €4,889.8 million of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs. These 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 ELA. 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 or branch and not to provide liquidity to any other part 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 an unencumbered asset not readily available as collateral.

At 31 December 2013, the Group held €4,928.9 million of unencumbered assets that are not readily available to be pledged for funding requirements in their current form. These primarily consist of loans and advances that are prohibited by contract or law to be encumbered or are more than 90 days past due or for which there is pending litigation or other legal action 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 Bank or the relevant 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 they are primarily due to the policyholders.

The table below presents the carrying value of the Group's encumbered and unencumbered assets and the extent to which these assets are pledged for funding purposes at 31 December 2013:

	Encumbered	**Unencumbered**		
Encumbered and unencumbered assets	**Pledged as collateral**	**Available to be pledged**	**Not readily available to be pledged**	**Total**
31 December 2013			**(€'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**	**29,701,727**

Funding

The following table shows a breakdown of the Group's funding by type as at the dates indicated:

	31 December		**31 March**
	2012(1)	**2013**(1)	**2014**(1)
		(€'000)	
Funding			
Customer deposits	28,442,152	14,971,167	14,065,675
Funding from central banks	–	10,956,277	10,905,788
Repurchase agreements	607,773	594,004	582,489
Amounts due to banks	341,044	196,422	171,236
Debt securities in issue	44,775	1,515	1,493
Total	**29,435,744**	**26,719,385**	**25,726,681**

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The average rate of interest payable on the Group's funding (calculated as interest paid on funding divided by average funding during the period) was 2.25% for the year ended 31 December 2012, 2.37% for the year ended 31 December 2013 and 1.92% (on an annualised basis) for the first quarter of 2014.

Customer Deposits

Despite the bail-in of the Group's depositors pursuant to the Recapitalisation and increased reliance on central bank funding, the majority of the Group's funding still comes from customer deposits. At 31 December 2012, 31 December 2013 and 31 March 2014, customer deposits accounted for 96.6%, 56.0% and 54.7%, respectively, of the Group's funding. In the Cyprus market, the Bank offers demand, savings and time deposits (both notice and fixed period accounts). Similar products are offered to retail depositors in the United Kingdom, the Channel Islands and Russia.

The following table shows a breakdown of the Group's customer deposits by type and geographical area at the dates indicated.

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Customer deposits			
By type of deposit			
Demand	6,417,980	3,492,789	3,532,095
Savings	1,865,042	925,549	945,884
Time or notice	20,159,130	10,552,829	9,587,696
	28,442,152	**14,971,167**	**14,065,675**
By geographical area			
Cyprus	18,511,979	12,705,254	11,984,486
Greece	7,152,375	–	–
Russia	1,253,677	918,491	766,814
United Kingdom	1,215,207	1,244,186	1,249,446
Romania	214,149	30,055	17,948
Ukraine	94,765	73,181	46,981
	28,442,152	**14,971,167**	**14,065,675**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Customer deposits decreased by €13.5 billion or 47.4% from €28.4 billion at 31 December 2012 to €15.0 billion at 31 December 2013, reflecting the bail-in of depositors pursuant to the Recapitalisation, customer deposit outflows and the disposal of the Group's Greek operations, which more than offset the acquisition of deposits from Laiki Bank in Cyprus and the United Kingdom. Customer deposits declined by a further €905.5 million or 6.0% in the three months to 31 March 2014, primarily as a result of seasonality, payment of taxes by customers, the release of the 6-month time deposits that were blocked pursuant to the decrees relating to the Recapitalisation and the relaxation of capital controls by the CBC.

Cyprus represents the principal source of deposits, accounting for 65.1% of customer deposits as at 31 December 2012, 84.9% at 31 December 2013 and 85.2% at 31 March 2014. The Group's customer deposits in Cyprus decreased by €5,806.7 million or 31.4%, from €18,512.0 million at 31 December 2012 to €12,705.3 million at 31 December 2013, primarily as a result of the bail-in, and by a further €720.8 million or 5.7% to €11,984.5 million at 31 March 2014.

Following the disposal of its operations in Greece, the Group had no customer deposits in Greece at 31 December 2013 or 31 March 2014, compared to €7.2 billion at 31 December 2012 (25.1% of total customer deposits).

The Group's customer deposits in Romania decreased by €184.1 million, from €214.1 million at 31 December 2012 to €30.1 million at 31 December 2013 and €17.9 million at 31 March 2014. The decrease in customer deposits in 2013 was driven by the transfer of certain assets and liabilities (including €77.0 million of customer deposits) of the Romanian branch to Marfin Bank Romania and the closing of the Group's branches in Romania. In line with the Restructuring Plan's objective of winding down or disposing of non-core assets and operations, the Group does not expect to offer deposit products in Romania in the future.

In the United Kingdom, customer deposits have increased during each of the periods under review, from €1,215.2 million (4.3% of total deposits) at 31 December 2012, to €1,244.2 million (8.3%) at 31 December 2013 and €1,249.5 million (8.9%) at 31 March 2014. The net increase in 2013 reflects the acquisition of deposits of €325.2 million from Laiki Bank's UK branch, which more than offset large withdrawals during March and April 2013.

Customer deposits in Russia declined by €335.2 million or 26.7% from €1,253.7 million at 31 December 2012 to €918.5 million at 31 December 2013 and by a further €151.7 million or 16.5% to €766.8 million at 31 March 2014. The declines were driven partly by the depreciation of the Russian Rouble against the euro.

In April 2014, the Group sold its operations in Ukraine. This sale will be reflected in the Group's financial statements for the period ending 30 June 2014.

Funding from central banks

As a result of the financial crisis in Cyprus, the Group has become increasingly dependent on central bank funding. Funding from central banks consists of funding from the CBC under Eurosystem monetary policy operations, including standing facilities and ELA.

The table below shows a breakdown of the Group's funding from central banks as at the dates indicated:

	31 December		31 March
	2012[(1)]	**2013[(1)]**	**2014[(1)]**
		(€'000)	
Funding from Central Banks			
Emergency Liquidity Assistance	–	9,556,035	9,505,542
Monetary policy operations	–	1,400,242	1,400,246
Total	**–**	**10,956,277**	**10,905,788**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

At 31 December 2012, the Group had no ELA or ECB funding and the Bank had been suspended by the ECB from participation in monetary policy operations since November 2012. At 31 December 2013 and 31 March 2014, 41.0% and 42.4%, respectively, of the Group's funding was comprised of funding from central banks, of which, €9.6 billion and €9.5 billion, respectively, was ELA funding.

As a result of further deterioration in economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group was required to obtain ELA funding from the CBC in February 2013 (prior to the Eurogroup Statement on Cyprus), which on 15 March 2013 amounted to approximately €1 billion. In addition, the Group acquired €9.1 billion of ELA funding as part of the acquisition of assets and liabilities of Laiki Bank in March 2013. This ELA funding of Laiki Bank of €9.1 billion was effectively lowered by €1.2 billion, as Laiki Bank had advanced to the Bank on 26 March 2013 an amount of €1.2 billion to finance the sale of the Group's Greek operations. See note 54 to the Group's consolidated financial statements for the year ended 31 December 2013.

Since August 2013, the Bank has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This enables the Bank to resort to monetary policy operations which may be used for ELA repayment. As at 31 December 2013 and 31 March 2014, ECB funding stood at €1.4 billion.

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

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million.

Debt securities in issue

The Group has several programmes under which it issues debt securities:

- *EMTN Programme*. The Bank maintains a Euro Medium Term Note ("**EMTN**") Programme with an aggregate nominal amount up to €4.0 billion. During the Recapitalisation in 2013, eligible outstanding debt securities of the Group were bailed-in and converted into Ordinary Shares and deposits. The debt securities outstanding at the balance sheet date represent the residual holding of the products following the bail-in.
- *ECP Programme*. The Bank maintains a Euro Commercial Paper ("**ECP**") Programme with an aggregate nominal amount up to €1.0 billion. Under the programme, commercial paper can be issued in various currencies with a maturity period up to 364 days. There is currently no commercial paper outstanding under this programme.
- *Covered Bond Programme*. During 2011, a €5.0 billion Covered Bond 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 Bank issued in July and December 2011 covered bonds of €700.0 million and €1.0 billion, respectively. The covered bond issued and currently outstanding matures on 12 June 2017 with a potential extension of one year, bear interest at the three month Euribor plus 3.25% annually and is traded on the Luxemburg Stock Exchange. On 29 June 2012 and 25 March 2013, covered bonds of €150.0 million and €550.0 million respectively issued in July 2011, were cancelled. Loans and advances pledged as collateral for covered bonds are disclosed in note 48 to the consolidated financial statements for the year ended 31 December 2013. 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 Bank.

The table below sets out the debt securities in issue of the Group at the dates indicated:

	31 December		**31 March**
	2012[(1)]	**2013**[(1)]	**2014**[(1)]
Debt securities in issue		**(€'000)**	
Medium term senior debt			
SEK100 million notes due 2014	11,990	–	–
€2 million notes due 2016	1,897	531	531
$2 million notes due 2016	1,502	143	143
	15,389	**674**	**674**
Other debt securities in issue			
RUB certificates of deposit and promissory notes	28,894	349	327
Interest free loan from the European Development Bank	492	492	492
	29,386	**841**	**819**
Total debt securities in issue	**44,775**	**1,515**	**1,493**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

In the course of the Recapitalisation in 2013, eligible debt securities issued by the Bank were bailed-in and were converted into Ordinary Shares and deposits. Following the Recapitalisation, the Bank's outstanding debt securities consist of €0.7 million of medium term senior notes and a €0.5 million interest-free loan from the European Development Bank.

In addition to debt securities issued by the Bank, Uniastrum has issued Rouble-denominated certificates of deposits and promissory notes, which were issued at par, are unlisted and have maturities up to one year.

The Group expects that following the completion of the Placing, it will resume issuing debt securities in the capital markets as part of its funding strategy going forward.

Government guaranteed bonds

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Bank assumed the rights and obligations of Laiki Bank as issuer of two bonds guaranteed by the Government of €500.0 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 interest at an annual fixed interest rate of 5% and are guaranteed by the Government. 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 Bank. The bonds are pledged as collateral for obtaining funding from central banks and are listed on the CSE.

Subordinated Loan Stock

The Group has historically issued subordinated loan stock as part of its capital structure. The table below sets out the subordinated loan stock of the group at the dates indicated:

	31 December		31 March
	2012(1)	2013(1)	2014(1)
		(€'000)	
Subordinated loan stock			
US$ subordinated bonds issued by CB Uniastrum Bank LLC	6,922	4,676	4,743
2008 Convertible Bonds	27,103	–	–
CECS	76,775	–	–
2007 Capital Securities	22,494	–	–
Total	**133,294**	**4,676**	**4,743**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Following the Recapitalisation, the Bank's outstanding Capital Securities were converted into Ordinary Shares. In addition to these securities, Uniastrum issued U.S. dollar denominated subordinated bonds, which were not affected by the Recapitalisation.

CECS

In May 2011 the Group issued CECS with a nominal value of €820.0 million and $95.0 million, which qualified as Tier 1 capital for regulatory purposes. These were converted into Ordinary Shares as part of the Recapitalisation.

The conversion of CECS to Ordinary Shares in 2013 was effected as part of the Recapitalisation. The conversion of CECS into Ordinary Shares in 2012 was on a voluntary basis.

Equity

The following table shows the Group's equity at the dates indicated:

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Equity			
Share capital	1,795,141	4,683,985	4,699,503
Shares subject to interim orders	–	58,922	46,244
Share premium	428,271	–	–
CECS	428,835	–	–
Revaluation and other reserves	106,336	72,251	67,099
Accumulated losses	(2,500,530)	(2,151,835)	(2,123,523)
Equity attributable to the owners of the Bank	258,053	2,663,323	2,689,323
Non-controlling interests	77,222	74,353	70,235
Total equity	**335,275**	**2,737,676**	**2,759,558**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Share Capital

The Group's share capital has been significantly impacted by the Recapitalisation, in which certain deposits, debt securities and subordinated loan stock of the Group were converted into Ordinary Shares. For a more detailed description of the Recapitalisation, please see "*Restructuring of the Bank and Laiki Bank*".

The following table shows the evolution of the Group's share capital at the dates indicated:

	31 December		31 March
	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)	
Share capital			
Beginning of year/period	899,528	1,795,141	4,683,985
Issue of shares	159,683	–	–
Bonus issue	303,743	–	–
Conversion of CECS into shares	432,187	459,399	–
Bail-in of deposits and structured products	–	3,814,495	38
Shares subject to interim orders	–	–	12,678
Bail-in of 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities into shares	–	122,541	–
Reduction in nominal value of share capital and utilisation of share premium	–	(2,353,349)	–
Acquisitions	–	845,758	2,802
End of year/period	**1,795,141**	**4,683,985**	**4,699,503**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations

in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Capital Management

The capital adequacy regulations which govern the Group's operations are established by the CBC. In July 2011, the CBC amended its Directive for the Calculation of the Capital Requirements and Large Exposures, 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 GDP of the Republic of Cyprus. The CBC directive also set the minimum level of Tier 1 capital as the minimum level of Core Tier 1 ratio plus 1.5%. In addition, it 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 the Recapitalisation in March 2013, the Group's Core Tier 1, Tier 1 and total capital ratios did not comply with the minimum capital ratios set by the CBC. Following the Recapitalisation, the Group's Core Tier 1 and Tier 1 ratios as 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 was 10.7% as at 30 June and 10.4% as at 30 September 2013 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 complied with the minimum capital requirements of the CBC.

From 1 January 2014, the CRR and amended CRD IV became effective. The CRR and CRD IV comprise the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to comply with. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board compensation and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws and accordingly national regulators can impose additional capital buffer requirements. CRR introduces significant changes in the prudential regulatory regime applicable to banks, including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment and taking into account the parameters of the balance sheet assessment and the EU-wide stress test of banks, the minimum capital requirements will be determined in consultation with the Troika and informing the ESM. In addition, the CBC may also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons).

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators of countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Cyprus Superintendent of Insurance, including the minimum solvency ratio.

The following table presents the Group's provisional regulatory capital position under the CRR and CRD IV, including the application of the transitional arrangements published by the CBC on 26 May 2014 as at the dates indicated. The position as at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place since 1 January 2014.

	31 December 2013	31 March 2014
	(€'000)	
Provisional CRR and CRD IV Regulatory Capital		
Transitional Common Equity Tier 1 (CET 1)	2,495,585	2,496,549
Transitional Additional Tier 1 capital (AT 1)	–	–
Tier 2 capital (T 2)	45,204	51,794
Transitional total regulatory capital	**2,540,789**	**2,548,343**
Risk-weighted assets – credit risk	21,788,374	21,417,827
Risk-weighted assets – market risk	3,398	54,379
Risk-weighted assets – operational risk	2,057,687	2,058,000
Total risk-weighted assets	**23,849,459**	**23,530,206**
Capital Ratios	(%)	(%)
Transitional Common Equity Tier 1 (CET 1) ratio	10.5	10.6
Transitional total capital ratio	10.7	10.8
Minimum ratios per the CBC Directive		
Common Equity Tier 1 ratio	N/A	8.0

The following table shows a breakdown of the Group's regulatory capital position prior to the implementation of the CRR and CRD IV at the dates indicated:

	31 December	
	2012	2013
	(€'000)	
Pre-CRR and CRD IV Regulatory Capital		
Core original own funds (Core Tier 1)	(407,284)	2,281,513
Original own funds (Tier 1)	119,695	2,281,513
Additional own funds (Tier 2)	248,892	75,581
Carrying value of insurance companies	(171,680)	–
Total regulatory capital	**196,907**	**2,357,094**
Risk-weighted assets – credit risk	19,318,362	20,380,360
Risk-weighted assets – market risk	3,014	3,398
Risk-weighted assets – operational risk	2,258,476	2,057,687
Total risk-weighted assets	**21,579,852**	**22,441,445**
	(%)	
Core Tier 1 ratio	(1.9)	10.2
Tier 1 ratio	0.6	10.2
Tier 2 ratio	1.2	0.3
Total capital ratio	0.9	10.5
Minimum ratios per the CBC Directive		
Core Tier 1 ratio	8.7	9.0
Tier 1 ratio	10.2	n/a
Total capital ratio	12.2	n/a

On 29 May 2014, the CBC set the minimum Common Equity Tier 1 capital ratio at 8%. The CBC may also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons), taking also into account the provisions of CRD IV/CRR and any additional capital requirements which may arise upon the finalisation of the AQR and the EU-wide stress test.

SELECTED STATISTICAL AND OTHER INFORMATION

Information included in this section, except where otherwise stated, relates to the Group. The statistical data presented below has been derived from data included in the Group's audited annual financial statements for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) and unaudited quarterly financial statements for the three months ended 31 March 2014 included in this Information Memorandum and from statutory reports and from statistical data reported in the forms prescribed by the CBC. Such data are compiled in the normal operation of the Group's financial reporting and management information systems.

Credit Risk

Maximum exposure to credit risk and collateral and other credit enhancements

The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and other credit enhancements held:

	31 December		31 March
Maximum exposure to credit risk	**2012**	**2013**	**2014**
		(€'000)	
Balances with central banks	1,008,653	1,084,830	825,899
Placements with banks	1,768,836	1,290,102	1,141,169
Trading investments – debt securities	96	103	44
Debt securities at fair value through profit or loss	13,955	15,549	16,409
Debt securities classified as available-for-sale and loans and receivables	1,783,730	3,307,095	3,241,098
Derivative financial instruments	26,794	28,765	27,877
Loans and advances to customers	24,374,531	21,764,338	21,233,958
Debtors	26,400	22,956	24,809
Reinsurers' share of insurance contract liabilities	65,927	68,387	66,362
Other assets	94,529	261,877	237,097
On–balance sheet total	**29,163,451**	**27,844,002**	**26,814,722**
Contingent liabilities			
Acceptances and endorsements	12,970	20,467	18,857
Guarantees	1,546,572	1,207,501	1,083,874
Commitments			
Documentary credits	15,879	10,919	11,205
Undrawn formal standby facilities, credit lines and other commitments to lend	2,723,838	2,903,714	2,651,243
Off-balance sheet total	**4,299,259**	**4,142,601**	**3,765,179**
Total credit risk exposure	**33,462,710**	**31,986,603**	**30,579,901**

The table below presents the Group's maximum exposure to credit risk by geographic area at the dates indicated:

Maximum exposure to credit risk	31 December 2012	31 December 2013	31 March 2014
		(€'000)	
On-balance sheet			
Cyprus	16,620,681	23,438,280	22,766,788
Greece	8,324,201	253,996	260,547
Russia	2,008,588	1,259,494	1,081,250
United Kingdom	1,326,359	1,936,330	1,830,582
Romania	560,007	619,311	598,093
Ukraine	323,615	336,591	277,462
Total	**29,163,451**	**27,844,002**	**26,814,722**
Off-balance sheet			
Cyprus	2,484,945	3,629,580	3,354,453
Greece	1,567,365	335,073	260,698
Russia	199,749	154,901	128,204
United Kingdom	23,428	18,995	20,387
Romania	23,349	3,466	1,225
Ukraine	423	586	212
Total	**4,299,259**	**4,142,601**	**3,765,179**
Total on and off-balance sheet			
Cyprus	19,105,626	27,067,860	26,121,241
Greece	9,891,566	589,069	521,245
Russia	2,208,337	1,414,395	1,209,454
United Kingdom	1,349,787	1,955,325	1,850,969
Romania	583,356	622,777	599,318
Ukraine	324,038	337,177	277,674
Total	**33,462,710**	**31,986,603**	**30,579,901**

Credit Risk Concentration

The table below presents the maximum exposure to credit risk, tangible and measurable collateral and credit enhancements held and the net exposure to credit risk. Personal guarantees are not included in the information below as it is impracticable to estimate their fair value.

	Fair value of collateral and credit enhancements held by the Group								
	Maximum exposure to credit risk	**Cash**	**Securities**	**Letters of Credit/ Guarantees**	**Property**	**Other**	**Surplus collateral**	**Net collateral**	**Net exposure to credit risk**
					(€'000)				
31 December 2013									
Balances with central banks	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	22,956	–	–	–	–	–	–	–	22,956
Reinsurers' share of insurance contract liabilities	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 standby 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**

	Maximum exposure to credit risk	Cash	Securities	Letters of Credit/ Guarantees	Property	Other	Surplus collateral	Net collateral	Net exposure to credit risk
		Fair value of collateral and credit enhancements held by the Group							
					(€'000)				
31 December 2012									
Balances with central banks	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	26,400	–	–	–	–	–	–	–	26,400
Reinsurers' share of insurance contract liabilities	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 standby 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**

The Group's exposure to customer groups who have credit facilities amounting to more than 10% of the Group's capital base was €2.8 billion at 31 December 2013. Total exposure to the Group's largest customer groups was 10.4% of the Group's gross loans and advances to customers before fair value adjustments on initial recognition at 31 December 2013.

There are restrictions on loan concentrations which are imposed under the Banking Law of Cyprus of 1997 (the "**Banking Law**") and by the directive issued under the Banking Law by the CBC. According to these restrictions, banks should not lend more than 25% of their capital to any individual borrower and their connected persons. In addition, total lending to individual borrowers and their connected persons whose borrowings exceed 10% of a bank's capital base should not in aggregate exceed eight times its capital base. The Bank is in compliance with both of these regulations. In addition to the above, the Group's overseas operations have to comply with large exposure guidelines set by the authorities of the countries in which they are based.

Geographical and industry concentrations of Group loans and advances to customers at 31 March 2014 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 March 2014[1]					(€'000)				
By economic activity									
Trade	2,495,990	–	237,818	43,627	12,653	31,397	**2,821,485**	**(186,283)**	**2,635,202**
Manufacturing	824,229	–	90,926	16,108	10,456	10,336	**952,055**	**(61,947)**	**890,108**
Hotels and catering	1,612,601	–	–	130,865	103,998	6,598	**1,854,062**	**(105,038)**	**1,749,024**
Construction	4,066,627	–	60,503	41,732	26,552	9,914	**4,205,328**	**(385,527)**	**3,819,801**
Real estate	2,825,728	–	149,144	778,298	213,719	157,476	**4,124,365**	**(351,358)**	**3,773,007**
Private individuals	7,955,928	255	356,688	41,748	3,652	46,769	**8,405,040**	**(388,539)**	**8,016,501**
Professional and other services	1,583,612	–	368,831	59,580	71,251	98,913	**2,182,187**	**(104,682)**	**2,077,505**
Other sectors	1,398,141	171,666	26,034	82,462	30,085	9,952	**1,718,340**	**(229,464)**	**1,488,876**
	22,762,856	**171,921**	**1,289,944**	**1,194,420**	**472,366**	**371,355**	**26,262,862**	**(1,812,838)**	**24,450,024**
By customer sector									
Corporate	9,751,752	171,666	700,635	559,506	431,140	318,568	**11,933,267**	**(957,917)**	**10,975,350**
Small and medium-sized enterprises (SMEs)	5,216,228	–	232,621	587,683	37,642	19,011	**6,093,185**	**(510,481)**	**5,582,704**
Retail									
- housing	5,227,419	–	37,768	27,212	1,829	10,460	**5,304,688**	**(120,987)**	**5,183,701**
- credit cards	160,089	–	96,298	–	–	1	**256,388**	**(20,123)**	**236,265**
- consumer and other	2,407,368	255	222,622	20,019	1,755	23,315	**2,675,334**	**(203,330)**	**2,472,004**
	22,762,856	**171,921**	**1,289,944**	**1,194,420**	**472,366**	**371,355**	**26,262,862**	**(1,812,838)**	**24,450,024**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Geographical and industry concentrations of Group loans and advances to customers at 31 December 2013 are presented below:

	Cyprus	**Greece**	**Russia**	**United Kingdom**	**Romania**	**Ukraine**	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
31 December 2013[(1)]					**(€'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**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Geographical and industry concentrations of Group loans and advances to customers at 31 December 2012 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2012[(1)]				**(€'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**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Credit Quality of Loans and Advances to Customers

The following table presents the credit quality of the Group's loans and advances to customers at the dates indicated:

Loans and advances to customers	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
		(€'000)	
31 March 2014			
Neither past due nor impaired	11,491,024	(196,325)	11,294,699
Past due but not impaired	6,036,583	(181,835)	5,854,748
Impaired	8,735,255	(1,434,678)	7,300,577
Total	**26,262,862**	**(1,812,838)**	**24,450,024**
31 December 2013			
Neither past due nor impaired	11,855,363	(226,207)	11,629,156
Past due but not impaired	6,732,583	(417,169)	6,315,414
Impaired	8,155,373	(1,259,335)	6,896,038
Total	**26,743,319**	**(1,902,711)**	**24,840,608**

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.

In the table above, the fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the Laiki Bank acquisition in 2013. 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, this adjustment is not presented within the gross balances of loans and advances.

At 31 December 2012, gross loans neither past due nor impaired were €17,402.1 million, gross loans past due but not impaired were €5,752.4 million and impaired loans were €4,896.1 million, for a total of €28,050.6 million.

Loans and advances for 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:

Loans and advances to customers – neither past due nor impaired	Grade 1	Grade 2	Grade 3	Total
			(€'000)	
31 December 2013				
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
Total	**7,331,827**	**2,044,638**	**2,478,898**	**11,855,363**

Loans and advances to customers – neither past due nor impaired	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
			(€'000)	
31 December 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
Total	**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.

Loans and advances for customers that are past due but not impaired

The table below sets out loans and advances to customers that were past due but not impaired, at the dates indicated:

Loans and advances to customers – past due but not impaired	**31 December**		**31 March**
	2012	**2013**	**2014**
		(€'000)	
Past due:			
Up to 30 days	1,102,785	822,037	865,567
31 to 90 days	1,854,459	1,063,243	1,150,585
91 to 180 days	873,830	1,316,042	682,021
181 to 365 days	798,306	2,099,424	1,634,525
Over 1 year	1,122,991	1,431,837	1,703,885
Total	**5,752,371**	**6,732,583**	**6,036,583**
Fair value of collateral securing loans and advances to customers that are past due but not impaired	4,601,146	5,133,851	4,738,147

Impaired loans and advances to customers on an individual basis

The table below sets out impaired loans and advances to customers and the fair value of the collateral in respect of those loans, by country, at the dates indicated:

Loans and advances to customers - impaired	Gross loans and advances	Fair value of collateral[(1)]
	(€'000)	
31 March 2014		
Cyprus	7,701,051	4,453,034
Greece	171,666	–
Russia	270,106	169,517
United Kingdom	168,025	141,468
Romania	260,291	114,674
Ukraine	164,116	124,439
Total	**8,735,255**	**5,003,132**
31 December 2013		
Cyprus	7,110,927	4,111,343
Greece	171,465	–
Russia	284,869	191,672
United Kingdom	163,979	128,734
Romania	256,612	126,046
Ukraine	167,521	132,015
Total	**8,155,373**	**4,689,810**
31 December 2012		
Cyprus	2,877,827	1,822,899
Greece	1,519,603	753,377
Russia	279,518	178,137
United Kingdom	57,351	30,229
Romania	76,480	51,570
Ukraine	85,318	61,996
Total	**4,896,097**	**2,898,208**

(1) The fair value of the collateral presented has been computed based on the extent that the collateral mitigates credit risk.

Provision for impairment of loans and advances to customers

The movement of provisions for impairment of loans and advances to customers is as follows:

Provision for impairment[1]	**Cyprus**	**Greece**	**Russia**	**Other countries**	**Total**
			(€'000)		
Three months ended 31 March 2014					
1 January	2,574,670	189	286,366	215,045	**3,076,270**
Exchange adjustments	11,809	–	(16,927)	(11,882)	**(17,000)**
Applied in writing off impaired loans and advances	(277)	–	(9)	–	**(286)**
Interest accrued on impaired loans and advances	(27,141)	–	(238)	(1,262)	**(28,641)**
Collection of loans and advances previously written off	123	–	–	607	**730**
Charge for the period – continuing operations	129,888	–	17,557	(980)	**146,465**
Charge for the period – discontinued operations	–	–	–	38,528	**38,528**
31 March	**2,689,072**	**189**	**286,749**	**240,056**	**3,216,066**
Individual impairment	**2,076,051**	**189**	**139,635**	**210,603**	**2,426,478**
Collective impairment	**613,021**	**-**	**147,114**	**29,453**	**789,588**
Year ended 31 December 2013					
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**

Provision for impairment[(1)]	Cyprus	Greece	Russia	Other countries	Total
			(€'000)		
Year ended 31 December 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 operations	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**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

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.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

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.

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be two years for loans that have been managed by the RRD for more than three years, and four years for customers that have been managed by the RRD for less than three years. For all other loans a maximum expected recovery period of five years is assumed.

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 of impaired loans from collateral in the Cyprus portfolio is lower than the amount estimated as at 31 March 2014 by 5% and 10%, then provisions for impairment of loans and advances would increase by €307,690 thousand and €536,836 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 €74,459 thousand and €238,114 thousand respectively.

Rescheduled Loans and Advances to Customers

The table below shows the evolution of the Group's rescheduled loans and advances to customers for the years ended 31 December 2012 and 2013 and the three months ended 31 March 2014:

Rescheduled loans and advances to customers	**Cyprus**	**Greece**	**Russia**	**United Kingdom**	**Romania**	**Ukraine**	**Total**
				(€'000)			
Three months ended 31 March 2014(1)							
1 January	5,135,646	–	187,031	107,624	124,312	62,051	**5,616,664**
New loans and advances rescheduled during the period	767,131	70,749	9,920	47,449	–	4,481	**899,730**
Assets no longer rescheduled (including repayments)	(339,698)	–	(18,433)	(25,793)	(70,118)	(3,975)	**(458,017)**
Interest accrued on rescheduled loans and advances	69,275	–	1,503	1,264	689	2,460	**75,191**
Exchange adjustments	1,035	–	(13,666)	682	174	(6,188)	**(17,963)**
31 March	**5,633,389**	**70,749**	**166,355**	**131,226**	**55,057**	**58,829**	**6,115,605**
Year ended 31 December 2013(1)							
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 during 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**
Year ended 31 December 2012(1)							
1 January	1,843,527	1,099,737	54,266	94,855	66,609	58,875	**3,217,869**
New loans and advances rescheduled during 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**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount of €1,938,114 thousand at 31 December 2013 and €1,604,875 thousand at 31 March 2014, which were rescheduled prior to the acquisition date (29 March 2013).

Rescheduled loans and advances to customers – credit quality

The table below analyses the Group's rescheduled loans and advances to customers by credit quality at 31 December 2012 and 2013, and 31 March 2014:

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
31 March 2014							
Neither past due nor impaired	2,993,249	–	144,975	102,072	10,856	7,401	**3,258,553**
Past due but not impaired	1,534,833	–	10,443	19,332	2,516	18,870	**1,585,994**
Impaired	1,105,307	70,749	10,937	9,822	41,685	32,558	**1,271,058**
	5,633,389	**70,749**	**166,355**	**131,226**	**55,057**	**58,829**	**6,115,605**
31 December 2013							
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**
31 December 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**

The table below analyses the fair value of collateral securing the Group's rescheduled loans and advances to customers at 31 December 2012 and 2013, and 31 March 2014:

Fair value of collateral	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
31 March 2014							
Neither past due nor impaired	2,587,624	–	141,208	102,071	10,857	7,401	**2,849,161**
Past due but not impaired	1,313,820	–	10,309	18,466	1,561	17,770	**1,361,926**
Impaired	860,026	–	7,114	6,870	19,008	15,115	**908,133**
	4,761,470	**–**	**158,631**	**127,407**	**31,426**	**40,286**	**5,119,220**
31 December 2013							
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**
31 December 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.

Rescheduled loans and advances to customers – credit risk concentration

Rescheduled loans and advances to customers are presented below by economic activity and customer sector at the dates indicated:

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 March 2014				**(€'000)**			
By economic activity							
Trade	487,278	–	29,568	417	5,048	4,383	**526,694**
Manufacturing	192,927	–	4,416	4,896	740	1,003	**203,982**
Hotels and catering	458,982	–	–	13,226	6,281	6,337	**484,826**
Construction	1,114,196	–	9,116	16,788	9,646	8,951	**1,158,697**
Real estate	743,774	–	–	82,581	10,918	25,069	**862,342**
Private individuals	1,945,421	–	–	1,750	60	8,628	**1,955,859**
Professional and other services	422,405	–	123,255	10,650	21,186	4,033	**581,529**
Other sectors	268,406	70,749	–	918	1,178	425	**341,676**
	5,633,389	**70,749**	**166,355**	**131,226**	**55,057**	**58,829**	**6,115,605**
By customer sector							
Corporate	2,701,275	70,749	144,981	69,451	39,974	51,389	**3,077,819**
Small and medium-sized enterprises (SMEs)	1,032,437	–	19,787	61,430	15,024	4,799	**1,133,477**
Retail							
- housing	1,489,145	–	94	62	–	236	**1,489,537**
- credit cards	253	–	310	–	–	–	**563**
- consumer and other	410,279	–	1,183	283	59	2,405	**414,209**
	5,633,389	**70,749**	**166,355**	**131,226**	**55,057**	**58,829**	**6,115,605**
31 December 2013							
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**

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2012							
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**

Rescheduled loans and advances to customers – provisions for impairment

The table below analyses the provisions for impairment for the Group's rescheduled loans and advances to customers at 31 December 2012 and 2013, and 31 March 2014:

Rescheduled loans and advances to customers - provisions for impairment	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
				(€'000)			
31 March 2014							
Individual impairment	436,027	5,846	2,365	3,998	11,061	20,343	**479,640**
Collective impairment	184,379	–	9,818	23	1,365	–	**195,585**
	620,406	**5,846**	**12,183**	**4,021**	**12,426**	**20,343**	**675,225**
31 December 2013							
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**
31 December 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**

Non-performing loans

In February 2014, the CBC issued to credit institutions the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning 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 Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The Loan Provisioning Directive is effective as from 21 February 2014, although the disclosure requirements is required to be published for the year ended 31 December 2013 together with the 2013 financial statements. The disclosures required by the Loan Provisioning Directive, in addition to those presented in notes 3 and 46 of the Group's 2013 financial statements are presented in the following tables:

		Performing loans and advances			
Non-performing loans	**Total loans and advances**	**Not restructured loans and advances**	**Restructured loans and advances**	**Total**	**Non-performing credit facilities**
			(€'000)		
31 December 2013					
Corporate legal entities					
Construction	3,907,905	549,940	367,869	917,809	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
	15,266,210	**4,203,624**	**1,557,962**	**5,761,586**	**9,504,624**
Retail legal entities					
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
	2,213,934	**1,100,741**	**160,552**	**1,261,293**	**952,641**
Private individuals					
Credit facilities for the purchase 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
	9,263,175	**4,381,322**	**1,297,049**	**5,678,371**	**3,584,804**
Total credit facilities	**26,743,319**	**9,685,687**	**3,015,563**	**12,701,250**	**14,042,069**
Provisions for impairment and fair value adjustment on initial recognition[(1)]	**4,978,981**	**432,747**	**100,372**	**533,119**	**4,445,862**

(1) 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 the Laiki acquisition.

NPLs amounted to €14,042 million at 31 December 2013 and accounted for 53% of gross loans.

At 31 December 2013, the NPL ratio consists 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).

Non-performing loans

	31 December 2013	
	(€ millions)	% 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%
Total	**14,042**	**53%**

The table below presents non-performing credit facilities at 31 December 2013 by year of origination:

Non-performing credit facilities by year of origination	Total loans and advances	Non-performing loans and advances	Specific provisions	Fair value adjustment on initial recognition
31 December 2013			(€'000)	
Credit facilities to legal entities				
Within 1 year	1,155,440	612,179	83,274	41,986
1 - 2 years	1,670,316	795,958	129,462	119,992
2 – 3 years	2,191,366	1,106,828	143,670	246,339
3 – 5 years	3,531,489	2,190,416	306,939	328,977
5 – 7 years	5,188,628	3,640,717	758,177	464,625
7 – 10 years	1,807,861	1,087,380	225,012	153,178
More than 10 years	1,882,951	1,029,667	173,570	147,987
Total	**17,428,051**	**10,463,145**	**1,820,104**	**1,503,084**
Credit facilities to private individuals – property loans				
Within 1 year	120,473	37,302	239	2,359
1 - 2 years	208,314	45,277	3,066	5,824
2 – 3 years	561,960	130,750	2,759	11,518
3 – 5 years	1,944,993	509,830	16,455	45,464
5 – 7 years	2,039,785	857,316	97,212	75,181
7 – 10 years	865,867	286,652	33,255	22,778
More than 10 years	88,635	37,859	3,601	4,404
Total	**5,830,027**	**1,904,986**	**156,587**	**167,528**
Credit facilities to private individuals – other loans				
Within 1 year	306,101	99,140	6,061	7,194
1 - 2 years	370,237	153,688	5,725	17,482
2 – 3 years	492,927	215,760	23,310	37,920
3 – 5 years	834,741	432,237	73,082	60,819
5 – 7 years	631,712	360,772	62,393	50,544
7 – 10 years	379,157	175,884	41,076	20,921
More than 10 years	470,366	236,457	56,931	37,219
Total	**3,485,241**	**1,673,938**	**268,578**	**232,099**

Non-performing credit facilities by year of origination	**Total loans and advances**	**Non-performing loans and advances**	**Specific provisions**	**Fair value adjustment on initial recognition**
31 December 2013			**(€'000)**	
Total credit facilities				
Within 1 year	1,582,014	748,621	89,574	51,539
1 - 2 years	2,248,867	994,923	138,253	143,298
2 – 3 years	3,246,253	1,453,338	169,739	295,777
3 – 5 years	6,311,223	3,132,483	396,476	435,260
5 – 7 years	7,860,125	4,858,805	917,782	590,350
7 – 10 years	3,052,885	1,549,916	299,343	196,877
More than 10 years	2,441,952	1,303,983	234,102	189,610
Total	**26,743,319**	**14,042,069**	**2,245,269**	**1,902,711**

Sovereign Exposure

The Group has sovereign and non-sovereign exposure in countries which have entered or have applied to the ESM, or whose Moody's credit rating is below Aa1 and the total Group exposure exceeds €100 million. These countries are Cyprus, Greece, Italy, Russia, Romania, Ukraine, Portugal and Spain. 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%.

The table below sets out the Group's exposure to the government of Cyprus at the dates indicated:

	On demand and up to one month	Between one month and three months	Between three months and one year	Between one and five years	Over five years	**Total**
			(€'000)			
31 March 2014						
Available-for-sale	27	–	–	170	–	**197**
Loans and receivables	–	199,085	1,826,500	292,839	299,979	**2,618,403**
Fair value through profit or loss	–	–	–	16,402	–	**16,402**
	27	**199,085**	**1,826,500**	**309,411**	**299,979**	**2,635,002**
31 December 2013						
Available-for-sale	–	–	–	1,423	–	**1,423**
Loans and receivables	–	199,003	1,749,757	327,267	296,913	**2,572,940**
Fair value through profit or loss	–	–	–	15,413	–	**15,413**
	–	**199,003**	**1,749,757**	**344,103**	**296,913**	**2,589,776**
31 December 2012						
Available-for-sale	1,009	–	–	125	–	**1,134**
Loans and receivables	–	99,377	12,607	510,974	127,023	**749,981**
Fair value through profit or loss	–	–	–	13,042	–	**13,042**
	1,009	**99,377**	**12,607**	**524,141**	**127,023**	**764,157**

In addition, at 31 December 2012 the Group held €47.6 million of Irish government securities with a remaining maturity of over five years, classified as available-for-sale. Except for the foregoing, the Group did not hold any sovereign debt securities from countries which have applied to the ESM (including Greece).

The Group's exposure to sovereign debt securities and other assets is analysed below:

	Cyprus	Greece	Italy	Russia	Romania	Ukraine
			(€'000)			
31 March 2014[1]						
Deposits with central banks	238,046	–	–	44,157	3,142	6,720
Placements with banks	111,866	18,201	25,132	15,510	219,750	12,620
Investments in sovereign debt securities						
-available for sale	197	–	52,811	1,856	–	–
-loans and receivables	2,618,403	–	–	–	–	–
-fair value through profit or loss	16,402	–	–	–	–	–
Investments in debt securities of banks and other corporations						
- available for sale	3,526	–	–	–	–	1
- loans and receivables	502	–	–	–	–	–
- fair value through profit or loss	44	–	–	–	–	–
Loans and advances to customers (before provisions)	21,062,359	97,038	–	1,289,944	462,924	363,195
Derivative financial assets	–	–	–	–	15	–
Total on balance sheet	**24,051,345**	**115,239**	**77,943**	**1,351,467**	**685,831**	**382,536**
Contingent liabilities	834,251	260,698	–	3,705	21	32
Commitments	2,520,202	–	–	124,499	1,204	180
Total off balance sheet	**3,354,453**	**260,698**	**–**	**128,204**	**1,225**	**212**
Total exposure to credit risk	**27,405,798**	**375,937**	**77,943**	**1,479,671**	**687,056**	**382,748**
31 December 2013[1]						
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**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

The revaluation reserve of available-for-sale investments includes losses amounting to €4.9 million as at 31 March 2014 and €5.9 million as at 31 December 2013 relating to sovereign debt securities, and gains amounting to €0.6 million as at 31 March 2014 and €0.1 million as at 31 December 2013 relating to debt securities of banks and other corporations.

Balances with Central Banks and Placements with Banks

The table below presents the Group's balances with central banks and placements with banks analysed by Moody's rating:

Balances with central banks and placements with banks	**31 December**		**31 March**
	2012[(1)]	**2013**[(1)]	**2014**[(1)]
		(€'000)	
Aaa – Aa3	1,102,312	790,806	712,138
A1 – A3	786,184	509,754	486,913
Baa1 – Baa3	190,429	68,735	102,931
Ba1 – Ba3	10,495	9,505	555
B1 – B3	373,186	10,269	474
Caa – C	84,882	483,035	274,750
Unrated	179,054	468,896	350,165
Other receivables from banks	50,947	33,933	39,142
Total	**2,777,489**	**2,374,933**	**1,967,068**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

At 31 December 2013, the categories B and Caa-C above include an amount of €394,255 thousand which mainly related to obligatory deposits for liquidity purposes with the CBC. Placements with banks include €278,164 thousand which were acquired from Laiki Bank and which were considered to be impaired upon acquisition.

Investments in Debt Securities

The table below presents the Group's investments in debt securities analysed by Moody's rating:

Investments in debt securities	31 December 2012[(1)]	31 December 2013[(1)]	31 March 2014[(1)]
		(€'000)	
Aaa – Aa3	893,381	617,262	608,614
A1 – A3	26,639	5,443	21,164
Baa1 – Baa3	58,385	54,508	88,418
Ba1 – Ba3	51,064	49,008	–
B1 – B3	764,395	–	–
Caa – C	1,133	2,595,036	2,635,063
Unrated	2,784	1,490	4,075
Total	**1,797,781**	**3,322,747**	**3,357,334**
Issued by			
Cyprus government	764,157	2,589,776	2,635,001
Other governments	704,290	668,558	673,197
Banks and other corporations	328,887	63,901	48,627
Local authorities	447	512	509
	1,797,781	**3,322,747**	**3,357,334**
Classified as			
Trading investments	96	103	44
Investments at fair value through profit or loss	13,955	15,549	16,464
Available-for-sale investments	1,032,302	733,658	721,921
Investments classified as loans and receivables	751,428	2,573,437	2,618,905
	1,797,781	**3,322,747**	**3,357,334**

(1) Balance sheet information as at 31 March 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It also has been restated to reflect the adoption of IAS 19 (Revised 2011).

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.

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 foreseeable changes in the interest rates of the main currencies:

Interest rate sensitivity analysis	**Euro**	**US Dollars**	**British Pounds**	**Other currencies**	**Total**
			(€'000)		
Year ended 31 December 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)**
Year ended 31 December 2012					
+1.0% 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**

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 fluctuations in net interest income presented in the table above, 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.

Interest rate sensitivity analysis	**Impact on loss before tax**	**Impact on equity**
	(€'000)	
Year ended 31 December 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
Year ended 31 December 2012		
+1.0% 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 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 CBC. 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.

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.

Currency risk sensitivity analysis	**Change in exchange rate**	**Impact on loss after tax and equity**
	(%)	**(€'000)**
Year ended 31 December 2013		
U.S. Dollar	+8	647
Russian Rouble	+8	299
Romanian Lei	+8	(2,584)
Ukrainian Hryvina	+8	2,593
Swiss Franc	+8	3,342
British Pounds	+8	2,233
Japanese Yen	+15	768
Other currencies	+8	1,390
U.S. Dollar	-8	(551)
Russian Rouble	-20	(573)
Romanian Lei	-8	2,202
Ukrainian Hryvina	-30	(6,882)
Swiss Franc	-8	(2,847)
British Pounds	-8	(1,902)
Japanese Yen	-15	(568)
Other currencies	-8	(1,184)
Year ended 31 December 2012		
U.S. Dollar	+8	1,787
Russian Rouble	+8	(3,603)
Romanian Lei	+8	(2,126)
Ukrainian Hryvina	+5	2,671
Swiss Franc	+8	2,616
British Pounds	+8	713
Australian Dollar and Japanese Yen	+10	375
Other currencies	+8	2,493

Currency risk sensitivity analysis	Change in exchange rate	Impact on loss after tax and equity
	(%)	(€'000)
U.S. Dollar	-8	(1,522)
Russian Rouble	-8	3,068
Romanian Lei	-8	1,811
Ukrainian Hryvina	-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, including maximum amount invested in a specific issuer or specific industry.

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.

Equity securities price risk	Change in index	Impact on loss before tax	Impact on equity
	(%)	(€'000)	
Year ended 31 December 2013			
Cyprus Stock Exchange	+30	716	3,789
Athens Stock Exchange	+25	−	115
Moscow Stock Exchange	+20	−	194
Bucharest Stock Exchange	+20	−	16,226
Cyprus Stock Exchange	-30	(2,629)	(1,875)
Athens Stock Exchange	-25	(77)	(38)
Moscow Stock Exchange	-20	(72)	(122)
Bucharest Stock Exchange	-20	(16,226)	−

Equity securities price risk	**Change in index**	**Impact on loss before tax**	**Impact on equity**
Year ended 31 December 2012			
Cyprus Stock Exchange	+50	2,671	3,931
Athens Stock Exchange	+30	−	301
Moscow Stock Exchange	+20	−	140
Bucharest Stock Exchange	+20	−	10,885
Other Stock Exchanges	+15	421	−
Cyprus Stock Exchange	-50	(6,171)	(430)
Athens Stock Exchange	-30	−	(301)
Moscow Stock 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 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.

Debt securities price risk	**Impact on loss before tax**	**Impact on equity**
Change in market prices		**(€'000)**
Year ended 31 December 2013		
+7.0%	1,050	50,610
-7.0%	(1,050)	(50,610)
Year ended 31 December 2012		
+7.0%	885	71,501
-7.0%	(885)	(71,501)

BUSINESS DESCRIPTION OF THE GROUP

Overview

The Bank was founded in 1899 and is the holding company of the Bank of Cyprus Group. The registered office of the Bank is located at the Group Headquarters at 51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company limited by shares and is registered in the companies register of Cyprus with registration number HE 165. The Bank's legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus.

The Bank has a primary listing on the CSE and a secondary listing on ATHEX. It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 19 March 2013, the Existing Ordinary Shares have been suspended from trading on the CSE and ATHEX.

The Group is the leading banking and financial services group in Cyprus. The Group currently operates through a total of 300 branches, of which 130 operate in Cyprus, 164 in Russia, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group also has 5 representative offices in Russia, Ukraine, China and South Africa. At 31 March 2014, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition accounted for 86.7% of the Group's total gross loans and advances to customers. As of 31 March 2014, the Group employed 7,400 staff worldwide, of which 502 were employed in Ukraine. In April 2014, the Group completed the sale of its Ukrainian business (see "*—International Operations—Ukraine*"). As of 31 December 2013 and 31 March 2014, the Group's total assets amounted to €30.3 billion and €29.4 billion, respectively. The Group recorded a total loss after tax attributable to its owners of €2.0 billion for the year ended 31 December 2013 and a total profit after tax attributable to its owners of €31.3 million for the three months ended 31 March 2014.

The Group offers a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services, investment banking, brokerage, fund management, private banking, and life and general insurance.

Competitive Strengths

The Bank believes that its key strengths include the following:

The leading bank in Cyprus

The Bank is the leading bank in Cyprus, based on loans, deposits and number of branches, with a market share in loans in Cyprus of 40% (including cooperative credit institutions) and a market share in deposits of more than 25% at the end of April 2014. As such, it plays an important role in the Cypriot economy and is poised to benefit from the improving macroeconomic situation in the country.

Cyprus has been a member of the EU since 2004 and adopted the euro as its currency in 2008. As a result of its strategic position in the Eastern Mediterranean region, its access to the EU single market, its low tax rates and its developed legal, accounting and banking sectors, it has developed into a regional international business hub as well as a popular tourist destination.

Although Cyprus was deeply affected by the global economic crisis, actions taken by the Government and the Troika - including the reforms being implemented under the EAP - have put the Cypriot economy on the road to recovery. A flexible economy has allowed for significant and rapid adjustments in consumer prices, wages and property. The recession has proven less severe than expected, with the unemployment rate well below that of Greece and Spain, and GDP expected to return to growth in 2015. As a result, S&P and DBRS recently upgraded the Government's credit rating and Cyprus returned to the capital markets in June 2014 with the issue of a €750 million benchmark bond. See "*The Macroeconomic Environment in Cyprus*".

A strengthened management team with significant turn-around experience

As part of its restructuring, the Bank made a number of key management hires. These include John Hourican, the CEO and former head of investment banking at RBS, and Euan Hamilton, the head of the Restructuring and Recoveries Division, who previously was responsible for the sale or run-down of approximately £75 billion of assets at RBS following its bailout by the UK government. Both have substantial experience in bank restructuring and debt collection and recovery. They are supported by a strong senior management team with long-standing experience of the banking and financial services market in Cyprus. See "*Management and Corporate Governance*".

Aggressive management of non-performing loans

The Bank has made significant changes to its management and operational structure to improve the management of its non-performing loans. The newly-created Recoveries and Restructuring Division centralises the management and recovery of delinquent loans across the Group and is also responsible for monitoring all exposures above €100 million, whether performing or not. It currently manages a delinquent loan portfolio of approximately €12 billion. Since its inception in December 2013, the RRD has restructured a €1.9 billion backlog of loans requiring restructuring, collected approximately €177 million through its new collections process and sold the Group's largest concentration of non-performing loans for approximately €165 million, realising an accounting gain of €27 million. See "*Business Description of the Group*".

Emphasis on a prudent capital structure

The Group has prioritised the building of a prudent capital structure to enable it to withstand contingent risks and to rebuild market confidence. Following the completion of the Placing, the Group expects that its transitional Common Equity Tier 1 (CET) ratio will be approximately 15%, against a required 8.0%, and estimates that its fully-Basel III compliant CET 1 ratio will be approximately 14%. The CBC has currently prohibited the Bank from paying dividends until the end of 2017 which, together with the Group's deleveraging actions, should further bolster its capital position.

Strategy

The Group intends to achieve the objectives set out in the Restructuring Plan and to position itself to support the recovery of the economy in Cyprus through the following measures:

Shrink to strength

The Group has been disposing of non-essential assets and operations in order to focus on its core business in Cyprus. It has exited its businesses in Greece, Ukraine and Romania and continues to examine its remaining international operations in terms of profitability and synergies with its core domestic business. In Cyprus, the Bank has simplified its organisational structure and rationalised its branch network and headcount to improve efficiency. It will continue to rationalise its loan portfolio to improve its capital and funding positions.

Focus on asset quality

A key priority for the Group is to increase the quality of its loan portfolio. In December 2013 the Group established the RRD to manage the Group's NPL portfolio, pro-actively restructuring, collecting or selling delinquent loans and managing all large exposures. As a result, the first quarter of 2014 showed the first reduction in NPLs after 16 consecutive quarterly increases. While the Group's NPL ratio remains high, at 53% of gross loans at the end of 2013, the loan portfolio is adequately collateralised and adequately provisioned. At 31 December 2013, the Group had a maximum exposure to risk in respect of its loans and advances to customers of €21.8 billion, but the fair of net collateral held by the Group was €19.8 billion, leaving a net exposure to credit risk of €1.9 billion. Total provisions at 31 December 2013 were €3.1 billion. See "*Selected Statistical and Other Information*". The Group has recently implemented a new lending policy with tighter credit approval requirements. Going forward, the Group intends to focus on growth in lower-risk retail products and customers, as well as targeted business sectors for SME and corporate customers, such as professional services, education, energy, green project and information and communication technology.

Diversify funding sources

Historically, customer deposits provided the principal source of funding for the Group. However, as part of the Recapitalisation a significant proportion of deposits were converted into equity, with customer deposits falling during 2013 from €28.4 billion as at 31 December 2012 to €15.0 billion as at 31 December 2013. In addition, together with many other Southern European banks, the Group lost access to the capital markets as a source of funding during this period. As a consequence, the Group is currently heavily reliant on central bank funding, which comprised 42.4% of its funding at 31 March 2014.

The Group intends to steadily reduce its central bank funding, both in absolute terms and as a percentage of total funding, and has already repaid approximately €1,750 million of central bank funding, including €950 million with the proceeds from the repayment of a Cyprus sovereign bond held by it. It has implemented a deposit gathering and retention campaign to grow its deposit base as confidence in the Cyprus banking system returns. Following the completion of the Placing, the Group intends to resume issuing debt securities in the capital markets as and when market conditions allow.

Increase fee income

The Bank will seek to increase its fee income to increase revenues without a corresponding increase in capital requirements. To this end, the International Banking Services division is shifting its focus from deposit gathering to international transaction services. The Corporate Banking Division is focusing on fee generating activities such as factoring, debtor collection, assessment services, ledger administration and trade finance. The Bank is also looking to increase its distribution of bancassurance products through its branch network. The Wealth, Brokerage and Asset Management division generates most of its income in the form of fees and commissions and is expected to be an additional driver of fee income growth. As the economic recovery in Cyprus takes hold, CISCO should also see an increase in investment banking and advisory fees.

History and development of the Group

On 1 January 1899, a group of Cypriot businessmen, headed by Ioannis Economides, founded the “Nicosia Savings Bank”. In December 1912, after a petition by its members to the British High Commissioner, “Nicosia Savings Bank” was converted into a company and changed its name to “Bank of Cyprus”.

In 1930, the Bank of Cyprus was registered as a limited liability company and started to offer a full range of banking services as Cyprus’ main local bank.

In 1943, the Bank of Cyprus merged with the Bank of Famagusta and the Bank of Larnaca. In the years that followed it merged with banking institutions from other towns which enabled it to extend its reach all over Cyprus.

In 1951, the Bank of Cyprus entered the insurance sector with the founding of General Insurance of Cyprus. In 1955, it opened its first overseas branch to serve the Cypriot community in London.

The Bank of Cyprus established its first branch in Greece in 1991 and, in 1994, the Bank established the life insurance company, EuroLife.

In August 1999, the Bank became the holding company of the Group, replacing Bank of Cyprus (Holdings) Limited. In August 1999, the ordinary shares of the Bank were admitted to trading on the main market of the CSE and, in November 2000, the ordinary shares of the Bank were admitted to trading on the main market of ATHEX.

In 2007, the Group secured licences for the provision of banking services in Romania and Russia.

In 2008, the Bank successfully completed the acquisition of the Ukrainian Bank PJSC Bank of Cyprus (former JSC AvtoZAZbank) and at the same time signed and completed an agreement for the acquisition of an 80.0% interest in Uniastrum in Russia.

In June 2010, the Group completed the sale of 100% of the share capital of its subsidiary Leadbank LLC (former Bank Kypra LLC) to CJSC Renaissance Capital.

In March 2012, the Bank completed the sale of 100% of the share capital of its subsidiary, Bank of Cyprus Australia Ltd (established by the Bank in 2000), to Bendigo and Adelaide Bank Limited.

In June 2012, the banking business carried out by the Bank's London branch was transferred to a banking subsidiary (Bank of Cyprus UK Limited). Bank of Cyprus UK Limited is incorporated in the United Kingdom and is fully authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

In June 2012, the Bank applied to the Government for capital support because its capital ratios were lower than the regulatory minimum levels, primarily as a result of the impairment of its exposures to Greek government debt (which resulted in the Bank recording a €1.7 billion impairment loss) and the deterioration of its loan portfolio quality, primarily in Greece, due to ongoing weak economic conditions.

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme to aid the struggling Cypriot economy, including downsizing of the financial sector and restructuring of the banking sector. Following the decisions of the Eurogroup meeting, the Resolution Authority appointed a special administrator for the Bank on 25 March 2013. On 29 March 2013, all members of the Bank's Board of Directors resigned from office and the Resolution Authority issued the first set of Laiki Transfer Decrees and Bail-in Decrees under the Resolution Law. The Bank was under resolution until 30 July 2013, a period during which it was restructured and recapitalised in accordance with the terms of the Bail-in Decrees. During its period under resolution:

- the Group disposed of the loans, fixed assets and deposits of its Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree;
- the Group acquired certain assets and liabilities, including insured deposits and ELA of €9.1 billion, of Laiki Bank pursuant to the Laiki Transfer Decrees;
- the Group disposed of certain assets and liabilities of its Romanian operations to Marfin Bank Romania pursuant to the Romanian Operations Decree; and
- the Resolution Authority effected the Recapitalisation of the Bank pursuant to the Bail-in Decrees.

For a more detailed description of the recapitalization and restructuring of the Group during this period, see "*Restructuring of the Bank and Laiki Bank*".

In August 2013, the Bank was reinstated as an eligible counterparty by the ECB for monetary policy operations following the Bank's exit from resolution.

On 10 September 2013, the Bank held its annual general meeting of shareholders and a new Board of Directors was elected and approved thereafter by the CBC.

In October 2013, the Bank completed the sale of its subsidiary Kyprou Asset Management M.F.M.C. in Greece to Alpha Trust Mutual Fund Management S.A. In the same month, the Board of Directors appointed Mr. John Patrick Hourican as Group chief executive officer. Mr. Hourican was appointed to the Board of Directors of the Bank on 26 November 2013.

In January 2014, the Bank released the six-month time deposits that comprised part of the New Deposits issued by the Bank pursuant to the Recapitalisation, and which had been subject to restrictive measures pursuant to the Capital Controls Decree. Although, under the Capital Controls Decree, the Bank had the option of rolling over these deposits into new time deposits with fixed-terms equal to that of the initial deposits, it chose not to exercise this option at all with respect to the six-month deposits released in January 2014. The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

Recent Developments

In April 2014, the Bank partially released the nine-month time deposits that comprised the second tranche of the New Deposits issued by the Bank pursuant to the Recapitalisation and which had been subject to restrictive measures pursuant to the Capital Controls Decree. The Bank has released and converted these nine-month deposits as follows:

- one-third of the deposits was immediately released and available in customer current accounts;
- one-third of the deposits was converted into three-month time deposits maturing and automatically released on 31 July 2014; and
- one-third of the deposits was converted into six-month time deposits maturing and automatically released on 31 October 2014.

The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

In April 2014, the Group completed two disposals in connection with its Restructuring Plan and divestment of non-core businesses:

- the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, to Alfa Group, the Russian banking group, for approximately €202.5 million comprising €102.5 million received and €100.0 million deferred up to 31 March 2015; and
- the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million.

In addition, in April 2014, the Group announced that it was proceeding with the sale of a real estate loan portfolio in the United Kingdom, largely composed of residential and commercial real estate-backed facilities. The loan portfolio was part of the wider United Kingdom loan portfolio transferred to the Bank pursuant to the Laiki Transfer Decrees.

In May 2014, the Bank sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank for approximately €165.0 million, which has had a positive impact on the Bank's liquidity and capital position. The loans were transferred to the Bank following the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees.

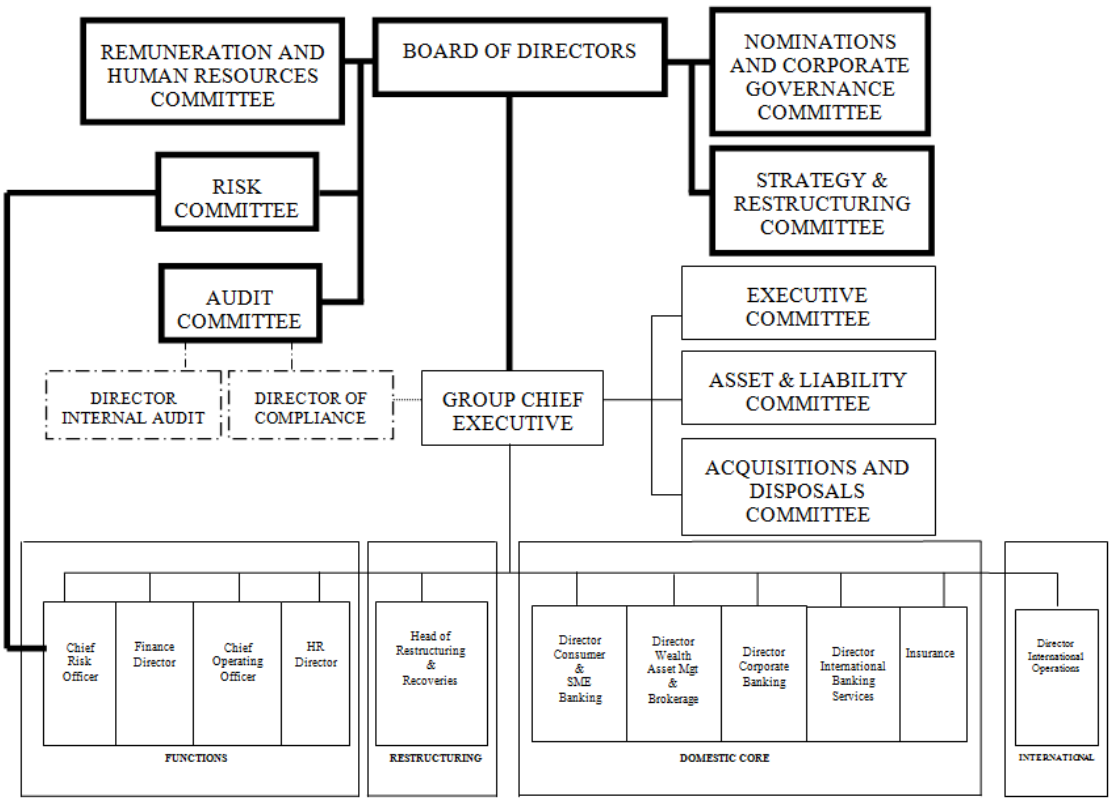
In June 2014, the Group substantially completed its integration of ex-Laiki Bank operations through the migration of information technology systems across all divisions.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by approximately €550 million and ELA by approximately €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group will realise an accounting profit of approximately €95 million for the second quarter of 2014, which will have a positive impact of approximately €95 million or 0.4 percentage points on the Group's CET1 ratio.

On 4 July 2014, Fitch upgraded the Bank's long-term issuer default rating from Restricted Default to CC, upgraded its short-term issuer default rating from Restricted Default to C and affirmed its viability rating at cc.

Group Management Structure

In December 2013, the Group's chief executive officer made significant changes to the management structure of the Group. The structure chart below sets out the key officers, committees and divisions of this new management structure:



See "*Management and Corporate Governance*" for further information on the role of the Board of Directors and the committees of the Board of Directors.

Share capital

The total issued share capital of the Bank as of the date of this Information Memorandum is €4,743.2 million divided into 4,743,203,680 ordinary shares of a nominal value of €1.00 each. Other than Laiki Bank, the Bank is not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Bank. The Bank does not have any shares in issue which carry special control rights.

Following the Recapitalisation in 2013 and as of the date of this Information Memorandum, Bail-in Shares accounted for 81.4% of the total number of Existing Ordinary Shares and were held by 21,487 shareholders while Diluted Shares accounted for 0.5% of the total number of Existing Ordinary Shares and were held by 88,546 shareholders. For more detail on the composition of the Bank's share capital as a result of the Recapitalisation (including a definition of the Bail-in Shares and Diluted Shares), see "*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Impact of the Recapitalisation*".

Legal Organisational Structure

The following table indicates the main companies and branches included within the Group as of 31 March 2014:

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

Company	**Country**	**Activities**	**Percentage holding (%)**
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 Bank)	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
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 Bank)	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 Asset Management	Russia	Special purpose entity	-

Company	Country	Activities	Percentage holding (%)
LLC			
PJSC Bank of Cyprus[(1)]	Ukraine	Commercial bank	100
LLC Ikos Finance[(1)]	Ukraine	Financing services	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

(1) PJSC Bank of Cyprus and LLC Ikos Finance were divested in April 2014.

In addition to the above companies, as of 31 March 2014, the Bank 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, 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, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd and Salecom 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.

In addition, as of 31 March 2014, the Bank had 100% shareholding in the intermediate holding companies below.

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 and Frozenport Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

Investments in associates and joint ventures

The following table sets out the Group's associates and joint ventures as of 31 March 2014 which 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.

Name	Country of incorporation	Interest held by Group (%)	Reported book value (€000)
CNP Cyprus Insurance Holdings Ltd	Cyprus	49.9	101,099
Marfin Diversified Strategy Fund plc	Isle of Man	90.0 approximately of the units of the fund	94,407
Byron Capital Partners Ltd	United Kingdom	70.0	5,322
Interfund Investments Plc	Cyprus	23.1	3,026
Aris Capital Management LLC	United States	30.0	2,078
Rosequeens Properties SRL	Romania	33.3	-
Grand Hotel Enterprises Society Ltd	Romania	35.2	-

CNP Cyprus Insurance Holdings Ltd (CNP)

As part of the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. CNP holds deposits with companies within the Group amounting to €30.1 million as at 31 March 2014.

Interfund Investments Plc

The Group has a 23.1% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE.

Aris Capital Management LLC

The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank.

Rosequeens Properties SRL

The Group owns 33.3% of the share capital of Rosequeens Properties SRL which owns a shopping mall in Romania. The shareholding was acquired after the Bank took part in a public auction for the settlement of due balances.

Grand Hotel Enterprises Society Ltd

On 1 April 2010, the Group acquired, through an investment in S.C. ONT Carpati SA., 35.2% of the share capital of Grand Hotel Enterprises Society Ltd ("**GHES**"), which owns a hotel in Romania. S.C. ONT Carpati S.A. was liquidated during 2013 and Unknownplan Properties Ltd (a subsidiary of the Bank) acquired from S.C. ONT Carpati S.A. for a value of €13.9 million the subordinated receivable from GHES and the 35.2% shareholding in GHES previously owned by S.C. ONT Carpati S.A. The Group had granted a senior loan to GHES in 2007 of €97.7 million, which was secured amongst others by a mortgage on the hotel owned by GHES. In addition, GHES owed an amount of €2.0 million to the Group.

Marfin Diversified Strategy Fund plc and Byron Capital Partners Ltd

The Group's investments in joint ventures comprises Byron Capital Partners Ltd and Marfin Diversified Strategy Fund plc, acquired by the Group as part of the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees. The Group is party to a shareholder agreement with the other shareholder of Byron Capital Partners Ltd and this agreement stipulates as to a number of matters which require consent by both shareholders. Marfin Diversified Strategy Fund plc is 100.0% owned by Byron Capital Partners Ltd. The Group considers that it jointly controls Byron Capital Partners Ltd and Marfin Diversified Strategy Fund plc.

Banking and financial services

Overview

The majority of the Group's revenue is derived from banking and financial services, which accounted for 94.5% and 91.9% of total revenue for the years ended 31 December 2013 and 2012, respectively, and 95.9% of total revenue for the three months ended 31 March 2014. Gross loans and advances to customers before fair value adjustments on initial recognition represented 88.1% and 90.4% of the Group's total assets as at 31 December 2013 and 2012, respectively, and 89.4% of the Group's total assets as at 31 March 2014. As of 31 December 2013 and 31 December 2012, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €26.7 and €28.1 billion, respectively. As of 31 March 2014, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €26.3 billion. As of 31 December 2013 and 2012, the Group's customer deposits were €15.0 billion and €28.4 billion, respectively, reflecting a 47.4% decrease which was partly attributable to the bail-in of depositors pursuant to the Recapitalisation, customer deposit outflows and the disposal of the Greek banking operations. As of 31 March 2014, the Group's customer deposits were €14.1 billion, reflecting a decrease of 6.0% as compared with 31 December 2013, primarily as a result of seasonality, payment of taxes and dividends by customers, the release of the 6-month decree deposits and the relaxation of the restrictive measures by the CBC. The Group's loans to deposits ratio increased from 85.7% as at 31 December 2012 to 145.4% as at 31 December 2013. The Group's loans to deposits ratio was 151.0% as at 31 March 2014. The 90+DPD Ratio increased from 27.4% as at 31 December 2012 to 48.6% as at 31 December 2013 and 31 March 2014, mainly as a result of the increasing economic turmoil in Cyprus which commenced in the latter half of 2012 and intensified after the March 2013 Eurogroup events.

The Group's gross loans and advances to customers before fair value adjustments on initial recognition by customer sector follows:

	31 December 2013		31 March 2014	
	€ billion	**% of total**	**€ billion**	**% of total**
Consumer	8.4	31.3	8.3	31.4
SME	6.1	22.9	6.1	23.2
Corporate	12.2	45.8	11.9	45.4
Total	**26.7**	**100.0**	**26.3**	**100.0**

As of 31 December 2013 and 31 March 2014, the Group had €7.9 billion and €7.8 billion, respectively, of retail loans in Cyprus, which accounted for 34.3% and 34.2%, respectively, of gross loans and advances to customers before fair value adjustments on initial recognition in Cyprus, €5.2 billion and €5.2 billion, respectively, of SME loans in Cyprus, which accounted for 22.7% and 22.9%, respectively, of gross loans and advances to customers before fair value adjustments on initial recognition in Cyprus and €9.9 billion and €9.8 billion, respectively, in corporate loans in Cyprus which accounted for 43.0% and 42.8%, respectively, of gross loans and advances to customers before fair value adjustments on initial recognition in Cyprus. The 90+DPD Ratio for retail loans in Cyprus was 29.5% and 30.1%, for SME loans in Cyprus was 59.4% and 61.6% and for corporate loans in Cyprus was 61.3% and 59.1%, as at 31 December 2013 and 31 March 2014, respectively. As of 31 March 2014, 87.7% of the Group's credit portfolio was funded and 12.3% was unfunded (87.0% and 13.0% respectively, as at 31 December 2013). The Group's unfunded credit consists of acceptances and endorsements, guarantees, documentary credits and undrawn formal standby facilities, credit lines and other commitments to lend.

As of 31 December 2013 and 31 March 2014, retail customers accounted for 59.9% and 60.9%, respectively, of the Group's total deposits in Cyprus and 70.5% and 68.1%, respectively, of the Group's total deposits in Cyprus were time deposits.

During the second quarter of 2014, a significant proportion of the Group's credit portfolio was transferred to the RRD (see "*—Restructuring and Recoveries Division*"). Accordingly, the historical discussion of the Group's credit portfolio by business line as of 31 March 2014 above is not representative of each business line as of the date of this Information Memorandum. For a discuss of the Group's loans and advances to customer by type of customer, please see "*Operating and Financial Review and Prospects—Balance Sheet Items—Loans and Advances to Customers—Customer Analysis*".

The Group's lending is divided between corporate, SME and consumer customers and, after the transfer of loans to the Group's Restructuring and Recoveries Division ("**RRD**") during the second quarter of 2014, the criteria used to allocate customers to each lending business line was revised. As of the date of this Information Memorandum, in Cyprus, the Bank currently regards any company with available credit lines with the Bank in excess of an aggregate principal amount of €6 million, or having a minimum annual credit turnover of €10 million, as falling within the corporate category, while any company with facilities with the Bank, excluding loans in respect of a primary residence, in the range of €250,000 and €6,000,000, as falling within the SME category. All other customers fall within the consumer sector, which comprises personal customers and small businesses with facilities from the Bank of up to €250,000.

Consumer Banking

The Group offers a wide range of consumer products and services to its customers in Cyprus through a network of 130 retail branches located in key towns and regions of Cyprus. These include current accounts, deposits (for more detail, see "*Operating and Financial Review and Prospects—Balance Sheet Items—Loans and Advances to Customers*"), home loans, student loans, personal loans, business loans for micro business, hire purchase finance for new cars and credit cards (the Bank is the only financial institution that offers American Express products in Cyprus).

Most of the Bank's consumer lending takes the form of mortgage loans, overdraft accounts with predetermined credit limits and personal and hire purchase loans. The Bank offers flexible mortgage loans according to the needs of its customers. For small business lending, security is almost always taken in the form of personal guarantees from the owner of the borrowing company and/or other persons backed by mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

The Bank has developed a detailed consumer banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Improving customer experience through all channels*. Customer service standards for branch appearance, cashier and telephone service (e.g., response time and length of customer queues) and training programmes for staff on these customer service standards have been developed and rolled out. The customer's experience will be continuously monitored through call centre collection of customer feedback and market research. The migration of information technology systems, which was completed in June 2014 across all divisions, also improved the efficiency of customer service through the Bank's alternative distribution channels such as its ATM network, e-banking platform (1bank) and mobile banking. 1bank offers customers the opportunity to carry out banking transactions through the phone or internet 24 hours a day, seven days a week.
- *Retain and increase deposits while managing costs*. Targeted marketing campaigns employing mass and social media, mail and the internet are used to communicate the Bank's recovery and renewed strength. Following the migration of IT systems, the Bank is currently in the process of adjusting its customer segmentation into "premier", "mass affluent" and "mass" in order to tailor its products and services to customer needs and implement loyalty schemes. Premier customers are retail customers with deposits with the Bank of between €75,000 and €500,000, mass affluent customers are retail customers with deposits with the Bank of between €25,000 and €75,000 and mass customers are retail customers with deposits with the Bank of less than €25,000.
- *Manage and improve quality of loan portfolio*. The consumer loan portfolio is monitored in order to identify potential customers who might default or require restructuring solutions. The Bank has implemented targets on asset quality, based on 90+DPD targets for each branch, and collectability, based on a percentage of arrears from the previous month to be collected by each branch in the current month.

- *Prudent new lending and enhanced fee generation*. As a result of the economic crisis in Cyprus, the Bank has adopted a more conservative approach to new consumer lending, with a greater emphasis on risk-averse lending criteria in line with the Loan Origination Directive. Small businesses with viable business models and the potential to benefit from any potential recovery in the economy are targeted for the purposes of providing short-term financing.
- *Stabilise deposit balances while managing costs*. Targeted marketing campaigns will use mass and social media, mail and the internet to communicate the Bank's recovery and renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Improve retail network effectiveness and efficiency*. In order to improve its operational efficiency after the absorption of the domestic operations of Laiki Bank, the Bank has rationalised its branch network and decreased the total number of branches in Cyprus to 130 as of 31 March 2014 down from 203 shortly after the absorption of the ex-Laiki Bank operations in 2013. The Bank plans to redesign its IT processes and in-branch systems to improve efficiency and reduce manual input. In addition, the number of staff servicing consumers has been reduced from 1,907 in 2012 to 1,455 in 2013. The Bank's new customer segmentation into "premier", "mass affluent" and "mass" will allow the Bank to assign relationship officers or supervisors with the right level of experience and knowledge of the appropriate deposit and investment products for each segment.
- *Enhance profitability with a focus on fee generation*. The consumer banking division continues to focus on fee-generating activities such as hire purchase finance for new cars and credit cards (the Bank is the only financial institution that offers American Express products in Cyprus). In addition, the Bank plans to cross-sell its fee-generating activities to the former customers of Laiki Bank.

The consumer banking strategy has been approved by the Board of Directors and a detailed action plan with key dates and responsibilities has been developed and is monitored on an ongoing (monthly) basis with progress reported directly to the Board of Directors.

SME Banking

The Group's banking facilities for SMEs comprise overdraft accounts, loans of fixed maturity, invoice discounting, domestic factoring, trade finance, import and export factoring, hire-purchase financing and leasing, bills discounting and stock financing. The Bank also provides letters of credit and letters of guarantee. The Bank's SME lending in Cyprus is channelled through 14 business centres, which are separate from the Bank's retail branch network.

For SME lending, security is almost always taken in the form of personal and corporate guarantees from the owners/ shareholders of the borrowing company and/or other persons backed by mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

The Bank has developed a detailed SME banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Improve / provide superior quality of service*. In order to improve the quality of the Group's service offering to SMEs, the Group has developed and implemented consistent customer service standards across its branches and improving its existing systems and processes. The Group has developed customer service standards for SME unit appearance, staff behaviour and telephone service (response time). Training programmes for staff are currently being developed and rolled out. The Group has also implemented new systems and processes that improve the speed at which client requests are authorised and approved.
- *Improve quality of new advances*. The strategy for new advances will be directed to viable customers with proven repayment ability based on the Bank's lending policy/criteria and

the Loan Origination Directive. The SME division will monitor the general economic and industry performance indicators and will develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors will involve discussions with the economic research and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see "*The Banking Sector in Cyprus—Cyprus Banking Sector Structure—Cyprus banking system by Assets*").

- *Manage and improve quality of existing advances/collection processes*. Given the high proportion of non-performing SME loans in the Group's portfolio, the restructuring and recovery of these loans is of critical importance. The Bank has implemented targets on asset quality, based on 90+DPD targets for each business centre, and collectability, based on a percentage of arrears from the previous month to be collected by each business centre in the current month. The Bank plans to develop tools and action plans for customers at an early stage of delinquency which will be implemented in order to improve collections prospects and provide sustainable and viable restructuring solutions. The SME banking division is working closely with the RRD team in developing these strategies.
- *Stabilise deposit balances while managing costs*. Targeted marketing campaigns will use mass and social media, mail and the internet to communicate the Bank's recovery and renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Support for SMEs through financing and financial assistance planning*. The SME division assists a selection of SMEs with their financial business planning, taking account of their banking activity, financial performance ratios and prospects. The SME division is in the process of developing cash flow calculation and loan repayment tools for the Bank's website. In January 2014, the consumer and SME division of the Bank established a new department of European relations which focuses on the provision of loans to SMEs which are partially administered, funded or guaranteed by the European Investment Fund ("**EIF**") and/or the European Investment Bank ("**EIB**"). The Cyprus Entrepreneurship Fund ("**CYPEF**") was recently created by the Government to strengthen entrepreneurship in Cyprus by providing financing to SMEs on favourable terms, including reduced interest rates, potentially reduced collateral requirements and extended loan maturities and grace periods. Amounts dedicated from the Government to CYPEF are made available through the EIB and CYPEF is managed by the EIF. The EIF was established in 1994 to provide financial support for SMEs in Europe and the EIB and the European Commission have a 62.1% and 30.0% equity stake, respectively, in the EIF. The European relations department is in the process of developing products backed by the CYPEF. As of 31 December 2013 and March 31 2014, the Bank had €19.1 million in loans to SMEs which were partially funded by the EIF and €3.6 million in loans to SMEs which were partially guaranteed by the EIF.
- *Enhance profitability with a focus on fee generation*. The SME banking division continues to focus on fee-generating activities such as credit cards, trade finance, transaction banking services and corporate finance.

Corporate Banking

The Bank offers corporate clients a wide range of products and services, including:

- overdraft accounts, loans, asset finance or hire purchase facilities, project finance and trade finance;
- savings accounts, notice accounts, fixed term deposits and specialised deposit schemes;

- trade finance products such as short-term import finance, letters of guarantee, documentary credits, bills for collection, negotiation of foreign bills, import and export factoring, spot and forward contracts in foreign exchange;
- corporate finance advisory services; and
- cash management.

Most of the Group's corporate lending takes the form of loans bearing interest rates which vary according to each customer's credit risk. Maturities of corporate loans in the Bank's portfolio typically range from a period of less than one year to ten years depending on the nature and purpose of the facility. In general, security is required in the form of fixed or floating charges on the assets of the borrower, mortgages over real property, pledges of shares, cash collateral and personal and/or corporate guarantees.

The Group's corporate lending in Cyprus is channelled through corporate banking centres, which are separate from the Bank's retail branch network. After transferring large exposures and delinquent accounts to the RRD, in line with the Restructuring Plan, the number of corporate banking centres in Cyprus has been reduced from 10 in 2013 to four in April 2014. In addition, the number of staff in the corporate banking division has been reduced from 145 shortly after the absorption of the ex-Laiki Bank operations in 2013 to 55 after the separation of the RRD from the corporate banking division in April 2014.

In line with the Restructuring Plan, the responsibility for all corporate exposures greater than €100 million (whether performing or non-performing) has been transferred to the RRD. In addition, corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due have also been assigned to dedicated teams of credit officers supervised by the RRD for restructuring. For a discussion on the collection process for these corporate loan portfolios, see "*—Restructuring and Recoveries Division—Collection process for delinquent loans*" below. These transfers of the large and mid-market corporate loan portfolios to the RRD have left the corporate banking division with a corporate loan portfolio of approximately €2.2 billion as of 30 April 2014.

The transfer to the RRD of a substantive proportion of the corporate loan portfolio has allowed the corporate banking division to focus on servicing existing corporate clients with a healthy credit history and providing new lending to corporate clients in promising and export-orientated sectors of the domestic economy. To the extent the RRD is able to rehabilitate any corporate clients successfully, it is expected that these corporate clients will be transferred back to the corporate banking division.

The Bank has developed a detailed corporate banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Enhance profitability with a focus on fee generation*. The corporate banking division continues to focus on fee generating activities such as factoring, debtor collection, assessment services, ledger administration, and trade finance. Transaction banking and cash management services will be launched for large corporate customers with high credit turnover and with a need for specialised electronic services. Relevant products will cater for liquidity management, payments and reporting. Furthermore, corporate finance services will be promoted in cooperation with CISCO and the cross selling of credit cards and insurance products in conjunction with the consumer business line is also being undertaken.
- *Adopting a customer-centric culture to provide high quality service*. In order to provide high-quality service, the corporate banking division has assigned its most experienced relationship managers to "prime" clients with advances of €20 to €100 million, an annual credit turnover of more than €25 million and/or significant market influence. The relationship managers are responsible for the development of account plans which identify and address their financing needs (as well as those of their key shareholders and executives) and promote the cross-selling of products such as payroll services or corporate credit cards. In order to maintain the quality of service provided by its

relationship managers, the corporate banking division will implement a policy of no more than 10 "prime" customer groups per relationship manager. With respect to the rest of corporate banking client base, a limited number of customer groups (approximately 20) has been allocated to each relationship manager, with the objective of maximising the quality of customer service and the effectiveness of account monitoring.

- *Targeted new lending to promising sectors of the domestic economy*. The corporate banking division has begun to monitor the general economic and industry performance indicators and has started to develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors involves discussions with the economic research department and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see "*The Banking Sector in Cyprus—Cyprus Banking Sector Structure—Cyprus banking system by Assets*"). The corporate banking division will work with the economic research department to formulate industry performance indicators, which will rank each sector using a number of key performance indicators. As of 31 March 2014, 31.7% of the Group's total loan portfolio in Cyprus was concentrated in the real estate and construction sectors (see "*Risk Factors—Risks Relating to the Group's Business—A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors*"). However, following the transfer of corporate loans to the RRD, the corporate banking division has been left with a corporate loan portfolio which is more diversified with concentrations in the trade, hotels and food, manufacturing and services sectors. Industry expertise will also be developed through the provision of industry-specific training programmes for relationship officers and managers. Specific clients with a healthy risk profile in the targeted sector will be approached with a tailored financing package to address their specific needs.
- *Protecting the quality of the corporate loan portfolio*. The use of "early warnings" such as the reduction of inflows into current accounts are used to identify clients that are at risk of default. The quality of new lending is also maintained by adhering to the new Group lending policy which has imposed tighter credit approval requirements in line with the recently enacted Loan Origination Directive. In addition, the corporate banking division is developing a close working relationship with the RRD in order to assess pre-arrear options for clients with early warning signs of default and implementing efficient post-restructuring procedures for corporate clients that have been rehabilitated by the RRD. For a description of the process for the management of delinquent corporate loans, see "—*Restructuring and Recoveries Division*" below.
- *Retain deposits while managing costs*. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or that have increased their rate or size of withdrawals or account activity. In particular, the corporate banking division has identified customer groups with deposits of more than €500,000 and/or which withdrew substantive amounts of funds before 25 March 2013 and is implementing, in conjunction with the Group's wealth management division, a customised action plan to reaffirm the Group's relationship with these customer groups. In particular, the Bank is promoting the services of the wealth management division to key persons (such as major shareholders, directors and senior management) at these customer groups. The development of new consumer deposit products for "premier" customers will also be promoted to key executives to foster a closer institutional relationship with these customer groups.

International Banking Services

IBS is a division that specialises in the offering of banking services in Cyprus to the international customers of the Bank, particularly international business companies whose ownership and business activities lie outside Cyprus. The Bank operates eight international business units in Cyprus which are staffed with highly-qualified, experienced and multilingual personnel, including Russian speakers. IBS also manages five representative offices outside of Cyprus (two in Russia and one in each of Ukraine, South Africa and China) which support business relations. IBS is in the process of closing its South Africa representative office and expects the closure to be completed by September 2014. The Bank has long-standing arrangements with over 700 corporate service providers ("**Introducers**") who are an important source of customer referrals for IBS. IBS is an important contributor of fee income and liquidity for the Bank.

IBS's revenue is derived primarily from interest income on deposits and loans and fee and commission income generated from international payments, foreign exchange transactions and trade finance instruments. As of 31 December 2013 and 31 March 2014, IBS accounted for 27.0% and 26.9%, respectively, of the Group's total deposits. The majority of deposits originated through IBS are from individuals and entities domiciled in Russia and former Commonwealth of Independent States countries, such as Ukraine.

IBS has faced significant challenges following the Recapitalisation in restoring the confidence of its international customers and Introducers. The Bank has developed a detailed IBS strategy in line with the Restructuring Plan, which is based on:

- *Enhancing customer service based on customer characteristics.* Through its experienced and trained dedicated personal bankers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises information technology based service channels and products to offer fast, reliable, cost effective and customised banking solutions based on each customer segment's needs. One of IBS's primary objectives is the reactivation of existing clients' accounts.
- *Rebuilding relationships with, and retaining the deposits of, large corporate customers*. Because large corporate customers were the most affected by the bail-in of the Bank's depositors pursuant to the Recapitalisation and now constitute a significant portion of the Bank's shareholders, a key focus for IBS has been the strengthening of relationships with its large corporate customers by offering dedicated service and continuous information.
- *Rationalising international business unit network and becoming more cost-efficient*. IBS has reduced the size of its international business unit network from 13 in March 2013 to eight in 2014 which includes an international business unit specialising in the service of shipping customers. The IBS network also includes two international lending units. IBS staff levels increased from approximately 260 immediately prior to the Recapitalisation to approximately 530 due to the absorption of employees of ex-Laiki Bank. As a result of the VRS implemented in 2013, as well as staff transfers to other divisions, IBS has reduced its staff to approximately 350 as of 31 March 2014.

Reflecting the emphasis of the Eurogroup Statement on Cyprus on the improvement of Cyprus' anti-money laundering ("**AML**") framework and given the nature of IBS's business with international clients, a new AML risk management department has been established within IBS in order to enhance "know-your-customer" procedures and controls.

Restructuring and Recoveries Division

An important component of the Group's new operational structure is the establishment of the RRD for the purposes of centralising and streamlining the management of its delinquent loans. The RRD is responsible for the management of all activity relating to corporate exposures greater than €100 million, debt restructuring and debt collection and recovery on delinquent loans across all customer segments and all corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due.

The RRD was first established in December 2013 and, from 1 January 2014 to 30 April 2014, it has:

- sold the Group's largest single-name NPL exposure, loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank for approximately €165.0 million and a realised accounting gain of €27 million;
- restructured €1.9 billion backlog of loans requiring restructuring by establishing streamlined restructuring processes;
- restructured approximately €1.2 billion facilities for the Bank's top 30 corporate exposures;
- collected €177.0 million through the new collections process instituted by the RRD; and
- initiated the appointment of 12 receivers, for the recovery of debt.

The RRD has developed its strategy with the assistance of its external advisors. The strategies include specific responsibilities, procedures and strategies for collection and restructuring for each customer segment. To maintain flexibility in restructuring problem loans, the RRD's strategies are reviewed and updated by the Group on an ongoing basis. The Bank is currently working towards implementing the strategy developed with the assistance of its external advisors, including both the transfer of clients in and out of RRD and the criteria around these transfers.

RRD Structure

As of 30 April 2014, the RRD is an independent unit staffed by 472 full-time employees dedicated to the management of large and delinquent loans. The RRD is organised as follows:

- *Retail and SME arrears management*. Three call centres staffed by a total of 43 credit officers focused on consumer loan collections. Each call centre has a maximum call capacity of 20,000 to 25,000 customer contacts per month and the percentage of the Group's delinquent portfolio addressed by these call centres have increased from 3.0% in November 2013 to 29.3% in March 2014. The retail arrears management department employs 67 customer relationship officers and another 64 customer relationship officers have been allocated to eight business support units focused on debt collection and restructuring in relation to SME loans. As of 30 April 2014, the business support units were responsible for managing a SME portfolio of approximately €1.1 billion.
- *Corporate management services*. All corporate exposures greater than €100 million are managed by the major corporates management team. As of 30 April 2014, the major corporates management team was responsible for managing a total corporate loan portfolio of approximately €3.7 billion. The major corporates management team is comprised of 38 full-time employees supported by external accountants and consultants. Each corporate group was assigned a small team of dedicated officers to develop a tailored action plan for the group. An action plan has been internally agreed and is in the process of being executed for each corporate group managed by the major corporates management team.

  In addition, corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due have also been assigned to centralised and regional mid-corporates management teams which are staffed by a total of 47 full-time employees. An action plan has been developed for all corporate loans of more than €45 million and senior management of the RRD continue to conduct a case-by-case review for all corporate exposures greater than €30 million. As of 30 April 2014, the mid-corporates management team was responsible for managing a total corporate loan portfolio of approximately €2.2 billion.
- *Debt recovery services*. Centralised and regional teams dedicated to the execution of debt collection and legal repossession are staffed by a total of 205 full time employees.

- *Financial solutions*. Four full-time employees provide advanced technical support on restructuring solutions and other related projects.
- *Strategy and analytics*. Four full-time employees are engaged in analysing and defining delinquent portfolio segments based on the status of the borrower and size the of exposure. The determination of portfolio segments is critical to the development of effective and efficient collection and restructuring strategies. This department is also in charge of monitoring the performance of the loan portfolios under management by the RRD and implementing the transfer of loan portfolios between the RRD and the relevant business division of the Bank.

Collection process for delinquent loans

The RRD has designed and implemented the following collection processes for delinquent loans:

- *Retail*. In the early delinquency stage, the retail branch officer assigned to the customer concerned may be responsible for contacting the customer and offering restructuring solutions if certain criteria are met. However, in general, once the loan concerned is 30 days past due, it is automatically handled by the call centres which employ a client contact strategy for collection. If the loan concerned remains overdue for more than 70 days, responsibility for the collection and the provision of more sophisticated restructuring solutions is assumed by the retail and SME arrears management unit. At any stage during the process, the client account can be transferred to the retail and SME arrears management unit for restructuring; however, the front-line customer relationship always remains with the branch.
- *SME*. In the early delinquency stage, the business centre officer assigned to the business concerned is responsible for making contact and offering restructuring solutions. In general, once the loan concerned is 60 days past due, it is transferred to the business support units for collection. A loan may also be transferred to the business support units for collection if the loan is between 30 and 60 days past due depending on the risk profile and portfolio segment to which the customer or loan is assigned. Unlike retail clients who maintain a front-line customer relationship with the branch, SME clients are transferred to RRD on a group basis, which includes all client relationships within the SME group.
- *Corporate*. In the early delinquency stage, the corporate banking centre officer assigned to the corporate group concerned is responsible for making contact and offering restructuring solutions. In general, once the loan concerned is 60 days past due, it is transferred to corporate management services at which point meetings are scheduled with the customer at the corporate banking centre to discuss restructuring solutions. The RRD maintains a flexible approach to restructuring corporate accounts and delinquent loans may be transferred to corporate management services before they have reached 60 days past due depending on the circumstances. Like SME clients, corporate clients are transferred to RRD on a group basis, which includes all client relationships within the corporate group.

Once loans are at the latest recovery stage, they are transferred to the debt recovery services teams based on objective criteria. In general, loans are transferred to the debt recovery services teams when they are determined by the appropriate Group credit committee to be non-viable. The debt recovery service will use recovery techniques which range from direct settlements for loans of less than €10,000 or accelerated settlement actions whereby court and settlement or restructuring actions are taken in parallel to full legal actions or, in the case of large exposures, the appointment of a receiver, in each case, depending on the portfolio segment to which the relevant borrower or loan is assigned.

Restructuring solutions

In taking into consideration the current economic circumstances and the financial difficulties of its borrowers, the Bank will consider providing assistance in the form of modifying the terms and conditions of the contract in order to provide the borrower concerned with the ability to service the debt or refinance the contract, either partially or fully. These measures are called forbearance measures and other forms of forbearance also include measures that restructure the borrower's business and/or measures that restructure the borrower's financing.

Restructuring solutions may be of a short or long-term nature or combination thereof. Short-term restructuring solutions are defined as restructured repayment solutions of a duration which is 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 three 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*: a decrease in 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. This constitutes forbearance of the arrears and the 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.

In the case of large corporate exposures, restructuring solutions involving more complex techniques such as mezzanine financing and debt-for-equity swaps can be employed.

Wealth, Brokerage and Asset Management Division

The wealth, brokerage and asset management division of the Bank oversees the provision of institutional wealth, private banking, global markets and investment banking services. These services are provided through the sub-divisions and subsidiaries of the Bank as set out in following paragraphs. The income for this division is mainly derived from fees and commissions from the provision of investment products and services and the provision of custody and trust services. For the years ended 31 December 2013 and 2012, the wealth, brokerage and asset management division contributed 2.8% and 3.9%, respectively, of the Group's total fee and commission income. As of 31 December 2013 and 31 March 2014, the wealth, brokerage and asset management division accounted for 1.5% and 1.4%, respectively, of the Group's total deposits. The Group's assets under management, including on and off balance sheet assets under management, was €2,438.8 million, €1,299.7 million and €1,275.6 million as at 31 December 2012, 31 December 2013 and 31 March 2014, respectively. Assets under management include customer deposits of the division and assets of the customers which are under execution, advisory or discretionary management of the wealth, brokerage and asset management division.

Institutional Wealth and Global Markets

This sub-division focuses on the provision of investment and risk management services. The sub-division is split in three distinct areas: institutional wealth management, global markets execution and treasury sales.

- *Institutional Wealth Management* is responsible for institutional clients, such as pension and provident funds, insurance companies, family offices and investment funds, and provides such entities with financial services ranging from basic banking to investment services. Investment products offered include fixed income, structured products, commodities, mutual/hedge funds, global equities and foreign exchange. As of 31 March 2014, the institutional wealth management department had a client list of 64 institutional clients.
- *Global Markets Execution* acts as a multi-asset platform for all departments of the Group that require an execution venue for global financial instruments. Departments that utilise the services of global markets execution include institutional wealth and global markets, private banking and asset management.
- *Treasury Sales* offers risk management and foreign exchange trading tools to clients across all of the Group's business lines. In addition to spot foreign exchange (including foreign exchange margin trading), the department also offers customized risk solutions for corporations that address both market and asset price risk, including derivative products to hedge exposures to interest rates, foreign exchange, commodities and/or inflation. The treasury sales department is also responsible for designing and hedging structured investment products.

Private Banking

This sub-division focuses on the provision of investment and banking services to high net worth individuals. The services provided include execution, advisory and discretionary asset management services, with booking centres in Cyprus and the Channel Islands. The range of investment products offered include equities, bonds, foreign exchange, commodities, mutual funds, hedge funds and tailor-made structured products. Private banking works with selected fund managers from around world. Each private banking client has a dedicated relationship manager who is responsible for that client's particular financial needs. Relationship managers are supported by a team of specialists with expertise ranging from banking and credit to investment advice. As of 31 March 2014, the private banking sub-division had a client list of 1,528 high net worth individuals.

Wealth Management Services

Wealth management services is an operations service centre for the other sub-divisions of the wealth, brokerage and asset management division. It is responsible for custody and trust services, banking and credit services, regulatory and reporting and operations.

Custody and trust works with internal clients of private banking, institutional wealth and global markets in respect of off-balance sheet investments. Custody and trust also has an external client base consisting of private funds, investment companies and pension funds. Banking and credit services is a centralized support department that serves private banking, institutional wealth and global markets. Regulatory and reporting provides compliance and management information systems regulatory reporting and operations is responsible for processing new clients and management of back office and other internal processes.

Investment and Energy Strategy

Investment and energy strategy is a recently established department of the Bank that serves the wealth, brokerage and asset management division in the areas of investment research and management as well as for the energy sector. It will formulate the department's investment strategy for the management of client funds and will structure model investment portfolios for wealth, brokerage and asset management division clients.

The Cyprus Investment and Securities Corporation Ltd ("CISCO")

CISCO was established in 1982 as the first investment and securities house in Cyprus. Since 1988, CISCO has been a wholly-owned subsidiary of the Group. CISCO provides a range of specialised financial services encompassing investment banking, asset management and brokerage services. CISCO has a financial service provider licence from the CySEC and is a member of the CSE and a remote member of ATHEX. Its market share for brokerage activities on the CSE reached 17.9% in 2013 (2012: 23.0%).

CISCO's investment banking sub-division provides a range of services in the field of corporate finance and capital markets which include company valuations, capital restructuring, financial planning and feasibility studies as well as the execution of equity and debt issues. The asset management department manages portfolios of financial instruments on a discretionary basis for customers, most of which are domestic pension and provident funds but also include insurance companies, investment companies and high-net-worth individuals both domestically and internationally (in cooperation with the institutional wealth and global markets and private banking sub-divisions of the Group's wealth, brokerage and asset management division). CISCO's brokerage department provides for the execution of client orders and corporate actions in the CSE, ATHEX and a number of other international markets including the New York Stock Exchange and has acted, during the last three years, for more than 17,890 investors.

Laiki Financial Services Ltd

Pursuant to the Laiki Transfer Decrees, the Bank acquired a 66.6% equity stake in Laiki Capital Public Company Limited, which is the listed parent holding company for Laiki Financial Services Ltd ("**LFS**"). LFS provide investment banking, asset management and brokerage activities.

Restructuring Plan Objectives

The Bank has developed a detailed wealth, brokerage and asset management division strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Enhance customer relationship management*. By expanding and promoting a holistic approach to customer relationship management and by providing a broad range of services to meet the majority of client needs, the wealth, brokerage and asset management division aims to improve its competitive position within the market.
- *Focusing on investment banking opportunities*. Although the Cypriot economic crisis has caused significant damage to the financial and other economic sectors of Cyprus, it also presents opportunities for CISCO's investment banking division to provide services focused on potential privatisation initiatives as well as corporate restructuring, mergers and acquisitions in cooperation with the Bank's corporate banking division and advice on potential privatisation initiatives. In particular, as a result of the discovery of hydrocarbons off Cyprus' coastline, and the significant potential that this industry can offer to Cyprus, the Bank has recently established an investment and energy strategy unit which is dedicated to providing investment advice and energy sector expertise.
- *Explore global brokerage and asset management opportunities*. The wealth, brokerage and asset management division has expanded its existing multi-asset platform to address the needs of its institutional and retail clients. In addition, the wealth, brokerage and asset management division intends to further develop and expand its existing global diversified portfolio offering, including its participation in the development and management of a potential sovereign wealth fund for Cyprus.

Insurance Services

Insurance services accounted for 5.6% and 6.8% of the Group’s total revenue in Cyprus for the year ended 31 December 2013 and 2012, respectively, and 4.0% of the Group’s total revenue for the three months ended 31 March 2014. The Group’s life assurance business in Cyprus is conducted by EuroLife while the Group’s general insurance business in Cyprus is conducted by GIC, both wholly-owned subsidiaries of the Bank.

Life Assurance

For the year ended 31 December 2013, EuroLife’s total operations generated an income net of claims, commissions and expenses of €11.0 million (€23.1 million for the year ended 31 December 2012) and for the three months ended 31 March 2014, EuroLife’s total operations generated an income net of claims, commissions and expenses of €5.0 million. As of 31 December 2013, EuroLife’s net asset value and value of in-force was €55.7 million and €92.3 million, respectively. According to official returns to the Cypriot Superintendent of Insurance, EuroLife had a 26.1% share of premium income of the Cypriot life assurance market for the year ended 31 December 2013.

EuroLife offers a range of unit-linked protection and savings products, augmented by a number of supplementary benefits which include, amongst others, disability and critical illness cover. EuroLife distributes its products through a network of 187 tied agents and the Bank’s branch network. For the year ended 31 December 2013, the Bank estimates that approximately 86.3% of EuroLife’s new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 13.7% of new business.

Lapse rates on EuroLife’s policies have historically been low. This is largely explained by the tax-driven nature of the unit-linked investment policies. In the event of a lapse in premiums within the first six years of the life of the policy, investors are required to refund part of the accumulated tax credits accrued since the date of inception of the policy.

EuroLife’s risk on individual life insurance policies in excess of €51,258 per life is reinsured with major European reinsurance companies.

As of 31 December 2013, EuroLife had total funds of €445.4 million, of which €352.8 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €76.6 million represented the deficiency reserve of EuroLife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €5.4 million represented funds attributable to group pension contracts under EuroLife’s management. The remaining €10.6 million represented non-unit-linked funds which are invested primarily in government bonds and bank deposits, with relatively small percentages invested abroad or in the Cypriot equity market.

EuroLife operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the Bank’s customers. Kyprou Zois has been operating in Greece since 2001 and offers bancassurance products with no independent distribution network. Following the sale of the Group’s Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree, Kyprou Zois is currently operated as a run-off business. The Bank is exploring the possibility of transferring the portfolio to another insurance company.

General Insurance

For the years ended 31 December 2012 and 2013, GIC’s operations generated income net of claims, commissions and expenses of €12.5 million and €9.6 million, respectively, and for the three months ended 31 March 2014, GIC’s operations generated income net of claims, commissions and expenses of €4.3 million. For the years ended 31 December 2012 and 2013, GIC’s net claims ratio in Cyprus was 49.5% and 40.4%, respectively, and GIC’s combined ratio in Cyprus was 89.7% for both years. For 2013, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 13.1%, according to the official statistical information of the Insurance Association of Cyprus.

GIC offers its products through the Bank's branch network (52.8%), by direct channels (22.9%) and through agents (24.3%). GIC has 165 agents and brokers who are paid on a commission basis and also employs a salaried sales force of 30 people (including call centre sales officers) who are based in GIC's branches throughout Cyprus.

GIC possesses a licence and offers insurance cover under 15 insurance technical classes, including: accident, liability for ships, general liability, land vehicles, goods in transit, miscellaneous financial loss, fire and natural forces, legal expenses and other damage to property.

The accounting class of fire and other damage to property is GIC's main business and during the year ended 31 December 2013 accounted for approximately 43.2% of gross premium income (47.6% during the year ended 31 December 2012). GIC has an approximately 21.5% share of the fire insurance market in Cyprus.

GIC's claims ratio for the fire business is historically very low, with risk being spread across Cyprus. Risks are spread among a large number of smaller policies and GIC has traditionally had a relatively low maximum retention level. However, because of the low value of much of the property insured, approximately 69.8% of GIC's fire policies fall within its retention level. The remaining business is principally reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

GIC sells motor and home insurance to customers directly through its call centre established in 2000 and also through its salaried sales force and via its agents. Applications for these products are evaluated automatically through the use of a front-end system which also determines the premium at the same time. Motor reinsurance is principally carried out through Munich Re and other international reinsurers.

GIC's investments amounted to €47.3 million as at 31 December 2013, of which approximately €0.6 million was invested in equities and mutual funds, €2.2 million in non-equities, €1.8 million in properties and the remainder in bank deposits. GIC's investment portfolio is held with the Bank and managed by CISCO in accordance with conservative investment guidelines.

GIC operates a branch in Greece under the name Kyprou Asfalistiki. Following the sale of the Group's Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree, GIC entered into an agreement with an insurance provider in Greece to whom its business will be transferred as and when the policies issued by Kyprou Asfalistiki expire. The transfer process began in April 2014.

CNP

As part of the acquisition of the ex-Laiki Bank operations under the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. At 31 March 2014, CNP held deposits with companies within the Group amounting to €30.1 million.

CNP is a major competitor to GIC and EuroLife. In 2013, according to the official statistical information of the Insurance Association of Cyprus, CNP ranked second in terms of premiums generated in the general insurance market in Cyprus with a market share of 12.5% and ranked second in terms of premiums generated in the life insurance market in Cyprus with a market share of 23.1%. CNP Assurances S.A. ("**CNP France**"), a French insurance company, owns the other 50.1% of CNP.

CNP France has recently instituted arbitration proceedings in relation to CNP against the Bank in London. For more information, see *"—Litigation and Related Matters, including Regulatory Proceedings—CNP – Arbitration*".

International Operations

The international operations ("**IO**") division is responsible for the following international operations and assets of the Group:

- all international banking subsidiaries of the Group in the United Kingdom, Russia and Channel Islands;
- the management of the loan portfolio transferred to the Bank from Laiki Bank's branch in the United Kingdom on 1 April 2013;
- the wind-down and disposal of the Group's remaining loan portfolio and related collateral in Romania;
- the management of several international exposures and loans;
- the management of the Group´s participation in an investment management company in the United Kingdom and an open-ended investment company in the Isle of Man; and
- supporting the Group's Treasury division in the management of funding gaps in relation to international banking subsidiaries inherited from Laiki Bank pursuant to the Laiki Transfer Decrees, as well as funding gaps associated with the Bank's international subsidiaries.

The IO division is responsible for assessing, negotiating and supporting the implementation of strategic objectives in relation to international operations and assets of the Group acting also as the liaison between Group operations and divisions in Cyprus and local management of the international operations, asset or subsidiary concerned.

In line with the Restructuring Plan, the International Corporate Banking Unit ("**ICB**") was created as a sub-division of the IO division to focus on the restructuring and management of large international exposures and loans of the Group.

Russia

The Group operates in the Russian market primarily through Uniastrum. Uniastrum was founded in 1994, is headquartered in Moscow and, as of 31 March 2014, had a regional network of 155 branches, including 106 regional offices in 47 Russian regions. The Group also provides leasing and asset management services through two other subsidiaries in Russia.

In line with the Group's Restructuring Plan and divestment of non-core businesses, the Group has closed 40 branches and retired approximately 900 employees in Russia since early December 2013, which has had the effect of reducing operating costs. To further optimise Uniastrum's branch network and overall costs and enhance its operational efficiency at all business levels, the Group implemented the following during the first half of 2014:

- recruited a new chief executive officer and chairman of management board;
- revised Uniastrum's organizational structure in line with banking best practices;
- revised recovery procedures, recruited experienced personnel, improved collaboration with the Group and adopted other initiatives to improve recoveries and collection of bad debts;
- is developing a three-year business strategy that will focus on the Russian SME and corporate sectors;
- adopted a conservative capital policy statement. The Group has recruited an independent firm to assess the quality of the loan portfolio and the adequacy of current provisioning levels and, based on the results of this exercise, it is possible that Uniastrum may require a capital injection;
- set deadlines to integrate Group policies into Uniastrum; and
- took steps to increase deposit balances and liquidity buffers of Uniastrum.

The Group's operations in Russia suffered a loss before tax of €51.8 million and €42.7 million for the years ended 31 December 2013 and 31 December 2012, respectively, primarily as a result of provisions for impairment of loans and advances. Uniastrum follows the Group's and the CBC's guidelines on provisioning. The Group's operations in Russia suffered a loss before tax of €12.8 million for the three months ended 31 March 2014. As of 31 December 2013 and 31 March 2014, the Russian loan portfolio was €1.4 billion and €1.3 billion, respectively, and comprised 5.3% and 4.9%, respectively, of the Group's gross loans and advances to customers.

In February 2014, the CBR issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, non-compliance by Uniastrum in relation to certain reporting requirements of the CBR including, for example, to the AML/CTF area, as well as deficiencies in Uniastrum's risk and internal control environment. The CBR has imposed fines on Uniastrum of RUB60,000 in relation to its non-compliance with reporting requirements. See also "*Risk Factors—Risks Relating to the Group's Business—The Group is exposed to operational risk*" and "*Risk Factors—Risks Relating to the Group's Business—The Group is exposed to the risk of fraud and illegal activities*".

Retail Banking

Uniastrum's retail banking products and services include personal loans, mortgage loans, current accounts, deposits, credit cards and cash operations and money transfers. As of 31 December 2013 and 31 March 2014, the Russian retail loan portfolio was €399.1 million and €356.7 million, respectively, and comprised 27.9% and 27.7%, respectively, of the Group's total Russian loan portfolio.

SME Banking

Uniastrum also offers a variety of products and services for financing for SMEs based or operating in the Russian Federation, including trade credit and credit guaranteed by the Moscow Small Enterprise Assistance Fund. As of 31 December 2013 and 31 March 2014, the Russian SME loan portfolio was €256.7 million and €232.6 million, respectively, and comprised 18.0% and 18.0%, respectively, of the Group's total Russian loan portfolio.

Corporate Banking

Uniastrum offers corporate clients a range of products and services designed in collaboration with the Group, including cash management, investment loans and deposits, all of which are available to Russian and foreign businesses operating in a wide variety of sectors in all parts of the Russian Federation. Uniastrum's corporate lending programme is geared towards developing and expanding the clients' existing businesses through the provision of financing for working capital, the acquisition of property and equipment, upgrading of production facilities, major repairs and maintenance of property and equipment, debt refinancing and trade finance. As of 31 December 2013 and 31 March 2014, the Russian corporate loan portfolio was €773.3 million and €700.6 million, respectively, and comprised 54.1% and 54.3%, respectively, of the Group's total Russian loan portfolio.

United Kingdom

Bank of Cyprus UK Ltd

The Bank has operated in the United Kingdom since 1955. On 25 June 2012, the banking business carried out by the United Kingdom branch of the Bank, was transferred to Bank of Cyprus UK Ltd ("**BOC UK**"), a wholly owned subsidiary of the Bank which is incorporated in the United Kingdom and authorised and regulated by the United Kingdom's Prudential Regulation Authority and the Financial Conduct Authority. On 1 April 2013, pursuant to the Laiki Transfer Decrees, BOC UK acquired customer deposits amounting to €325.2 million and certain liquid assets from the United Kingdom branch of Laiki Bank. With the exception of these customer deposits and certain liquid assets, no other assets, liabilities, premises, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to BOC UK.

BOC UK operates in the United Kingdom through four business centres and banking outlets in London specialising in the provision of banking services to smaller businesses and entrepreneurs. As of 31 December 2013 and 31 March 2014, the BOC UK loan portfolio stood at €682.5 million and €704.3 million, respectively, and comprised 2.6% and 2.7%, respectively, of the Group's gross loans and advances to customers. As of 31 December 2013 and 31 March 2014, customer deposits were stable at €1.2 billion.

United Kingdom branch of Laiki Bank

On 1 April 2013, the customer loans and advances as well as the premises (6 properties) of the United Kingdom branch of Laiki Bank were transferred to the Group pursuant to the Laiki Transfer Decrees. These advances will continue to be administered by the United Kingdom branch of Laiki Bank under a service level agreement with the Bank. In line with the Restructuring Plan's objective for the disposal of non-core assets, IO intends to dispose of this portfolio through a competitive bid process which is expected to conclude during the fourth quarter of 2014. As of 31 December 2013 and 31 March 2014, customer loans and advances amounted to €561.6 million and €451.2 million, respectively. Responsibility for the sale of the premises maintained by the United Kingdom branch of Laiki Bank has been assumed by the Group's valuation and estate department.

With the exception of customer advances, customer deposits, premises and certain liquid assets, no other assets, liabilities, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to the Bank or BOC UK.

Channel Islands

In 1996, the Bank established Bank of Cyprus (Channel Islands) Ltd ("**BOC CI**"), a wholly-owned subsidiary incorporated in the Channel Islands which is licensed under the Banking Supervision (Bailiwick of Guernsey) Law of 1994 and the Protection of Investors (Bailiwick of Guernsey) Law of 1987. As of 31 December 2013 and 31 March 2014, BOC CI had total assets of £134.0 million and £136.9 million, respectively. Its main activities are deposit-taking and lending, as well as the provision of private banking and international investment and brokerage services.

Greece

The Group exited Greece, a market in which it has operated for the last 22 years, through the disposal of loans, fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree. The Group's remaining activities and assets in Greece following the disposal to Piraeus Bank include the provision of insurance services through the Greek branch of EuroLife, the management of a €260.7 million, as at 31 March 2014, contingent off balance sheet exposure comprised of letters of guarantee issued by the Bank before the date of the Greek Operations Decree (which no longer have the benefit of security and collateral as a result of the disposal of the loans to Piraeus Bank) and the management of a real estate portfolio, consisting of repossessed properties that were not part of the assets sold to Piraeus Bank under the Greek Operations Decree. Responsibility for the management of the Group's real estate assets and letters of guarantee exposure in Greece has been assumed by the Group's operations division. See *"—Property*" below for more detail on the Group's real estate in Greece.

Romania

On 25 April 2013, in accordance with the Romanian Operations Decree, certain assets (which included customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch of the Group, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The gross assets and customer deposits transferred to Marfin Bank Romania amounted to €82.0 million and €77.0 million, respectively.

In line with the Restructuring Plan's objective for the disposal of non-core assets, the Bank's Romanian branch has not engaged in new loan origination activities and is concentrating on the management and deleveraging of its remaining loan portfolio and the disposal of real estate assets in Romania obtained as part of customer loan settlements. The Group's loans and advances to customers in Romania decreased from €550.2 million as at 31 December 2012 to €493.0 million as at 31 December 2013. The Group's loans and advances to customers in Romania was €472.4 million as at 31 March 2014. As of 31 March 2014, the Group had a real estate portfolio in Romania with a book value of €34.8 million.

The Bank completed the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million in April 2014.

Ukraine

In April 2014, the Bank completed the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, for approximately €202.5 million, comprising €102.5 million received and €100.0 million deferred up to 31 March 2015.

International Corporate Banking

The ICB was established in September 2013 and is responsible for the monitoring a number of cross-border loans originated in Cyprus (€426.8 million at 31 March 2014) and assists the Group's international banking subsidiaries in the management of their corporate clients and large projects (co-managing €575.5 million at 31 March 2014). As of 31 March 2014, ICB managed a portfolio of international corporate customers and large international credit and asset portfolios of €1.0 billion. In addition, ICB assists the Group's overseas subsidiaries in the handling of their corporate portfolios, with the aim of ensuring a consistent approach and analysis in each jurisdiction.

Property

As of the date of this Information Memorandum, 18 of the Group's retail branch premises are owned by the Group while the remaining 112 retail branch premises are leased. In addition, the Group's head offices, including the Group's headquarters in Nicosia, are owned by the Group. These properties and leases are managed by the Group's operations division. In addition, the Group's operations division also manages:

- the Group's real estate portfolio in Cyprus and Greece which is principally comprised of real estate which had been seized by the Group as a result of enforcing loan collateral as part of customer loan restructurings. The Group's real estate portfolio in Romania is managed by the IO division (see "—*International Operations—Romania*" above); and
- the Group's two property development companies in Cyprus, Kermia Ltd ("**Kermia**") and Kermia Properties & Investments Ltd ("**KPI**").

As of 31 December 2013, the Group had own use and investment properties in Greece with a total book value of €172.4 million. As of 31 December 2013, the Group had own use and investment properties in Cyprus, including the properties owned by Kermia and KPI, with a total book value of €491.7 million.

Kermia and KPI are both wholly-owned subsidiaries of the Group with total assets as at 31 March 2014 of €35.3 million and €16.5 million, respectively. Kermia specialises in the development, trading and management of property and owns Kermia Hotels Ltd, which manages the Kermia Beach Bungalow Hotel, a tourist complex in Ayia Napa, Cyprus. KPI is mainly engaged in the development and management of property.

In line with the Restructuring Plan, the Group's operations division is focused on the disposal of the Group's real estate portfolio in Greece and Cyprus, including the Group's interests in Kermia and KPI. See "*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*" for a discussion of the risks involved in the disposal of real estate in Greece and Cyprus.

Group Compliance Division

The Group Compliance Division ("**GCD**") is an independent department responsible for facilitating the management of compliance risk and, with executive management, developing a corporate culture of compliance through staff training, the implementation of policies relating to regular reporting and cross-Group communication on compliance matters and the monitoring of the compliance function. Compliance risk is the risk of impairment to the Group's business model, reputation and financial condition from the failure to comply with laws and regulations, internal standards and policies. The scope of the compliance function also includes advising on compliance regulatory requirements, market conventions and codes of practice promoted by industry associations.

The functional activities of the GCD are organised through the following departments, each of which has distinct responsibilities and covers specific risk areas:

- *The Regulatory and Ethics Compliance Department*. The overall objective of this department is to establish and maintain an ethical corporate culture for the Group and its primary responsibilities include, among other things, identifying, managing and monitoring risk, reporting on key compliance issues, monitoring new legislation and regulations, supporting Group subsidiaries and branches with their compliance matters and managing the training of staff on regulatory and compliance matters; and
- *The Money Laundering Compliance Department*. This department is divided into four sub-departments:

  (i) The Money Laundering Risk Monitoring Team is primarily responsible for investigating alerts, carrying out internal investigations, submitting reports on suspicious transactions to the financial intelligence unit and responding to compliance queries (including from corresponding banks);

  (ii) The Money Laundering Assurance Team is primarily responsible for the monitoring of overseas operations, audits and risk-control self assessments;

  (iii) The Money Laundering Risk Assessment Team performs due diligence on new and existing client accounts (including high risk customers), sanctions reviews and assesses corresponding banks; and

  (iv) The Operations Team administers information technology systems and the development and administration of Group policy and reporting to the CBC. The operations team is also responsible for training staff on anti-money laundering issues.

The following anti-money laundering policies have been approved by the Board of Directors:

- *Risk Appetite Statement and Guidelines in Relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing*. This policy provides a framework for executive management and the Board of Directors to more clearly define a risk based strategy for the prevention and suppression of money laundering and terrorist activities.
- *Policy Relating to the Prevention of Money Laundering and Terrorism Financing*. This policy sets out rules on the: appointment of a compliance officer for each subsidiary company, performance of due diligence on customers and transaction parties and the retention of appropriate records and data for at least 10 years.

  For all Group entities that are required by applicable rules and regulations to have a compliance division, a unit must be established with responsibility for the prevention and suppression of money laundering and terrorist financing. Where there is no requirement for a compliance division, the relevant compliance officer must have access to adequate resources. In each case, the functional reporting line of the relevant compliance officer is to the Director of Group Compliance.
- *Customer Acceptance Policy*. This policy sets out the framework for the evaluation of customer risk, including establishing guidelines for identifying high-risk industries and entities (e.g., politically exposed persons, trusts and client accounts) and prohibiting the establishment of a business relationship with certain persons (e.g., persons connected with sanctioned countries).

  For those politically exposed persons not caught by the general prohibition on the establishment of a business relationship, this policy requires enhanced due diligence to be performed and the approval of senior management before a business relationship is established and, thereafter, the monitoring of account activity.
- *Sanctions Policy*. This policy sets out instructions on the treatment of, and compliance, with sanctions administered by the United Nations, the EU and other applicable bodies (e.g., Office of Foreign Assets Control of the U.S. Department of the U.S. Treasury). This

policy includes information on affected countries, guidance on the type of transaction covered and instructions on internal reporting.

For more information, see "*Risk Factors—Risks Relating to the Group's Business—The Group is exposed to the risk of fraud and illegal activities*" and "*Regulation and Supervision of Banks in Cyprus—Money Laundering and Terrorist Financing*".

The regulatory and ethics compliance department has issued and the Board of Directors has approved the following Group policies:

- Complaints Management policy;
- Competition Law policy;
- Market abuse procedure; and
- MiFID Relevant Persons procedures.

The following policies are in process of being finalised.

- Compliance Governance policy;
- New products and services policy;
- Anti-bribery policy;
- Data protection policy; and
- Conflict of Interest policy.

Litigation and Related Matters, including Regulatory Proceedings

Neither the Bank nor any of its respective subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Information Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Group, except as disclosed below. The investigations and litigation proceedings disclosed below may have an impact on the financial position or profitability of the Group and on the Group's reputation in the market. At the same time, most cases and matters relate to the period prior to the issue of the Resolution Decrees (the "**Resolution Decrees**" or the "**Decrees**") and to the problems brought about as a result of the said Decrees. In most cases, the Bank believes that it has viable defences which it will advance in the course of the relevant proceedings.

Investigations and litigation on securities issued by the Bank

A number of customers have filed actions against the Bank alleging that the Bank is guilty of mis-selling in relation to securities issued by the Bank and have claimed various remedies, including the return of the money they have paid. The Bank is contesting these claims, which are pending before the courts in Cyprus and in Greece.

The bonds and capital securities in respect of which claims have been brought are the following: Capital Securities (Issue 12/2007), Subordinated Convertible Bonds due 2018, Convertible Capital Securities (Perpetual) and Convertible Enhanced Capital Securities.

The Bank observes that such claims vary between themselves considerably. In the case of many of them (including all institutional investors and those purchasers who had received investment advice from independent investment advisors before proceeding with the purchase) the Bank believes that it has a number of viable legal defences, which it will advance in the course of proceedings, particularly with respect to institutional holders. In the case of retail investors, particularly where it can be documented that the relevant Bank officers "persuaded" them to proceed with the purchase and/or purported to offer "investment advice", the Bank may face more significant difficulties. But in any event, the resolution of the claims brought in the courts of Cyprus and Greece could take a number of years. Whilst there can be no assurance that the Bank will be successful in defending all the relevant claims, it is not thought that such claims will have a material impact on the financial condition of the Bank.

In addition, the CBC has conducted an investigation into the Bank's issue of capital securities and concluded that the Bank breached certain regulatory requirements concerning the issue of Convertible Capital Securities (Perpetual) in 2009 but not in relation to the Convertible Enhanced Capital Securities in 2011. The CBC imposed upon the Bank a fine of €4,000. The Bank has filed a recourse before the Supreme Court of Cyprus (the "**Supreme Court**") against the CBC's ruling and its imposition of a fine.

The Hellenic Capital Market Commission Investigation

The Bank is currently under investigation in Greece by the Hellenic Capital Market Commission (the "**HCMC**") in relation to the issue of Convertible Capital Securities (Perpetual) in 2009 and Convertible Enhanced Capital Securities in 2011. The HCMC is investigating whether the Bank violated certain provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test pursuant to article 25 of Greek law 3606/2007 (transposing Directive 2004/39/EC on Markets in Financial Instruments) and the implementing regulation.

The HCMC may impose a fine of up to €3 million or an amount equal to double the amount of any benefit accrued to the Bank. If the HCMC imposes a fine on the Bank, the Bank has the right to judicial review in the administrative courts in Greece. An adverse holdings may facilitate civil actions against the Bank. However, the Group does not expect that the final outcome will have a material adverse effect on the financial condition or the reputation of the Group. While the decision of the HCMC in this matter will not be binding on the Greek or Cypriot courts, it may be put before the court by the complainants in any proceedings against the Bank.

Overall, though much litigation may be expected, it is not believed that such litigation, when concluded, will have a material impact upon the financial position of the Bank.

The Cyprus Securities and Exchange Commission Investigations

On 2 August 2013, CySEC published its conclusions regarding an investigation it had conducted into the Bank concerning the failure in June 2012 to disclose material information to investors concerning a capital shortfall to meet EBA requirements. CySEC came to the conclusion that the Bank was in breach of the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005 (the "**Market Abuse Law**") and on 27 November 2013 imposed an administrative fine on the Bank of €70.000. On 27 November 2013, CySEC also imposed administrative fines on certain of the then members of the Board of Directors. On 25 October 2012, the Bank filed a recourse before the Supreme Court challenging CySEC's decision (as far as concerns the Bank).

CySEC has concluded (in two stages) during 2013 and 2014 its investigation in respect of the Group's exposure to Greek Government bonds, related non-disclosure of material information and other corporate governance deficiencies. In this respect, CySEC has issued two decisions, coming to the conclusion that the Bank was in breach of certain laws regarding disclosure of information and has imposed as administrative fines upon the Bank the total sum of €1,110,000. It has also imposed fines upon certain of the then members of the board of directors of the Bank. The Bank has filed a recourse before the Supreme Court regarding one decision of CySEC and the fine imposed upon it, and intends to file another recourse before the Supreme Court regarding the second decision.

Recently, CySEC issued its decision regarding the Group's failure to publish its 2012 annual financial statements within the legally prescribed time limits. No fine was imposed but a reprimand has been administered. The Bank intends to file a recourse before the Supreme Court in respect of the reprimand administered to it.

In addition to the above, as of the date of this Information Memorandum, CySEC is in the process of investigating:

- The increase of the share capital of Uniastrum in 2008.
- The goodwill impairment of Uniastrum.
- The assets pledged by the Bank for central bank funding (comprising ECB funding for monetary operations and ELA).
- The adequacy of provisions taken by the Bank in the year 2011 and 2012.
- The level of impairment of Greek government bonds in 2011.

A decision of CySEC will not be binding on the courts. If a person wishes to claim damages or any other remedy against the Bank, he must bring fresh proceedings against the Bank before the competent Courts of the Republic of Cyprus.

Bail-in related litigation

Depositors

A number of the affected depositors filed claims against the Bank and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the ground that, *inter alia*, the Resolution Law and the Bail-in Decrees are in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. Actions on the part of the affected depositors have been filed before the District Courts (the "**District Courts**") and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In 19 of those actions, interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as bailed-in (i.e. converted into shares of the Bank). The Bank took active steps and obtained the discharge and cancellation of 18 of these interim orders, whilst a court hearing regarding the one remaining interim order is scheduled for September 2014. The Bank believes that all interim orders issued in depositors' cases will be discharged and is defending the actions of depositors vigorously. Resolution of disputes through the courts in Cyprus can take five years or more and accordingly, the Bank believes that the substantive proceedings before the District Courts will take up a significant period of time.

Shareholders

There are also numerous claims filed by shareholders against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. The objective of these proceedings before the Supreme Court is to obtain the annulment (i.e. cancellation and setting aside) of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. These proceedings are now before the full bench of the Supreme Court, which is considering whether the cases should be dealt with in the context of public or private law (before the District Courts). The Bank is appearing in these proceedings as an interested party and has supported the position that as with depositors the cases should be adjudicated upon in the context of private law. As of the date of this Information Memorandum, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. Final adjudication of these claims through the courts in Cyprus could take three years or more.

Claims based on set-off

Certain claims have been filed by customers against the Bank. These claims allege that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. Such proceedings will take a long time before a final outcome is reached and it is not thought that they will have a material impact on the financial condition of the Bank.

Laiki Bank depositors and shareholders

The Bank has been joined as a defendant with regard to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Bank's bailed-in depositors and shareholders as described above. Again, the legal process will be long. The Bank will continue defending such proceedings vigorously.

Implementation of Decrees

Occasionally, other claims are brought against the Bank in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented). All such claims are being vigorously disputed by the Bank, in close consultation with the appropriate state and governmental authorities.

Commission for the Protection of Competition Investigation

Following an investigation, which began in 2010, the Cypriot Commission for the Protection of Competition (the "**CPC**") in April 2014 issued its statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Bank. The CPC has alleged that the market conduct of JCC Payment Systems Limited ("**JCC**"), a card-processing business owned and controlled by its shareholder banks, which includes the Bank (the Bank owns 75% of shares in JCC), together with the conduct of other Banks, violates competition law in various respects. Both the Bank and JCC are contesting the allegations and charges.

There is also an allegation concerning the Bank's arrangements with American Express, namely that such exclusive arrangements violate competition law. The Bank contests such allegations and intends to file a Defence in the matter.

The competition cases are still at an early stage.

A fine, if any, could be imposed as a percentage of the turnover of the Bank.

CNP – Arbitration

CNP had certain exclusive arrangements with the Cyprus Popular Bank Public Company Ltd with respect to insurance products offered in Cyprus through the formation of a local Company (CNP Cyprus). In this local company, CNP France held 50.1% of the shares and the Popular Bank 49.9.% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP and Laiki Bank, a Shareholding Agreement (the "**Shareholding Agreement**") and a Distribution Agreement (the "**Distribution Agreement**" and, together with the Shareholding Agreement, the "**Agreements**"). As regards the Shareholding Agreement, the Bank (pursuant to the Resolution Law and the Decrees made thereunder) has succeeded to the shareholding of Laiki Bank, thus becoming a shareholder of the local CNP company to the tune of 49.9%. Following the resolution of Laiki Bank, CNP has instituted arbitration proceedings in London under the auspices of the International Chamber of Commerce, alleging that the Bank is a successor to Laiki Bank in respect of both Agreements and that the said Agreements (particularly the Distribution Agreement) have been violated. Sums of €105 million and €75 million are claimed by CNP against the Bank. The Bank takes the view that it has viable defences in respect of both proceedings which it intends to contest vigorously. One of the defences raised by the Bank is that of frustration, namely that as a result of the very significant changes of March 2013 and subsequently the Agreements as concluded between CNP and Laiki Bank cannot possibly operate in the context of the new realities.

Other Litigation

The Group is involved in a number of other litigation proceedings involving 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 €38.3 million has been recognised, following a court judgment. The case is now pending before the Supreme Court.

Romanian proceedings

For the past few years, two officers of the Bank have been accused of and charged with offences relating to the manipulation of the market in Romania (in respect of the purchase of a holding in Banca Transilvania). These officers were acquitted twice in the past but the Romanian Prosecution Authority filed a final appeal before the High Court of Justice, namely the highest judicial tier in Romania, before which "new evidence" was placed. In a decision issued on 2 July 2014, the High Court has confirmed the previous acquittals and dismissed all charges against the accused, thus bringing to an end this long and complex case.

Provident Fund Cases

23 claims are pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits. These employees retired and/or departed in 1999 and claim that the Bank and/or the Bank's provident fund did not calculate their benefits correctly. In the event that the claims succeed, the total amount will be in the region of €20 million.

Themis case

The Bank is the defendant in a claim by Themis Constructions ("**Themis**"), an enterprise owned by the Greek state, arising from the financing of a construction project in Greece. The project was never completed and the Bank, under an assignment agreement, sued Themis for the balance of the construction fees. The claim of the Bank was rejected and the appellate court issued a decision in favour of Themis for the amount of €36.1 million plus interest. The Supreme Court has heard an application to vacate, the judge rapporteur issued a recommendation to the Supreme Court in favour of Themis, but the Supreme Court has not yet issued its final judgments in this matter. The case relates to the discontinued operations of the Bank in Greece. The Bank does not expect that the final outcome of this case will have a material adverse effect on the financial condition or the reputation of the Bank.

Internal Audit Investigations

The Bank regularly conducts internal audit investigations with regard to a number of issues. In late May 2014, the Audit Committee reviewed an internal audit report (dated 19 May 2014) which concerned the timing of the Bank's reclassification of government bonds in 2010 and 2011, particularly with respect to the timing of reclassification of Greek government bonds during the second quarter of 2010. On the decision of the Board, this internal audit report has been recently referred to the CBC for guidance and advice. Should the final outcome of this process be that there were irregularities with the timing of the said reclassification, there could be an impact on the revaluation reserves/equity of the Group for the second quarter of 2010. Based on the currently available information, the Bank is of the view that any further investigations or claims resulting from this process will not have a material impact on the financial position of the Bank.

RISK MANAGEMENT

Risk Management Governance

Enhancing risk management is a key priority for the Group and the Group has established a centralised and independent Risk Management Division ("**RMD**") under the Group Chief Risk Officer ("**GCRO**") with a direct reporting line to the Group Chief Executive Officer ("**GCEO**") and the Board Risk Committee. The GCRO attends, amongst other committees, the ALCO, the Group Executive Committee, the Acquisition and Disposal Committee and the Board Risk Committee. The Board Risk Committee examines, amongst other things, the Bank's risk policy and systems and annually assesses the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The RMD is also involved in direct risk monitoring of international and domestic subsidiaries and has been mandated to design policies reflecting the risk appetite of the Group, monitor risks in a proactive manner across the different business segments, taking into account all relevant CBC guidelines and regulatory requirements.

As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the RMD function has been reassessed and reorganised to improve and enhance credit risk monitoring and reporting. As part of the reorganisation process, new departments have been created to address particular risks, and new subdivisions have been created within existing departments. The total number of employees in the Group's RMD has also increased from 89 as of 31 March 2013, which includes 38 employees absorbed from Laiki Bank's risk management department, to 126 employees as of June 2014.

The functional activities of the RMD are now organised through the following departments, each of which has distinct responsibilities and covers specific risk areas:

- *Credit Risk Management*. This department is divided into three sub-departments:
  - (i) the Credit Risk Policy ("**CRP**") department develops the Group's credit risk policy, lending policies and processes and reports on the relevant credit risk metrics;
  - (ii) the Credit Risk Reporting & Control ("**CRR&C**") department is responsible for reviewing credit approval applications, once approved by the Credit Risk Approval department, and monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics; and
  - (iii) the Credit Risk Assessment ("**CRA**") department tests the managements of credit risk at all stages of the credit cycle. The CRA department is a new sub-department that was created as part of the RMD reorganisation.
- *Credit Appraisal*. This department is engaged in reviewing and approving credit applications, within an approved set of limits. Under the previous RMD structure, the Credit Appraisal department reported directly to the GCEO; however, under the current structure, the Credit Appraisal department reports to the GCRO.
- *Market Risk*. This department monitors risk from changes in market rates, liquidity risk and credit risk in relation to the Group's investments in liquid assets. For more detail on the market risk unit, see "*—Asset and Liability Management*" below.
- *Operational Risk*. This department is responsible for identifying key operational risks which are both assessed and managed through the implementation of the Group operational risk management policy. This policy includes the holding of risk control self-assessment workshops with employees of the Group, the maintenance of an operational loss collection process and evaluations of outsourcing activities, new and amended procedures and new products and services of the Group from an operational risk perspective. The operational risk department also cooperates with other departments of the Group (such as information technology, legal, information security, physical security, health and safety, and compliance) and business lines in general in order to monitor and identify operational risks.

- *Information Security*. This department has established an information management programme in order to identify, assess and mitigate information security risks and ensure compliance with the applicable data protection laws and regulations issued by the CBC. This is executed in practice through the use of policies, processes, systems and personnel operating under the following domains: governance, information protection, personnel, access control, infrastructure protection, physical protection, applications protection and threat and incident management. The Information Security department was previously within the Operational Risk department but has become a stand-alone department as part of the RMD reorganisation.
- *International Risk Management and Other Subsidiaries*. This department's primary responsibilities are to ensure that the business conducted by the Group's overseas operations and foreign subsidiaries is consistent with the Group's risk appetite and that these overseas operations and foreign subsidiaries implement risk management policies, procedures and methodologies which are consistent with the Group's risk management guidelines. The International Risk Management and Other Subsidiaries department is a new department that was created as part of the RMD reorganisation.
- *Capital Risk Management*. This department is responsible for the calculation and reporting, both regulatory and management, of the Group's risk-weighted assets ("**RWAs**") in line with the requirements of CRD IV/CRR (as defined in "*Regulation and Supervision of Banks in Cyprus*"). The capital risk management department is also involved in any regulatory or other management assessments involving the Group's capital adequacy requirements. The Capital Risk Management department is a new department that was created as part of the RMD reorganisation.
- *Credit Risk Systems & Analytics* ("**CRSA**"). This department is responsible for the development, evaluation and calibration of all risk-related models. In particular, the CRSA develops and runs the Group's credit scoring models and credit rating systems.

Overall Risk Strategy and Appetite

The Group's overall risk strategy and appetite will remain conservative throughout the period of the Restructuring Plan. In particular:

- *Credit risk*. The Group has implemented conservative credit risk policies and a proactive approach on the monitoring of credit risk. Through the establishment of the RRD, the Group has strengthened the management and recovery of its delinquent loans as well as larger corporate exposures (regardless of delinquency status);
- *Liquidity and funding risk*. The Bank aims to decrease its reliance on ELA funding; and
- *Market risk*. The Bank does not run proprietary trading books and aims to maintain neutral or near neutral positions with respect to foreign currency risk and interest rate risk; and
- *Operational risk*. The Group has implemented a "zero-tolerance" policy towards internal fraud and non-compliance with regulatory requirements.

Credit Risk

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group. As part of its restructuring of the financial sector of Cyprus, the CBC has recently issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Bank's credit risk policy and the management of its credit risk. As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the Bank is in compliance, or is in the process of complying, with the requirements of these new directives. For more detail on these new directives, see "*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*".

Credit Risk Management

The key elements of the Group's new credit risk policy and processes are:

(1) a clear and separate organisational responsibility for the management of credit risk for the Group as follows:

- Credit origination is the responsibility of the relevant business division (for example, consumer and SME banking, corporate banking, IBS and wealth, brokerage and asset management);
- Credit appraisal is the responsibility of the Credit Appraisal department which is independent of the relevant business divisions and is now under the supervision of the GCRO. In addition, the credit approval limits of the Group's retail branches, business centres, RRD, corporate banking centres and international banking centres have been revoked;
- Credit risk policies, lending policies and approval limits are the responsibility of the CRP; and
- The monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy are the responsibility of the CRR&C.

(2) the implementation of conservative credit risk policies with increased focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. In addition, these credit risk policies include strict credit criteria (such as restricted sectors of the economy and ratios such as EBITDA to annual debt service, interest rate cover, gearing and total leverage) for all lending segments as determined by the CRP. The application of these credit risk policies are combined with assessments of the customers' creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department. For more detail on the credit criteria and assessments for each lending segment, see "—*Credit Criteria by Lending Segment*" below; and

(3) an increase in the frequency of the review of credit limits on a continuous basis and the concentration limits on an annual basis; and

(4) the clear stratification of credit approval limits to allow for credit risk assessment by credit risk personnel of the appropriate experience and seniority. For more detail on these credit approval limits, see "—*Credit Approval Limits*" below.

The CRP is principally responsible for the establishment of the Group's credit risk and lending policies and approval limits for credit applications, write-offs and charges. These policies and approval limits are reviewed and updated by the CRP on a regular basis to reflect any changes in the Group's strategy for its lending businesses, economic conditions and the applicable laws and CBC directives. The CRP also provides support to the business divisions in relation to any issues concerning the credit risk and lending policies of the Group.

The CRR&C is based in the Bank's headquarters and is mainly responsible for the continuous monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy. In general, the CRR&C's monitoring of the Group's credit portfolio is based on a regular review of basic key performance indicators such as NPLs, 90+DPD ratios, excesses and arrears, and credit exposures to related accounts are aggregated and monitored on a consolidated basis. However, the department also monitors any concentrations in the Group's credit exposure to different sectors of the economy and pays particular attention to any loans with an increased risk profile. Loans with an increased risk profile include restructured loans, loans showing early warning signs of default (such as interest or principal arrears or write-offs, credit accounts with debit balances and interest and/or large security gaps), loans to customers on the "watch list" and loans which require a scheduled review or a review triggered by, amongst other things, out-of-date valuations of collateral, out-of-date audited financial accounts and/or expired fire insurance policies. In addition, the CRR&R, in cooperation with the business divisions, monitors compliance with the applicable loan quality targets and the transfer of delinquent loans from these divisions to the RRD. The CRR&C establishes the Group's loan provisioning policy and calculates the level of loan provisions to be provided based on its review of the Group's credit portfolio. The CRR&C and CRA monitor the compliance of each business division with the applicable lending policy and approval limits.

The CRA is also based in the Bank's headquarters and tests the managements of credit risk at all stages of the credit cycle. In particular, the CRA reviews all customer credit applications over €7.5 million (currently) and provides an assessment of the risks associated with the proposed funding to the Executive Loans Committee and the Group Highest Executive Loans Committee. For customer credit applications below €7.5 million (currently), the CRA provides an assessment of the risks associated with the proposed funding to the Executive Loans Committee and the Group Highest Executive Loans Committee on an ad hoc basis. The CRA also performs random checks on the credit approvals provided by the Credit Appraisal department for compliance with the Group's lending policy, credit approval limits and the conditions for approval of the loan concerned. Sample testing of credit approval applications prepared by the credit risk officers of the Credit Appraisal department are also carried out in order to identify any inefficiencies or training requirements.

The Credit Appraisal department is independent of the relevant business divisions, including the RRD, and reviews and approves all credit applications. This department is mainly staffed by experienced credit officers responsible for reviewing and, subject to the credit approval limits described below, approving credit applications for new facilities, debt restructurings, other credit requests submitted by various business units in Cyprus as well as, in the case of credit applications above the limits set by the ALCO for the countries concerned, by the Group's banking subsidiaries in the United Kingdom and Russia.

Credit Approval Limits

Credit approval limits are determined by reference to the total liabilities of the Group. A credit appraiser in the Credit Appraisal department is responsible for approving non-RRD originated credit exposures of up to €3 million. For RRD originated credit exposures of up to €3 million, credit applications are approved by specialist teams within the SME underwriting department and the retail underwriting department that focus on restructured and problematic loans and which report directly to the manager and the head of the Credit Appraisal department, respectively. For any credit exposure, including RRD originated credit exposures, over €3 million but under €7.5 million (currently), a loans committee (typically comprised of at least three senior credit appraisers) is convened. Credit exposures over €7.5 million (currently) but under €25 million are approved by the Executive Loans Committee and credit exposures over €25 million but under €50 million are approved by the Group Highest Executive Loans Committee. The Executive Credit Loan Committee is usually comprised of three senior credit appraisers and three officers from other departments of the Bank (none of which may be from business units, including the RRD) as well as a representative from the CRA. At least three of the permanent members of the Executive Credit Loan Committee must attend each meeting in order for it to be quorate. The Group Highest Executive Loans Committee is comprised of six permanent members which includes the manager of the Credit Appraisal department. At least three of the permanent members of the Group Highest Executive Loans Committee must attend each meeting in order for it to be quorate.

Any credit exposures of more than €50 million but under €100 million are approved by the Board Risk Committee while any credit exposures over €100 million, all loan applications and all restructuring or write off of loans of any amount to politically exposed persons, must be referred to the Board of Directors by the Board Risk Committee for final approval. All credit committee meetings approving credit exposures over €25 million are attended by the GCRO or any senior officer of the CRA, either of whom has the right of veto which can only be overruled by the Board Risk Committee. Credit approval limits up to €50 million can be changed jointly by the Group's Chief Executive Officer and the GCRO.

Credit Criteria by Lending Segment

The Bank's primary lending criterion is the borrower's repayment ability. The Bank places paramount importance on the assessment of a prospective borrower's ability to meet repayment schedules.

A system of credit scoring is also used to assess applications for loans by personal customers. Application scoring is used for new customers and the score/decision is based on the customer's characteristics (demographics such as age, length of employment, salary, years at the same address and, to a lesser extent, the terms of credit of the requested facilities) at the time of the application. In relation to lending to existing customers, the Bank uses, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears.

With respect to SME and corporate lending, the CRP has introduced the following additional credit criteria in line with its conservative credit risk policy:

- *Collateral coverage*. Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities;
- *Restricted sectors*. The CRP has defined economic sectors to be avoided (such as trade in tobacco, weapons and used cars), which are determined based on the historical NPL performance of that sector and on performance expectations from the Group's economics department, and existing loans to borrowers in these sectors are managed with a view to decreasing the Bank's exposure to them; and
- *Foreign exchange disbursements*. No disbursements in foreign currencies are permitted.

In addition, SMEs and corporate customers are assessed by the Bank's credit rating system. The Bank's credit rating system calculates the following ratings for these customers:

(i) Their **financial index** (based on Moody's Risk Analyst) (an assessment of the financial position of the customers based on recent audited financial statements (assessing the performance with respect to operational efficiency, liquidity, debt service and capital structure)). This is the index that had been used for assessing financial position/credit worthiness of business/corporate customers.

(ii) Their **borrower rating** (an assessment of the credit-worthiness of the customer taking into account financial index, account behaviour with the Bank, the directors'/guarantors' account behaviour with the Bank, the management of the enterprise and sectoral risks as well as the operations liquidity and capital structure).

(iii) Their **transaction rating** (an overall assessment of the customer taking into account their financial index, their borrower rating as well as the collaterals/security gap of the Bank vis-à-vis the customer). This module will support the creation of loss given default, exposure at default and expected loss in compliance with the Basel II IRB foundation approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

In addition, the Bank is in the process of developing a new modelling and assessment tool to identify potential problematic clients. This assessment tool will be incorporated into the Bank's existing rating scoring system and will be designed to send alerts to the client's home branch so that the branch managers may contact the client to minimize any potential risk of default.

In addition, the Bank's credit assessment takes into account the availability of satisfactory security, mainly in the form of tangible collateral and personal/corporate guarantees depending on the riskiness. The main types of collateral obtained by the Group include real estate mortgages, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of listed companies, fixed and floating charges over corporate assets, pledges granted by shareholders over shares in a corporate borrower, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Over and above repayment ability which is the primary lending criterion, in cases where collateral is sought, the Bank generally lends on the security of a first charge and takes a second charge only in exceptional circumstances (for example where the Bank's primary security is taken in some other way and the second charge provides additional comfort). Often customers borrow in their personal capacity or as SMEs taking advantage of a number of different facilities. In these cases, the security taken by the Bank in respect of a customer's borrowings is in effect "pooled" by a system of cross collateralisation and cross guarantees, so that default under the terms of one facility may trigger enforcement of security originally taken in respect of another. This pooling of security maintains flexibility in that it allows the Bank to have access to the maximum amount of assets in respect of a borrower. Security is held as a last resort for the recovery of the debt. Generally, the Bank requires a review of security if the borrower makes a request for a new loan or advance, application for restructuring or during the annual review.

Contingent liabilities and commitments

The Group enters into various irrevocable commitments and contingent liabilities, particularly in relation to the provision of trade finance services to its customers. These contingent liabilities and commitments are principally comprised of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Group's balance sheet, these commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes (see "—*Credit Risk Management*" above). Amounts outstanding in relation to trade financing for each customer are aggregated with any other outstanding amounts in relation to such customer in determining credit limits.

Loans to Shareholders, Directors and Key Personnel

There are no special terms on loans to shareholders. As regards limits on credit facilities granted to directors of the Bank and their connected persons, the Bank complies with the relevant provisions of the Banking Law of 1997 (the "**Banking Law**") and the relevant exposures are set out in the Group's Consolidated Financial Statements (see "*Management and Corporate Governance—Related Party Transactions*").

Provisioning

A full review of the Group's portfolio is carried out quarterly under the supervision of the CRR&C in order to review all loans which meet certain criteria. These criteria are revised regularly to keep up with market developments and are specific to each country. The criteria for specific provisions currently include all non-performing loans and all performing restructured loans above €10 million (currently).

In determining the level of provision for impairment required, the Group considers the amount of security gap as well as details of the financial position of personal guarantors, up-to-date valuations of the security, values assigned to fixed and floating charges, an assessment of the borrower's general financial position, the audited accounts of the borrower, relationships with and amounts owing to other banks, the results of any legal actions against the relevant borrower, the probability of a liability crystallising and the level of non-collectible interest (if any).

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions 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.

In relation to collective provisions, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors.

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.

Asset and Liability Management

The strategy for the management of the Group's asset and liability position is established by the ALCO which meets on a monthly basis. In general, the Group aims to hedge any exposure arising from interest rate and currency movements within certain limits set in the Group's market risk policy. In managing these interest rate and currency exposures, the Group's Treasury Division uses both on balance sheet instruments and off balance sheet derivative instruments. The overall asset/liability position is closely monitored by the Market Risk department of the RMD ("**MR**").

The MR is an independent department within RMD responsible for ensuring compliance at the level of individual units (through local market risk officers), 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. The MR and the ALCO monitor asset and liability management for the Bank and other Group companies including the operations in the United Kingdom, the Channel Islands and Russia. There are also local ALCOs in the other banking units (the United Kingdom and Russia), that monitor the implementation of asset and liability management for their local operations.

Liquidity and Funding Risk

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.

Following the negotiation between the Government and the Troika in relation to the provision of financial assistance to Cyprus, various capital controls were put into place that restricted the free movement of funds within and outside of Cyprus. For a description of these capital controls, see "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*". With the relaxation of these capital controls and the continuing economic crisis in Cyprus, the Group has increased its monitoring of cash flows and highly liquid assets both in terms of depth and frequency. For example, 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 of Directors has been informed of the liquidity position of the Group at minimum on a monthly basis.

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 the 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 the MR. MR reports to the ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. After the Recapitalisation of the Bank in March 2013, 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 Board Risk Committee, reviews at every meeting, the liquidity of the Group. Information on inflows/outflows is also provided.

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 funding crisis meeting of the ALCO. The plan sets out a series of possible actions that can be taken. This plan, as well as the Group's liquidity policy, are reviewed by the ALCO. The latter submits (via the Board Risk Committee) the updated policy with its recommendations to the Board of Directors for approval. The approved policy is notified to the CBC.

Funding and liquidity sources

Following the bail-in of the Bank in 2013, the Group's main sources of funding and liquidity are its customer deposits and central bank funding, either through the Eurosystem monetary policy operations or through ELA. For a discussion of the change in the Group's funding profile from 2012 to 31 March 2014, see "*Operating and Financial Review and Prospects—Liquidity and Capital Resources*".

The Group has limited access to interbank and wholesale markets, which combined with a general reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding.

The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes, the prior approval of the regulator is usually required on any repayment before the maturity date and, for BOC UK, approval is also required for repayment. BOC UK and BOC CI cannot place funds within the Group in excess of maximum limits set by the local regulators. Subsidiaries can proceed with dividend distribution in the form of cash to the Bank 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.

Liquidity reserves

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.

The Group's 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 of Directors.

As of 31 March 2014, the Group had liquidity reserves of €1.9 billion (€2.0 billion as at 31 December 2013), of which €1.2 billion (€1.3 billion as at 31 December 2013) are eligible for the purposes of calculating the Bank's Liquidity Coverage Ratio ("**LCR**") under Basel III requirements. The Group only holds LCR Level 1 eligible assets which include high quality debt securities issued by a government or central bank, multilateral agency bonds, cash and reserves at central banks.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives of Cyprus have approved the issuance of €2.9 billion of guarantees for bonds or 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.

Market Risk

In line with the Group's overall conservative risk strategy and appetite for the period of the Restructuring Plan, the Bank does not run proprietary trading books.

The MR is responsible for monitoring the risk resulting from adverse changes in market prices, namely from changes in interest rates, exchange rates and security prices, with the objective of minimising the impact of such changes on earnings and capital.

Interest rate risk

Interest rate risk is the exposure of a Bank's financial condition to adverse movements in interest rates. Changes in interest rates affect the Bank's earnings by changing its net interest income and also affect the underlying value of its assets, liabilities and off-balance sheet instruments. Interest rate risk primarily arises from timing differences on the re-pricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis per currency, in order to calculate the impact, from assumed interest rate changes, on the Bank's net interest income and economic value.

Interest rate risk is managed through maximum loss limits on the impact on net interest income which are set for each banking unit of the Group. These limits are set as a percentage of Group capital and as a percentage of net interest income. Small limits for open interest rate positions for periods of more than three years are also in place, as well as a limit (based on the Group's Tier 1 capital) for the maximum acceptable change in the Group's economic value (for a 200 basis points change in interest rates).

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 Board of Directors has approved open position limits for the total foreign exchange position limits as well as for certain individual currencies. 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 CBC. 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 the MR daily.

Equity securities price risk

Equity securities price risk is the risk of loss from adverse changes in price. The Group's existing portfolio is regularly marked to market and monitored, with the objective of gradually reducing it.

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 and as interest rates change. The Group holds a significant part of its liquid assets in debt securities issued mostly by governments (comprised mainly of debt securities issued by the Republic of Cyprus). The average Moody's rating of the debt securities portfolio of the Group as of 31 March 2014 was B3 (as of 31 December 2013 and 2012, B3 and Baa1, respectively). If debt securities issued by the Republic of Cyprus were excluded, the average rating of the Group's portfolio of debt securities would be Aa2 as of 31 March 2014.

Operational Risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk.

The Group's management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that focus on 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, a Group-wide operational risk management software was implemented to streamline and further automate operational risk management activities.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, root-cause analysis and corrective action. In 2013, 434 loss events with gross loss over €1,000 were recorded (compared to 495 in 2012). The Group has adequate insurance policies to cover unexpected operational losses.

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training.

Operational risks can arise from all business lines and from all activities carried out by the Group. To enable effective management of all material operational risks, the operational risk management policy adopted by the Group is based on the three lines of defence model, 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. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. 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 oversight of the integrity and effectiveness of the risk management framework throughout the Group.

The Eurogroup decisions and Recapitalisation of the Bank in 2013 gave rise to significant challenges in terms of operational risk management. During the first quarter of 2014, the Group's most significant operational risk was related to the absorption of the operations of Laiki Bank in Cyprus and the final integration of the Group's information technology systems and data with those of Laiki Bank. The day-to-day operational issues are being addressed by the business lines in consultation and close cooperation with the operation risk department and other control functions. The operational risk department monitors and assesses the potential risks and implements measures to control and mitigate them. To date, no risks have materialised in loss incidents for the Group from this process.

In addition, a number of regulatory changes were put in effect which demanded new software and procedures that give rise to operational risks related to data integrity, data aggregation, as well as non-compliance with the new regulatory provisions. To date, there have been no significant loss incidents for the Group from this process.

Other Risks

Business Continuity Risk

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 events that may cause major disruptions to the business operations.

Reputational Risk

Reputational risk refers to the risk arising from negative perception on the part of the Bank's stakeholders which may adversely affect the Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank applies a comprehensive reputational risk management policy to all its activities which aims to safeguard its safety and soundness, competitiveness and business value, through strengthening the trust and confidence of its major stakeholders.

Information Security Risks

The growth of the Group's business and the Bank's credibility with its customers is highly dependent on the Group's ability to protect and safely process the confidential information it receives from its customers and in relation to its businesses.

The information security department is an independent function reporting directly to the GCRO. Information is protected in accordance with applicable international standards and regulations and certain information security policies approved by the Board of Directors. A Security Awareness Programme is planned to increase the awareness of all staff to all information security matters. The Group's databases are protected against electronic risks and a number of strict policies and baselines exist for the network, back-ups emails and the internet. Information technology applications are also protected in line with international best practices.

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. In particular, the actual claims and benefit payments may exceed the amount of liabilities recognised in the financial statements. Insurance events are random and the actual number and amount of claims and benefits differs from year to year from those estimated using statistical and actuarial methods.

The Group's insurance subsidiaries address their risk exposure through the diversification across a large portfolio of insurance contracts, careful selection of policyholders in accordance with underwriting strategy guidelines and assessment of credit risk and the use of reinsurance arrangements. Although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations. For this reason, the Group's insurance subsidiaries regularly monitor the credit worthiness of reinsurance companies with which they cooperate.

MANAGEMENT AND CORPORATE GOVERNANCE

Overview

In April 2014, the CSE issued the Code. As a company listed on the CSE, the Bank has adopted the Code and applies its principles. Although the Bank currently complies with the provisions of the Code, there were certain exceptions during 2013 relating to (i) the independence of directors and the composition of the committees of the Board of Directors prior to the appointment of the interim Board of Directors and (ii) the participation of the Chief Executive Officer in the Risk Committee of the interim Board of Directors (which was agreed with the CBC). These exceptions have been rectified.

Board of Directors

On 26 April 2013 the CBC, in its capacity as Resolution Authority, appointed an interim Board of Directors, in accordance with the requirements of the MoU. As agreed in the MoU, the interim Board of Directors' appointment was to be effective until the next general meeting of the Bank's shareholders. On 30 July 2013 the CBC, in its capacity as Resolution Authority, notified the Bank that it was no longer under resolution. Consequently, the shareholders' rights were reinstated as of that date and on 10 September 2013 the shareholders of the Bank elected a new Board of Directors.

The Board of Directors is currently comprised of 13 non-executive directors, 11 of whom are independent, and one executive director. The primary role of the Board of Directors is to provide entrepreneurial leadership of 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 Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2013, 68 meetings of the Board of Directors were held due to the unprecedented and particularly challenging events and circumstances affecting the Group. The main areas of focus for the Board of Directors were the preparation of the Bank's strategy and Restructuring Plan, liquidity and arrears management, the Recapitalisation and the implementation of the various decrees issued by the Resolution Authority, improvement of the risk management framework, the smooth integration of Laiki Bank and the general improvement of operational efficiency through branch rationalisation and the implementation of voluntary retirement schemes. 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.

In accordance with the articles of association of the Bank, at each annual general meeting, one third of the directors retire, but are able to stand for re-election, and the directors to retire in every year are those that have been longest in office since their last election. In practice, this means that every director stands for re-election at least once every three years.

Board Committees

The terms of reference of each of the committees of the Board of Directors are based on the relevant provisions of the Code and relevant Directives issued by the CBC. Pursuant to the terms of reference, specific responsibilities have been delegated to committees of the Board of Directors, as follows:

- *Audit Committee* – The audit committee as of the date of this Information Memorandum comprises six non-executive directors, the majority being independent. The audit committee considers and makes recommendations to the Board of Directors on matters relating to the review and assessment of, among others, 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 audit committee also considers and makes recommendations to the Board of Directors on compliance issues based on the reports prepared by the Group compliance function. The audit committee oversees the

Group's external auditors and their relationship with the Group, including the monitoring of the balance between audit and auxiliary non-audit services. The audit committee held 26 meetings during 2013.

- *Remuneration and Human Resources Committee* – The remuneration and human resources as of the date of this Information Memorandum committee comprises six non-executive directors, the majority being independent. The remuneration and human resources committee considers and makes recommendations to the Board of Directors on matters relating to the remuneration of executive and non-executive directors and senior executive management, as well as the overall Group remuneration policy. The remuneration and human resources committee prepares the annual Board of Directors remuneration report which is ratified by the Board of Directors and submitted to the shareholders at the annual general meeting. The remuneration and human resources committee held ten meetings during 2013.
- *Nominations and Corporate Governance Committee* – The nominations and corporate governance committee as of the date of this Information Memorandum comprises four non-executive directors, two of which are independent. The nominations and corporate governance committee makes recommendations to the Board of Directors for the appointment of new directors in order to fill vacant positions on the Board of Directors, taking into consideration relevant factors and criteria. The nominations and corporate governance 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 of Directors. The nominations and corporate governance committee is responsible for the formulation of the succession plans of the Board of Directors. In addition, the nominations and corporate governance committee has general responsibility for the application of corporate governance principles by the Group. The nominations and corporate governance committee held 12 meetings during 2013.
- *Risk Committee* – The risk committee comprises as of the date of this Information Memorandum six non-executive directors, all of which are independent. The risk 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. The risk committee held 13 meetings during 2013.
- *Strategy and Restructuring Committee* – The strategy and restructuring committee as of the date of this Information Memorandum comprises nine non-executive directors, the majority being independent. The strategy and restructuring committee monitors the restructuring of the Group. After its establishment on 10 September 2013, the strategy and restructuring committee held five meetings during 2013. While the establishment of a strategy and restructuring committee is not a requirement of the Code, this committee was established to assist the Board of Directors in matters relating to the Bank's strategy and the Restructuring Plan.

Directors

The Board of Directors of the Bank, which is also the Group's main board of directors, currently has 13 non-executive directors, 11 of whom are independent, and one executive director. The business address of each of the directors in their capacity as directors of the Bank is 51 Stassinos Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the Board of Directors are as follows:

Name	Position	Committee Membership	Date Appointed to Board of Directors
Christis Hassapis	Chairman and Independent Director	Nominations and Corporate Governance Committee	10 September 2013
Vladimir Strzhalkovskiy	Vice-Chairman and Independent Director	Risk Committee	10 September 2013
John Patrick Hourican	Chief Executive Officer and Executive Director		26 November 2013
Anjelica Anshakova	Independent Director	Audit, Risk, Strategy and Restructuring Committees	10 September 2013
Dmitry Chichikashvili	Independent Director	Risk, Strategy and Restructuring Committees	10 September 2013
Marinos Gialeli	Independent Director	Audit, Remuneration and Human Resources, Risk, Strategy and Restructuring Committees	10 September 2013
Marios Kalochoritis	Independent Director	Remuneration and Human Resources, Nominations and Corporate Governance, Strategy and Restructuring Committees	10 September 2013
Konstantinos Katsaros	Independent Director	Audit, Remuneration and Human Resources, Strategy and Restructuring Committees	10 September 2013
Eriskhan Kurazov	Independent Director		10 September 2013
Anton Smetanin	Independent Director		10 September 2013
Xanthos Vrachas	Independent Director	Audit, Risk, Remuneration and Human Resources, Strategy and Restructuring Committees	10 September 2013
Ioannis Zographakis	Independent Director	Audit, Risk, Strategy and Restructuring Committees	10 September 2013
Adonis Papaconstantinou	Non-Executive Non-Independent Director	Remuneration and Human Resources, Nominations, Corporate Governance, Strategy and Restructuring Committees	10 September 2013

Name	Position	Committee Membership	Date Appointed to Board of Directors
Andreas Yiasemides	Non-Executive Non-Independent Director	Audit, Nominations and Corporate Governance, Remuneration and Human Resources, Strategy and Restructuring Committees	10 September 2013

Christis Hassapis. *Chairman and Independent Director*. Mr. Hassapis was born in 1959. He has a Bachelor's degree in mechanical engineering from the George Washington University and a Master's and a Ph.D. degree in economics from Boston College. He has been a professor at the Department of Economics, School of Economics and Management of the University of Cyprus, since 1993. He has participated in more than 25 international conferences on finance and economics and co-organised several international conferences. 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 of numerous board committees, such as the internal audit committee, the finance and tenders committee, the development planning committee and many others.

Vladimir Strzhalkovskiy. *Vice-Chairman and Independent Director*. Mr. Strzhalkovskiy was born in 1954. He has a Ph.D. degree in economics (applied mathematics) from Leningrad Institute of Electronic Engineering. He has served as the deputy minister of the Ministry of Economic Development of the Russian Federation from July 2000 to November 2004, chairman of the executive board of the World Tourism Organisation from 2003 to 2004 and head of the Federal Agency Tourism Organisation from November 2004 to August 2008. He has also served as a member of the board of directors of Inter RAO UES, a diversified energy company, from June 2011 to June 2013 and as chief executive officer and chairman of the management board from August 2008 to December 2012 and as vice president from December 2012 to June 2013 of the Mining and Metallurgical Company.

John Patrick Hourican. *Chief Executive Officer and Executive Director*. Mr. Hourican was born in 1970. He served as the former head of investment banking at RBS 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 RBS'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.

Anjelica Anshakova. *Independent Director*. Ms. Anshakova was born in 1970. She graduated from Kiev State University of Economics with a major in banking. She is a member of the Association of Chartered Certified Accountants since 1998. She obtained certification from the Chartered Institute of Management Accountants in 2002. She worked in the Kiev and Moscow offices of international consulting company Arthur Andersen for eight years. After the merger of Arthur Andersen with Ernst & Young, Ms. Anshakova continued in the subdivision responsible for bank audit and consulting. In 2003 she worked for the PromSvyazCapital group in various positions, including executive director. She then joined a leading printing and publishing house in Moscow 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 BINBANK.

Dmitry Chichikashvili. *Independent Director*. Mr. Chichikashvili was born in 1966. He graduated from the Department of Banking and Insurance at the Financial Academy in Moscow with a major in economics in banking and insurance business and from Tbilisi State Medical University with a major in medicine. Mr. Chichikashvili served at GUTA BANK in Moscow as first deputy chairman from May 1993 to July 1996 and then at INKOR BANK in Moscow as chairman from July 1996 to May 1997. He is currently serving as chairman of the Insigma group of companies, which are primarily involved in the construction and development of real estate.

Marinos Gialeli. *Independent Director*. Mr. Gialeli was born in 1968. He holds a B.A. in management (finance) from the East Strasbourg University and an MBA from the Fairleigh Dickinson University. He has worked for Lieber and Weissman Securities, CLR Financial Services Ltd and Harvest Financial Services Ltd. in various capacities. Mr. Gialeli has worked for the Hotel Employees Provident Fund since 2004 and he is responsible for the general management of the Fund and participates and coordinates the meetings of the management committee.

Marios Kalochoritis. *Independent Director*. Mr. Kalochoritis was born in 1973. He holds an MBA from Harvard Business School and a B.Sc. in Finance from Louisiana State University. Since August 2013, he lives in Dubai and works as an investment professional with regional high net worth individuals providing consulting services in connection with the establishment of family offices. During the period from 2008 through 2013, he lived in Cyprus where, as the managing director, he set up and ran the operations and risk management function of a global macroeconomic hedge fund. Prior to that he was senior vice president for Credit Suisse Bank in Zurich and was in charge of 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. Prior to that he was the co-founder of a boutique investment bank in New York. 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 and 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. He is the non-executive chairman of the Kermia group, the Bank’s real estate development and hotel management subsidiary.

Konstantinos Katsaros. *Independent Director*. Mr. Katsaros was born in 1977. He graduated from the Law School of Aristotle University of Thessaloniki in 1999. He completed his postgraduate studies in history, philosophy and sociology of law (LL.M.) at the Aristotle University of Thessaloniki and is currently a Ph.D. candidate in the 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. 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. Since 2009, 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). He has been 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. 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.

Eriskhan Kurazov. *Independent Director*. Mr. 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 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 of Dekmos (Joint Stock Company), BIN-Insurance LLC, CJSC Service Reestr and is a member of the audit committee of 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.

Anton Smetanin. *Independent Director*. Mr. Smetanin 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. 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, practising in private law.

Xanthos Vrachas. *Independent Director*. Mr. Vrachas was born in 1979. He holds an MBA from Harvard Business School, a B.Sc. from Georgetown University, and is a Certified Public Accountant. 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 at Merrill Lynch in London. Previously, he was an auditor with Deloitte & Touche in the United States.

Ioannis Zographakis. *Independent Director*. Mr. Zographakis 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. He has worked with Citibank for over 20 years, in the United States, United Kingdom and Greece. He started his career in 1990 with Citibank in Greece as a management associate for Europe, Middle-East and Africa (EMEA). He then worked as the deputy treasurer and treasurer for the consumer bank in Greece, before moving to the United States in 1996 as the director of finance for CitiMortgage. In 1997 he became the financial controller for Citigroup's consumer finance business in the United States and then he was the chief financial officer for the consumer assets division. From 1998 until 2004 he worked in the Student Loan Corporation, a Citigroup subsidiary and a New York Stock Exchange-traded company. He started as the chief financial officer, became chief operations officer and in 2001 he was named the chief executive officer. In 2005 he became Citibank's consumer lending head for Europe, Middle-East and Africa and the United Kingdom retail bank head. In 2006, he took a position as Citibank's retail bank head in Greece where he stayed until 2011. He has been a director of the Student Loan Corporation, a director and the secretary of the audit committee for Tiresias (Greek Credit Bureau), 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.

Adonis Papaconstantinou. *Non-Executive Non-Independent Director*. Mr. Papaconstantinou 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 senior executive programme. From 1977 until 2003 he was employed by NCR Corporation. 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. 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. 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. Mr. Papaconstantinou is the chairman of the Laiki Bank Depositors Association.

Andreas Yiasemides. *Non-Executive Non-Independent Director*. Mr. Yiasemides was born in 1976. He graduated from the University of Manchester in 1999 with a B.A. in economics. He worked with PricewaterhouseCoopers in Nicosia in the financial services audit department as a senior associate between 1999 and 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a holder of an audit practising certificate. From 2003 to March 2013, he was employed with the 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 the 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. 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.

Executive Committee

The executive committee consists of the following members:

Name	**Position**
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

Related Party Transactions

	31 December		At and for the year ended 31 December		At and for the three months ended 31 March
	2012(1)	**2013(1)**	**2012(1)**	**2013(1)**	**2014(1)**
	(number of directors)			(€'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...	16	15	23,356	302	269
	17	15	33,249	302	269
Loans and advances to other key management personnel and connected persons			832	3,448	3,654
Total loans and advances			34,081	3,750	3,923
Loans and advances:					
- members of the Board of Directors and other key management personnel			5,028	3,224	3,278
- connected persons			29,053	526	645
			34,081	3,750	3,923
Interest income for the year/period....			9,511	929	26
Deposits:					
- members of the Board of Directors and other key management personnel			19,260	1,881	1,952
- connected persons			21,948	36,536	33,266
			41,208	38,417	35,218
Interest expense on deposits for the year/period..			3,452	1,115	130
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	-	-

(1) On 29 March 2013, the Board of Directors collectively resigned, together with the chief executive officer and the deputy chief executive officer. As a result, loans and advances to other key management personnel and connected persons and loans and advances to other key management personnel and connected persons for the year ended 31 December 2012 are not comparable to the year ended 31 December 2013 or the three months ended 31 March 2014.

The above table does not include period or year-end balances for members of the Board of Directors and their connected persons who resigned during the period or year.

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 €16.1 million and €0.2 million as at 31 December 2012 and 2013, respectively, and €0.2 million as at 31 March 2014. As of 31 December 2013 and 31 March 2014 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 €0.1 million and €0.7 million as at 31 December 2012 and 2013, respectively, and €0.6 million as at 31 March 2014. 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 2012 and 2013 and 31 March 2014 amounted to €4,191 thousand, €1,439 thousand and €1,332 thousand, respectively.

Transactions with connected persons of the current members of the Board of Directors. Mr. Xanthos Vrachas, who was appointed on the Board of Directors on 10 September 2013, is the CFO of Universal Insurance Agency Ltd to which the Group paid €119 thousand and €41 thousand relating to insurance transactions for the year ended 31 December 2013 and the three months ended 31 March 2014, respectively.

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, who was a non-executive director until 29 March 2013, 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, who was a non-executive director until 29 March 2013, 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, who was a non-executive director until 29 March 2013, 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 Mr. Elias Neocleous, who was a non-executive director until 29 March 2013, 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 of Directors: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr. Andreas Poetis, who was a non-executive director until 10 September 2013, is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr. Philippos Mannaris, who was a non-executive director until 10 September 2013, is a partner.

During 2012, immovable property amounting to €185 thousand was acquired from a subsidiary of the Bank 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.

Except as disclosed with respect to the executive and non-independent non-executive directors above, there are no actual or potential conflicts of interest between the duties to the Bank of the members of the Board of Directors and their private interests and other duties which are of material significance to the Bank and any of such members.

Fees and emoluments of members of the Board of Directors and other key management personnel

Detailed information on director (executive and non-executive) and key management personnel remuneration for the years ended 31 December 2012 and 2013 and for the three months ended 31 March 2014 follows:

	Year ended 31 December		Three months ended 31 March
	2012	**2013**	**2014**
		(€'000)	
Director emoluments			
Executive directors			
Salaries and other short-term benefits	1,191	452	211
Termination benefits	-	84	-
Employer's contributions	77	27	11
Retirement benefit plan costs	134	31	28
	1,402	594	250
Non-Executive directors			
Fees	578	352	102
Emoluments of a non-executive director who is also an employee of the Bank	151	100	-
Total directors' emoluments	2,131	1,046	352
Other key management personnel emoluments			
Salaries and other short-term benefits	584	943	510
Termination benefits	-	667	-
Employer's contributions	44	84	40
Retirement benefit plan costs	65	117	52
Total other key management personnel emoluments	693	1,811	602
Total	2,824	2,857	954

The salaries and other short-term benefits of the executive directors are analysed as follows:

	Year ended 31 December		Three months ended 31 March
	2012	2013	2014
		(€'000)	
Andreas Eliades (resigned on 10 July 2012)	315	-	-
Yiannis Pehlivanidis (resigned on 29 March 2013)	488	104	-
Yiannis Kypri (resigned on 29 March 2013)	388	127	-
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	211
	1,191	452	211

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).

The fees of the non-executive directors are as follows:

	Year ended 31 December	
	2012	2013
	(€'000)	
Andreas Artemis	75	20
Evdokimos Xenophontos	39	15
Theodoros Aristodemou	82	-
Vassilis G. Rologis	32	8
Costas Z. Severis	40	10
Christakis G. Christofides	20	5
Anna Diogenous	31	5
George M. Georgiades	42	2
Andreas J. Jacovides	20	-
Christos Mouskis	39	-
Manthos Mavrommatis	29	-
Costas Hadjipapas	26	12
Nikolas P. Tsakos	23	1
Stavros J. Constantinides	32	2
Irene Karamanou	25	6
Elias Neocleous	15	4
Symeon Matsis	8	4
Sophocles Michaelides	-	25

	Year ended 31 December	
	2012	2013
	(€'000)	
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
	578	352

The fees of the non-executive directors include fees as members of the Board of Directors of the Bank and its subsidiaries, as well as of committees of the Board of Directors.

Mr. Costas Hadjipapas, who is an employee of the Bank and was also a non-executive director up until 10 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).

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 years 2012 and 2013, no bonus was recommended or paid to other key management personnel.

Interest in Ordinary Shares of Directors

As of 31 December 2013 and 22 March 2014, Mr. Vladimir Strzhalkovskiy held 0.66% and Mr. Dmitry Chichikashvili held 0.25% of the outstanding Ordinary Shares of the Bank.

Employees

As of 31 March 2014, the Group had 7,400 employees, the majority of whom are employed by the Group in Cyprus and Russia.

The following table sets out the Group's employees as at the dates indicated:

	31 December		31 March
	2012	2013	2014
Banking companies	10,262	7,439	7,089
Non-banking companies	510	313	311
Total	10,772	7,752	7,400

The following table sets out the Group's employees by geographical region as at the dates indicated:

	31 December		31 March
	2012	2013	2014
Cyprus	3,498	4,262	4,257
Greece	2,891	36	14
Russia	3,485	2,706	2,379
Ukraine	563	504	502
United Kingdom	158	177	183
Romania	177	67	65
Total	10,772	7,752	7,400

The Group's personnel in Cyprus and the United Kingdom is unionised, with the exception of the senior executives. Some of the Group's remaining personnel in Greece is unionised and personnel in other countries is not unionised.

The Cyprus Union of Bank Employees (the "**Union**") is party to a collective agreement with the Cyprus Bankers Employers' Association (of which the Bank was a member until 31 December 2013). The Bank and the Union have entered into a bilateral agreement in 2013 and agreed on a package of salary reductions, which were implemented by the Bank in June 2013. In January 2014 the Bank exited the Cyprus Bankers Employers' Association and is currently in talks with the Union for a renewal of the collective agreement. The Bank has good relations with its staff and has never suffered industrial action other than actions directed at the banking sector in general in Cyprus.

The Group operates several retirement benefit plans in Cyprus, Greece and the United Kingdom.

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% to 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.

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 Group's assets because this plan was 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 of up to approximately 50 monthly salaries depending on the length of service.

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.

Other countries

The Group does not operate any retirement benefit plans in Romania and Russia.

Share Option Plan

In 2008 the Bank 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 to 31 March of years 2011, 2012 and 2013 and from 1 November to 31 December of years 2012 and 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 of the Bail-in Decrees.

The share options 2008/2010 lapsed on 31 December 2013.

MAJOR SHAREHOLDERS

Major Shareholders

The Recapitalisation resulted in significant changes to the Bank's share capital and the composition of its shareholders. In particular, the percentage of Ordinary Shares in the Bank held by holders of Existing Shares as of 28 March 2013 was reduced from 100.0% as of 28 March 2013 to 0.5% as of the date of this Information Memorandum as a result of the Recapitalisation. Depositors who were issued ordinary shares in the Bank as a result of the bail-in accounted for approximately 81.4% of the Bank's total share capital as of 30 July 2013. 18.056371% of the Bank's total share capital is held by Laiki Bank as a result of the Laiki Transfer Decrees. For more information on the Recapitalisation, see "*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank*".

The total issued share capital of the Bank as of the date of this Information Memorandum is €4,743.2 million divided into 4,743,203,680 ordinary shares of a nominal value of €1.00 each. Other than Laiki Bank, the Bank is not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Bank. No rights exist in favour of specific holders of Ordinary Shares.

Shares Subject to Interim Orders

Following the issue of the Bail-in Decrees, a number of the Bank's depositors filed claims against the Bank. In some of the actions interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as bailed-in. The Bank is taking active steps to obtain the discharge and cancellation of these interim orders. For more information, see "*Business Description of the Group—Litigation and Related Matters, including Regulatory Proceedings*".

Treasury Shares

The number of treasury shares held at 31 December 2013 and at 31 March 2014 was 20.8 million Ordinary Shares. A proportion of these shares are held by entities controlled by the Group that have received Ordinary Shares as resulted of the bail-in of deposits that such entities maintained with the Bank.

Under the Companies Law and the Business of Credit Institutions Law of 1997 (the "**Credit Institutions Law**"), the Bank is allowed to acquire treasury shares in the following circumstances, provided the CBC gives its prior approval to such acquisition:

(i) the shares were acquired as part of a reduction in share capital pursuant to the relevant provisions of the Companies Law or the shares are redeemable preference shares;

(ii) the shares were acquired after a complete transfer of all the assets of the company;

(iii) the shares were acquired free of charge and have been fully paid-up or have been acquired as purchasing commission;

(iv) the shares were acquired pursuant to a legal obligation, resulting from a court judgment in favour of minority shareholders in event of a merger, change of object or type of the company, transfer abroad of registered office or the imposition of restrictions on the transfer of shares;

(v) the shares were acquired from a shareholder and were not paid up;

(vi) the shares were acquired in order to indemnify minority shareholders in associated companies; or

(vii) the shares are fully paid up and were acquired in an auction following compulsory execution which had the purpose of satisfying a claim of the company against the owner of the relevant shares.

In the event any such shares are acquired by reason of sub-paragraphs (ii) to (vi) above, the company must transfer such shares within three years from the time of their acquisition, except where the nominal value of such shares does not exceed 10% of the total subscribed capital.

DESCRIPTION OF ORDINARY SHARES

This section summarises the material rights of holders of the Ordinary Shares under Cypriot law and the material provisions of the Bank's articles of association. This description is only a summary and does not describe everything that the articles of association contain. It is therefore qualified in its entirety by reference to the full text of the articles of association, a free copy of which may be obtained from the Bank's registered office and on its website at www.bankofcyprus.com. See "*Description of Articles of Association*".

Share Capital

The Bank has issued Ordinary Shares under the Companies Law and its articles of association. The total issued share capital of the Bank as at the date of this Information Memorandum is €4,743.2 million divided into 4,743,203,680 Ordinary Shares of a nominal value of €1.00 each. 18.056371% of the Bank's total share capital is held by Laiki Bank as a result of the Laiki Transfer Decrees. The Bank is not aware of any other holders of Ordinary Shares holding, directly or indirectly, more than 5% of the issued share capital of the Bank.

The Ordinary Shares are registered shares with voting rights. The Bank has a primary listing on the CSE and a secondary listing on ATHEX corresponding to 0.5% of the Banks issued share capital; however, since 19 March 2013, the Ordinary Shares have been suspended from trading on the CSE and ATHEX. The remaining 99.5% of the Bank's issued Ordinary Share capital consists of shares issued pursuant to the Recapitalisation. The Ordinary Shares issued pursuant to the Recapitalisation have not been listed on any organised market. Holders of these Ordinary Shares have been issued statements of shareholding.

With regard to the Ordinary Shares:

- they may be transferred freely; and
- there are no convertible securities, exchangeable securities or warrants to acquire Ordinary Shares outstanding.

The Bank has not entered into any market making contracts in relation to the Ordinary Shares.

The holders of Ordinary Shares are entitled to one vote per share on all matters to be voted upon by the holders of Ordinary Shares. The holders of Ordinary Shares are entitled to receive rateably those dividends, if any, that may be declared from time to time by the Board of Directors out of funds legally available, subject to preferences that may be applicable to preferred stock, if any, then outstanding. In the event of a liquidation, dissolution or winding up of the Bank, the holders of Ordinary Shares are entitled to share rateably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred shares, if any, then outstanding. The Ordinary Shares have no conversion rights or other subscription rights. All outstanding Existing Ordinary Shares are fully paid.

Any share in the capital of the Bank may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Bank may, from time to time by ordinary resolution determine. Furthermore, according to the articles of association, where the Bank has already issued shares of more than one class, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may only, whether or not the Bank is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

Form and Transfer of Ordinary Shares

Placees will be issued statements of shareholding. Transfers of Ordinary Shares must be in writing and must be accompanied such other evidence (if any) as may be required to prove the title of the intending transferor. The instrument of transfer must be executed by both the transferor and the transferee and the transferor shall be deemed to remain the holder of such Ordinary Shares until the name of the transferee is entered into the register of members of the Bank. The Bank maintains a register which contains the particulars of every transfer or transmission of every Ordinary Share. The Bank may charge a fee for registration of the transfer, but it retains the right to waive the right to receive any such payment.

The register of transfers may be closed at any time during the fourteen days immediately preceding every annual general meeting of the holders of Ordinary Shares of the Bank, and at such other times (if any) and for such period as the Bank may from time to time determine.

For Existing Ordinary Shares listed on the CSE and ATHEX and held in dematerialised form, the procedures of the CSE and ATHEX must be followed for the registration of transfers of Ordinary Shares. However, no transfer of these listed Existing Ordinary Shares can be effected over the CSE or ATHEX unless and until these Existing Ordinary Shares are released from their suspension from trading or unless and until the CSE or ATHEX elect to allow, in their discretion, transfers of listed Existing Ordinary Shares. If and when all of the Ordinary Shares are admitted to trading on the CSE and ATHEX, the Ordinary Shares will automatically be dematerialized in accordance with the Bank's articles of association and the relevant listing rules of the CSE and ATHEX and tradeable in accordance with the procedures of the CSE and ATHEX.

Issue of Ordinary Shares and Pre-emptive Rights

The Bank's authorised share capital may be increased pursuant to a resolution passed by a majority of two-thirds at a general meeting of holders of Ordinary Shares. In general, the directors are empowered to issue any authorised but unissued Ordinary Shares without approval of the holders of Ordinary Shares, provided that the rights of pre-emption conferred on the holders of Ordinary Shares are complied with. A quorum for the Bank's general meeting is met whenever ten holders of Ordinary Shares are present or represented at the meeting.

New Ordinary Shares issuable pursuant to a share capital increase, including all new Ordinary Shares or other securities which give the right to purchase Ordinary Shares or which may be converted into Ordinary Shares, must be offered on a pre-emptive basis to the holders of the Existing Ordinary Shares at the relevant record date pro rata to their Ordinary Shareholding participation in the existing share capital, unless such pre-emptive rights have been limited or repealed by a special resolution passed at the general meeting of holders of Ordinary Shares. If and to the extent the existing holders of Ordinary Shares do not exercise their pre-emptive rights within the period prescribed, the Bank can dispose of the unsubscribed new Ordinary Shares or other securities, as the case may be.

Rights of holders of Ordinary Shares

General rights

Each Ordinary Share incorporates rights in proportion to the percentage of the share capital which such share represents. The shareholders' liability is limited to the unpaid amount (if any) of the Ordinary Shares they hold. Where an Ordinary Share is jointly owned by more than one person, the voting rights of the joint owners are exercised by the joint owner whose name first appears in the register of members of the Bank. The joint owners are jointly and severally liable for the fulfilment of the obligations emanating from their joint ownership of an Ordinary Share. No rights exist in favour of specific holders of Ordinary Shares.

Each Ordinary Share incorporates all the rights and obligations determined by Companies Law and the articles of association and in particular:

- the right to participate and vote in general meetings of the holders of Ordinary Shares;
- the right to receive dividends from the Bank's profits. Entitled to receive dividends are the persons registered in the register of members on the relevant record date;
- the right to receive out of the liquidation proceeds (if any) or capital returns, the amount corresponding to the Ordinary Shares owned, on a pro rata basis;
- pre-emptive rights in every share capital increase, including new Ordinary Shares or other securities which give the right to purchase shares or which may be converted into Ordinary Shares, unless such pre-emptive rights have been limited or repealed by a special resolution passed at the general meeting of the holders of Ordinary Shares;
- the right to receive copies of the financial statements and the reports of the auditors and the Board of Directors;

- the right to (i) put an item on the agenda of the annual general meeting, and (ii) table a draft resolution for inclusion in the agenda of a general meeting, subject in each case to certain conditions; and
- the right to ask questions related to items on the agenda for general meetings of the holders of Ordinary Shares and to have such questions answered by the Board of Directors of the Bank, subject to and in accordance with the provisions of the Companies Law.

Rights of Minority Shareholders

Under the Companies Law, a minority shareholder may apply to court for the winding up of a company on the ground that it is just and equitable that the company should be wound up.

Additionally, if the directors or certain of a company's shareholders conduct the affairs of the company in a manner oppressive to some of the shareholders, the aggrieved shareholders may file a court petition under section 202 of the Companies Law. The court may make any such order as it thinks fit to bring the oppressive state of affairs to an end. Moreover, if there has been a fraud on the minority and the wrongdoers are in control of the company concerned, a minority member may, provided certain conditions are satisfied, bring a derivative action to enforce the company's rights on behalf of the company. Generally speaking, the following three requirements need to be satisfied for establishing fraud on the minority: (i) the majority must have obtained some benefit; (ii) the benefit must have been obtained at the company's expense, or some loss or detriment must have been caused to the company; and (iii) the majority used their controlling power to prevent an action being brought against them by the company.

DESCRIPTION OF ARTICLES OF ASSOCIATION

The Bank is registered as a public company limited by shares under the Companies Law and is registered with the Department of Registrar of Companies and the Official Receiver of Cyprus with registration number HE 165. The Bank's legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus. The registered office of the Bank is located at the Group Headquarters at 51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus.

This description is only a summary and does not describe everything that the articles of association contain. It is therefore qualified in its entirety by reference to the full text of the articles of association, a free copy of which may be obtained from the Bank's registered office and on its website at www.bankofcyprus.com.

Pursuant to paragraph 3 of the Bank's memorandum of association, the following are, among other things, the Bank's objectives:

(a) to carry on the business of banking, that of an investment company and that of brokerage of any kind as well as the business of leasing, of hire purchase, of factoring, or of forfaiting;

(b) to establish, manage and carry on branches and agencies in and outside Cyprus, and appointing managers, officers and agents for the purpose of carrying on the same;

(c) to lend or advance money on such security and on such terms and conditions as may be thought fit or without security;

(d) to discount, buy, sell and deal in instruments and securities (whether negotiable or not);

(e) to grant and issue letters of credit and circular notes;

(f) to buy, sell and deal in gold and silver in bullion and specie, goods, merchandise and produce;

(g) to acquire, hold, issue on commission, underwrite and deal with securities and investments of all kinds;

(h) to negotiate loans and advances;

(i) to receive money and valuables on deposit;

(j) to collect and transmit dividends and interest and other moneys and securities of all kinds;

(k) to transact all kinds of agency business commonly transacted by bankers;

(l) to afford the services of transmission of money, of issuing and managing methods of payment, including credit cards, traveller's cheques and banker's drafts;

(m) to acquire any such shares, stocks debentures, bonds, notes obligations or securities by original subscription, contract, lender, purchase, exchange, underwriting, participation in syndicates or otherwise;

(n) to exercise and enforce all rights and powers conferred by or incident to the ownership of any such shares, stock, obligations or other securities;

(o) to undertake and execute any trust, and to undertake the offices of executor, administrator, receiver, treasurer or auditor, and to keep for any company, government authority or body any registers relating to any securities and to undertake any duties in relation to the registration of transfers, the issue of certificates or otherwise;

(p) to establish and manage mutual funds, unit trusts, investments, investment companies and investment trusts and to advise generally in relation to such activities and to demand and charge for such services on a fee basis, commission basis, profit-sharing basis or participation basis or to perform such services gratuitously;

(q) to establish companies and associations for the prosecution or execution of undertakings, works, projects or enterprises of any description, whether of a private or public character and to acquire, underwrite and dispose of shares and interests in such companies or associations;

(r) to undertake and carry out insurance business of any kind and of any nature;

(s) to purchase, take on lease or in exchange, hire, erect, construct or otherwise acquire and hold any estate or interest in Cyprus or in any country where the Bank proposes to establish any branch or agency or transacts business, any offices, buildings, lands and any real or personal property of any kind necessary or convenient for the Bank's business;

(t) to borrow or raise or secure the payment of money for the purpose of the Bank's business;

(u) to mortgage and charge the undertaking, and all or any of the real and personal property, and all or any of the uncalled capital of the Bank and to issue debentures, bonds, mortgage debentures to secure any securities of the Bank;

(v) to issue and deposit any securities which the Bank has power to issue by way of mortgage or security for the performance of any contracts of the Bank;

(w) to receive money or deposit or loan upon such terms as the Bank may approve and to guarantee debts, contracts and liabilities of customers;

(x) to carry on the business of a guarantee company;

(y) to buy, make advances on or sell land of any description, and all descriptions of produce or merchandise, and stocks, shares, bonds, mortgages, debentures or obligations;

(z) to erect and construct houses, buildings or works of every description on any land, and to pull down, rebuild, enlarge, alter and improve existing houses, buildings or works, and to convert any such land into sites;

(aa) to pay for any property or rights acquired by the Bank either in cash or shares;

(bb) to issue and allot shares in the capital of the Bank in payment for any services rendered to the Bank;

(cc) to remunerate any person or company for any services rendered in placing any of shares of the Bank or any debentures or other securities of the Bank;

(dd) to purchase or acquire the business, property, liabilities and transactions of any person or company carrying on any business which the Bank is authorized to carry on;

(ee) to enter into partnerships and joint ventures whose objects are or include objects similar to those of the Bank; and

(ff) to sell or dispose of the undertaking, property and assets of the Bank.

In the framework of the above object and subject to the provisions of applicable law, the Bank may establish businesses and companies of any form, acquire participations of any kind in businesses and companies which already exist, in cooperation with any third person, and generally take any action serving directly or indirectly its object.

Form and Transfer of Ordinary Shares

Placees will receive statements of shareholding. For more information, see "*Description of Ordinary Shares—Form and Transfer of Ordinary Shares*".

Voting Rights and Restrictions

Each Ordinary Share incorporates the right to participate and vote in general meetings of the holders of Ordinary Shares. No rights exist in favour of specific holders of Ordinary Shares and no other classes of shares have been issued by the Bank.

Dividends

Under Cypriot law and the Bank's articles of association, the Bank may only pay dividends out of profits. The Board of Directors may, before recommending any final dividend, set aside out of the profits of the Bank a reserve which shall, at the discretion of the Board of Directors, be applicable for any purpose to which the profits of the Bank may be properly applied. There is no legal requirement under Cypriot corporate law to maintain a statutory reserve. The CBC, however, retains the power under the Credit Institutions Law to demand that dividends be limited or withheld. The Board of Directors may also, without placing a specified reserve, carry forward any profits of the Bank as retained earnings or not recommend the payment of a dividend.

Once approved at the general meeting, a final dividend must be paid to holders of Ordinary Shares within a reasonable time following its declaration or as otherwise decided by the holders of Ordinary Shares. Final dividends are declared and paid in the year subsequent to the reporting period. In addition, the Board of Directors may, from time to time, pay interim dividends to holders of Ordinary Shares if, in the determination of the Board of Directors, such dividend is justified by the profits of the Bank.

The CBC has imposed a prohibition on the distribution of dividends by the Bank for the period of the Restructuring Plan (i.e. 31 December 2017) and, therefore, the Bank does not expect to distribute dividends during this period. The Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time. Accordingly, the Board of Directors did not propose the payment of a dividend for 2013. No dividend was proposed or paid to holders of Ordinary Shares during 2012. See also "*Risk Factors—Risks relating to the Placing and the Ordinary Shares—The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan*".

General Meeting of Shareholders

Pursuant to the Bank's articles of association and Cypriot law, the general meeting of the Bank's Ordinary Shareholders is entitled to decide on any and all affairs of the Bank. Its resolutions are binding on the Board of Directors and executive officers as well as all Ordinary Shareholders of the Bank, including those absent from the general meeting and those dissenting. Shareholders are entitled to attend the general meeting of the Bank's Ordinary Shareholders, and vote on resolutions, either in person or through a proxy. The appointment or revocation of the proxies shall be in writing and in the form specified in Articles 76 and 77 of the Bank's articles of association. Proxies shall be deposited or received in written form at the registered office of the Bank or as is specified in the notice convening the general meeting. In the event that the notice convening the general meeting allows for submission of the proxy by electronic means, it must be received by the Bank at the fax number or electronic address communicated to the holders of Ordinary Shares in writing, at least 48 hours before the time appointed for holding the meeting.

Any holder of Ordinary Shares is entitled to attend and vote at the general meeting, provided the holder of Ordinary Shares is shown in the register of members of the Bank as a holder of Ordinary Shares before the date of the general meeting (record date).

An annual general meeting and a meeting called for the passing of a special resolution shall be called by 21 days' notice in writing and a meeting of the Bank other than an annual general meeting or a meeting for the passing of a special resolution shall be called by 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in the manner described below or in such other manner, if any, as may be prescribed by the Bank in the general meeting, to such persons as are, under the regulations of the Bank, entitled to receive such notices from the Bank. A meeting of the Bank shall, notwithstanding that it is called by shorter notice than that specified in this regulation, be deemed to have been duly called if it is so agreed: (a) in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and (b) in the case of any other meeting by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Ordinary Shares giving that right. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings of that meeting.

The general meeting is the only body competent to decide, among other matters, (i) merger (subject to certain exemptions), conversion, revival, or dissolution, (ii) amendments to the Bank's articles of association, (iii) increases or reductions of share capital (the directors retain the right to proceed with the issue of any authorised but unissued Ordinary Shares subject to the satisfaction of pre-emption rights), including all new Ordinary Shares or other securities which give the right to purchase Ordinary Shares or which may be converted into Ordinary Shares, (iv) election of the members of the Board of Directors (except for the election by the Board of Directors of directors to replace other directors who have resigned, deceased or otherwise ceased to be directors, provided that the total number of directors does not exceed 18) and auditors, (v) the appointment of liquidators and, (vi) the declaration of final dividends.

A quorum for the Bank's general meeting is met whenever ten Ordinary Shareholders are present or represented at the meeting. Generally, any action taken by the general meeting requires a simple majority of the votes cast unless the law and/or the articles of association of the Bank requires the passing of a resolution by a different majority for the matter concerned.

Certain extraordinary or special resolutions by the general meeting require a majority of three-fourths to pass. The required quorum remains at ten Ordinary Shareholders present or represented at the meeting. These extraordinary or special resolutions include, among others: (i) waiver of pre-emptive rights, (ii) amendments to the rights attached to any class of Ordinary Shares; and (iii) changes to the Bank's objects in its memorandum of association and changes to the Bank's articles of association, (iv) a change of the Bank's name, (v) reductions of the Bank's share capital (including the balance of the share premium account) and (vi) the commencement of a voluntary liquidation.

The Bank is under an obligation to hold its annual general meeting within 15 months from the date of its previous annual general meeting.

The Bank's holders of Ordinary Shares are entitled to receive from the Bank the annual financial statements and the relevant reports of the Board of Directors and the auditors 21 days before the annual general meeting of the Bank's Ordinary Shareholders. In any case, under the Companies Law, the Bank, from the date of the publication of the invitation of the general meeting until the date of the general meeting, must post on its website, among others, all the documents that need to be submitted to the general meeting.

Issue of Ordinary Shares and Pre-emptive Rights

The Bank's authorised share capital may be increased pursuant to a resolution passed by a majority of two-thirds at a general meeting of Ordinary Shareholders. In general, the directors are empowered to issue any authorised but unissued Ordinary Shares without approval of holders of Ordinary Shares, provided that the rights of pre-emption conferred on the holders of Ordinary Shares are complied with. For a more detailed discussion on the issuance of new Ordinary Shares and relevant pre-emptive rights, see "*Description of Ordinary Shares—Issue of Ordinary Shares and Pre-emptive Rights*".

Rights on Liquidation

Under the Companies Law, a company can be wound up either by or under the supervision of a court or voluntarily upon the decision of its shareholders. Moreover, under the Credit Institutions Law, the CBC may apply for a special liquidation order to be granted and for a special liquidator to be appointed. When a bank is subject to winding-up proceedings, the banking licence of the bank shall be withdrawn by the CBC pursuant to section 33 of the Credit Institutions Law. Such withdrawal shall not prevent the person(s) entrusted with the winding up from carrying on some of the bank's activities insofar that is necessary or appropriate for the purposes of the winding up.

Winding Up by a Court

A court may issue an order and wind up a company in a range of circumstances, including, but not limited to, where the company is unable to pay its debts (e.g. where a creditor with a claim exceeding €855.00 has served on the company a demand in writing for the payment of the outstanding amount and within three weeks the company fails to pay the sum due) and if the company has resolved by special resolution to be wound up by the courts.

According to section 33 of the Credit Institutions Law, notwithstanding anything contained in the Companies Law in connection with the winding up of a company, the revocation of a bank's licence under section 30(1)(e) of the Banking Law constitutes a ground for its winding up by the court on the application of the CBC.

The appointment, in any case, of a liquidator of a bank other than an official receiver may not be made without the court having previously heard the opinion of the CBC.

The persons eligible to file a petition requesting the winding up of a company are the company itself, an official receiver (who can present a petition even after an application for voluntary winding up has been filed), a contributory (subject to conditions) and a creditor. A "contributory" is anyone who is liable to contribute to the assets of the company in case it is wound up. This term covers shareholders whose shares are partly paid and shareholders whose shares are fully paid.

Special Liquidation

The CBC may apply, on ex-parte basis, for a special liquidation order to be granted by the court under section 33 of the Credit Institutions Law, where (a) the bank's licence has been withdrawn or handed over; (b) the bank is holding deposits covered by the bank deposit protection fund; and (c) the special liquidation of the bank serves the public interest. In a special liquidation, the court shall appoint a special liquidator, at the recommendation of CBC. The special liquidator is subject to control and supervision by the CBC.

The special liquidator's primary duty is to cooperate with the management committee of the Deposit Protection and Resolution of Credit and Other Institutions Scheme and to ensure that depositors are paid compensation as quickly as possible in accordance with the Law on the Establishment and Operation of a Deposit Protection and Resolution of Credit and Other Institutions Scheme and the regulations issued pursuant thereto. The secondary duty of the special liquidator is to complete the special liquidation so as to bring about the best possible results for all the bank's creditors.

The CBC may file an application for special liquidation of a bank even if a voluntary liquidation has already commenced.

Voluntary windings up

A special or extraordinary resolution of a company is required for a company's voluntary winding up. The voluntary winding up is deemed to commence on the passing of the resolution and, after the commencement of the winding up, the company must cease carrying on any business except that required for its winding up. A voluntary winding up can either be initiated by its members (where the winding up procedure is controlled by a liquidator appointed by the company's shareholders) or its creditors (where the winding up procedure is controlled by creditors). A members' winding up can only be commenced if a majority of the directors are able to give a statutory declaration at a directors' meeting to the effect that it has made a full enquiry into the company's affairs and it has come to the conclusion that the company is in a position to pay its debts in full (plus the equivalent interest) for a certain period (such period not to exceed 12 months from the commencement of the winding up) as stated in the declaration. If no such declaration can be given, a creditors' winding up can be commenced.

In accordance with section 33B of the Credit Institutions Law, the management bodies of a bank are obliged to request the CBC's opinion before taking a decision on a bank's voluntary winding up. In accordance with the provisions of the Credit Institutions Law, the voluntary winding up of a bank shall not preclude the adoption of reorganisation measures or the opening of other winding up proceedings.

Distribution of Assets

In relation to banks which, at the time of their liquidation, are not under resolution pursuant to the provisions of the Resolution of Credit and other Institutions Law of 2013, the order of distribution of its assets in a compulsory winding up is as follows:

- first, the costs of the winding up;
- second, the preferential debts (as set out in sub-sections (1) and (2) of section 300 of the Companies Law);
- third, the creditors secured by a floating charge which take second place to preferential creditors;
- fourth, the unsecured creditors; and
- fifth, the deferred debts (e.g., sums due to members such as dividends declared but not paid).

Any surplus will be distributed among the shareholders according to their rights under the articles of association or the terms of issue of their shares.

In relation to banks which, at the time of their liquidation, are under resolution pursuant to the provisions of the Resolution of Credit and other Institutions Law of 2013, the following applies:

(a) The provisions of sub-sections (1) and (2) of section 300 of the Companies Law shall have priority.

(b) Without prejudice to item (i) above, secured claims shall be paid to the extent of the realisation of the security or the security shall be delivered to the secured creditor.

(c) Other claims shall be paid from the proceeds of liquidation, in the following order:

- first, the necessary and reasonable expenses incurred by the liquidator and the Resolution Authority, including professional fees, in application of the provisions of the liquidation;
- second, any credits extended to the bank under resolution after the appointment of the liquidator;
- third, any credits extended to the institution under resolution by the CBC or the bank deposit protection fund prior to the appointment of the liquidator;
- fourth, the insured deposits, amounts due to the deposit protection fund, any government support provided to the institution under resolution pursuant to the Restructuring of Financial Institutions Law and government guarantees granted to the institution under resolution pursuant to the Granting of Government Guarantees for the Granting of Loans or the Issuance of Bonds from Financial Institutions Laws of 2012;
- fifth, any other unsecured credits extended to the institution under resolution; and
- sixth, any subordinated debt.

It should be noted that pursuant to the provisions of the Credit Institutions Law, assets included in cover pools securing covered bonds issued by Banks are expressly protected and excluded from distribution to persons other than the covered bondholders.

TAXATION

The following summary describes certain tax consequences of the purchase, ownership and disposition of the Ordinary Shares. This summary does not purport to be a comprehensive description of all the possible tax considerations that may be relevant to your decision to purchase, own or dispose of the Ordinary Shares (which, for the avoidance of doubt, includes the Placing Shares). This summary is based on the laws in force and as applied in practice on the date of this Information Memorandum and is subject to changes to those laws and practices subsequent to the date of this Information Memorandum. You should consult your own advisers as to the tax consequences of the acquisition, ownership and disposition of the Ordinary Shares in light of your particular circumstances, including, in particular, the effect of any state, regional or local tax laws.

Cyprus Tax Considerations

Introduction

The following is a summary of certain Cyprus tax considerations that may be relevant to the acquisition, ownership and disposition of the Ordinary Shares. The summary does not purport to be nor should it be relied upon as a comprehensive description or analysis of all of the tax considerations which may be relevant to a decision to acquire, own and dispose the Ordinary Shares. The summary is based on tax laws and regulations in effect in Cyprus on the date hereof, which may be subject to change without notice. Prospective purchasers or holders of the Ordinary Shares should consult their own tax advisers as to the Cyprus or other tax consequences arising from the acquisition, ownership and disposition of Ordinary Shares, having regard to their particular circumstances.

Taxation of Dividends

Cyprus Tax Residents

Dividends derived from Cyprus tax resident companies are unconditionally exempted from corporate income tax and are not subject to the Special Contribution under the Defence of the Republic Law (the "**Defence Tax**") if they are to be paid to another company resident in Cyprus, while they are subject to a 17% Defence Tax if paid to an individual resident in Cyprus.

The Defence Tax includes provisions for deemed distribution of profits. If a Cyprus tax resident company does not distribute within two years from the end of the relevant tax year at least 70% of its after tax accounting profits (subject to certain adjustments), there will be a deemed distribution of 70% of such profits. The amount of the deemed dividend is reduced by any actual dividend distributions made up to the deemed distribution date relating to the tax year for which the profits are subject to deemed distribution. The Defence Tax is withheld only on the portion of profits that are attributable to shareholders that are residents of Cyprus (individuals) as the deemed distribution rules do not apply to non-resident shareholders. The deemed dividend is subject to the Defence Tax at a rate of 17% and it is responsibility of the company to withhold and remit the Defence Tax to the tax authorities. The Defence Tax is paid by the company on account of the shareholders.

For the purposes of this section, a "resident" in Cyprus is defined as an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment and, when applied to a company, means a company whose management and control is exercised in Cyprus.

Non-Cyprus Tax Residents

Dividends derived from Cyprus tax resident companies are unconditionally exempted from corporate income tax and are also exempted from the Defence Tax if they are to be paid to a non-Cyprus tax resident, provided that the non-Cyprus tax resident has submitted to the company the corresponding questionnaire confirming its status as a non-Cyprus resident for the relevant year. This questionnaire must be submitted to the company every year.

Gain on disposals of securities

Gains realized on the sale of securities, such as shares, bonds, debentures, founders' shares and other titles of companies or other legal persons, incorporated under a law in Cyprus or abroad, and options thereon, are exempt from corporate income tax in Cyprus. This exemption applies irrespective of the holding period, number of shares held or trading nature of the gain. Capital losses resulting from the sale of securities are not tax deductible.

Capital gains realised upon the sale of shares are subject to a capital gains tax if the issuer of the shares being transferred owns any immovable property situated in Cyprus, and such shares are not listed on a recognised stock market.

Special Duty on Stock Exchange Transactions

As of 1 January 2014, transactions executed on the CSE or announced to the CSE are no longer subject to special duty.

Greek Tax Considerations

Taxation of Dividends

Under Law 4172/2013, applicable from 1 January 2014 onwards, dividends are subject to withholding tax at a rate of 10% (subject to the provisions of the double taxation treaties). Such withholding tax discharges the tax liability of the beneficiary, if the beneficiary is either an individual who is a Greek tax resident or a legal person or legal entity ("*nomiko prosopo or nomiki ontotita*") which is neither a tax resident of Greece nor holds a permanent establishment in Greece. Dividend payment to a legal person or legal entity may be exempted from the 10% withholding tax if all of the following conditions are met: (i) such legal person or entity holds at least a 10% participation interest in the company which declares and distributes the dividend, (ii) such participation interest is held for at least 24 months (a bank guarantee may be provided instead), and (iii) such legal person or entity should have one of the forms listed in Annex I part A of Directive 2011/96/EU, is a tax resident of an EU member state and is subject to one of the taxes referred to in such directive. Exemption from the corporate income tax may apply to intragroup dividends received by legal persons that are tax residents in Greece, provided that requirements similar to the aforementioned conditions apply.

Capital Gains Tax

Shares sold on or after 1 January 2014

The following transaction and capital gains taxes shall apply.

Transaction tax

A transaction tax of 0.2% will apply on the sale of shares listed on ATHEX. Such tax is calculated on the shares' sale price and is borne by the seller, whether the seller is an individual, legal entity or association of persons or assets, irrespective of nationality, residence or location of corporate seat and irrespective of whether the seller is subject to any tax or duty exemption pursuant to provisions of other laws. Such tax is applicable both to market and OTC transactions, as well as transactions executed on a multilateral trading facility. The Hellenic Central Securities Depository (the "**HCSD**") charges such tax, daily upon settlement, on the investment firms and credit institutions acting as custodians settling share sale transactions on behalf of the sellers.

Capital gains tax

Capital gains resulting from the sale of shares listed will be added to the business income of the seller (if either a Greek legal person or a Greek legal entity) and will be taxed with the corporate income tax rate of 26%. Foreign legal persons or foreign legal entities, which have no permanent establishment in Greece and are tax residents in tax treaty countries, are exempt from Greek corporate income tax.

If the capital gains beneficiary is a Greek individual and such capital gains do not constitute income from business activity, such person will be subject to income tax at the rate of 15%. The above applies to capital gains from shares listed if the seller-individual holds at least a 0.5% participation in the share capital and had purchased the shares after 1 January 2009. It is not clear whether the above conditions for capital gains tax in the case of listed shares also apply when the transferor is a legal entity. If capital gains constitute income from business activity, then the beneficiary will be taxed at a tax rate of 26% for income up to €50,000 and 33% for income above €50,000. If losses result from the sale of listed shares, such losses can be carried forward in the following five fiscal years and be offset against future capital gains resulting from sale of listed shares (applicable only to individuals). If the capital gains beneficiary is an individual who is tax resident in a jurisdiction with which Greece has entered into a tax treaty, such beneficiary will be exempted from Greek income tax in respect of such capital gains, provided that the beneficiary will submit to the tax authorities the documents evidencing the beneficiary's tax residence.

For the calculation of the capital gains tax, the difference between the actual sale price and the price paid for the acquisition of the shares by the seller is taken into account. Such difference is determined by reference to the table issued by the investment firm or credit institution involved in the transaction, or as notified to the HCSD on the date for the settlement of the transaction.

Inheritance and Gift Taxes for ATHEX Listed Shares

According to the provisions of Articles 12, 29 and 44 of the Greek Code of Inheritance, Gift, Parental Donation and Gambling Tax, where shares listed on ATHEX are transferred on the basis of inheritance, gift, or parental donation, the market value of these shares as of the day preceding the date when the tax obligation becomes due, is subject to tax on a progressive system (tax scale) which depends on the degree of the relationship between the parties in accordance with Article 29.

Share-lending Tax

Pursuant to the provisions of Article 4, paragraph 4 of Law 4038/2012, a 0.2% tax is applicable on the OTC lending of listed shares, such transactions, including the respective agreement or other relevant act, being exempt from stamp duty. The tax is borne by the lender (whether the lender is an individual or legal person or legal entity) and is calculated on the value of lent shares. The above provisions are applicable to share lending carried out on or after 2 February 2012.

Other Tax Considerations

Due to the nature of the Placing, prospective investors who are subject to tax in other jurisdictions are strongly advised to consult an appropriate professional adviser to establish their particular tax consequences in relation to the Placing.

DESCRIPTION OF THE PLACING

The Bank wishes to place the Placing Shares with a number of international investors in accordance with the terms and conditions of the Placing as set out under "*Terms and Conditions of the Placing*" below (the "**Terms and Conditions of the Placing**"). If not defined in this section or elsewhere in this Information Memorandum, capitalised terms used in this Description of the Placing are as defined in the Terms and Conditions of the Placing.

The Placing Shares will be offered to eligible investors outside the United States in offshore transactions in reliance on Regulation S under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each of the Placing Agents will enter into a placing agent agreement under which they will agree on a several (but not joint and several) basis to use their reasonable endeavours to identify potential Placees. The Placing Agents will provide the Bank with a list of potential investors together with an indication of the size of stake these investors may wish to invest in the Placing. The Bank will, in its absolute discretion, determine the final list of Placees, the number of Placing Shares to allocate among the Placees and the Placing Price, subject to the Terms and Conditions of the Placing.

Once the Bank has finalised the list of Placees, a meeting of the Board of Directors of the Bank (or a duly authorised committee thereof) will be convened in order to consider and approve, amongst other things:

- the issue and allocation of the Placing Shares to the Placees at the Placing Price, subject to the approval of the Bank's shareholders;
- the Open Offer (as described below), subject to the approval of the Bank's shareholders; and
- the convening of the EGM for the passing of the shareholder resolutions required for the implementation of the Placing and the Open Offer.

The Open Offer will provide the Existing Shareholders with the opportunity to subscribe, over a period of 15 business days, for 20% of the total number of Placing Shares at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder. The initial allocation of Placing Shares to Placees will be subject to clawback in order to satisfy valid applications by Existing Shareholders under the Open Offer and the number of Placing Shares received by a Placee could decrease by up to 20% as a result of such clawback. Any allocation of Placing Shares to Placees shall be reduced *pro rata* to the number of Placing Shares initially allocated to them, in accordance with any allocations made to Existing Shareholders under the Open Offer.

Upon approval of the resolutions described above by the Bank's Board of Directors or a duly authorised committee thereof, the Bank (or the Placing Agents, on behalf of the Bank) will send to each Placee a Contract Letter confirming the number of Placing Shares allocated to it and the Placing Price. Each Placee shall return to the Bank (or the Placing Agents, on behalf of the Bank) the Form of Confirmation indicating the number of Placing Shares the relevant Placee irrevocably commits to acquire subject to the satisfaction of certain conditions (as discussed in the paragraph below) and adjustment (if any) to the number of Placing Shares as a result of the share clawback under the terms of the Open Offer. The Form of Confirmation will also include certain acknowledgements, representations and warranties with respect to investor status, securities law restrictions and other restrictions as specified in the Terms and Conditions of the Placing and an acknowledgement by the Placee that the Placing Agents have no responsibility for the truth, accuracy, completeness or contents of the Information Memorandum or any other information provided to it relating to the Bank or the Placing and that the Placing Agents have not made and do not make any representations, warranties or undertakings regarding the same and furthermore that the Placing Agents are under no obligation to provide the Placee with access to any additional information or to update, revise or supplement the Information Memorandum or any other information provided to the Placee relating to the Bank or the Placing or to correct any inaccuracies which may become apparent. One of the restrictions included in the Terms and Conditions of the Placing is an undertaking by each Placee, from the time it irrevocably commits to acquire the Placing Shares to the last date of the Open Offer Period, not to sell, transfer or dispose of or encumber (or enter into any agreement or arrangement which achieves the same effect economically) any Ordinary Shares without the Bank's prior written consent. In order to receive the Placing Shares, each Placee will need to give in the Form of Confirmation any such acknowledgements, representations and warranties the Bank may request.

The completion of the Placing is subject to:

- the approval of the following shareholder resolutions by holders of shares representing not less than 75% of the Existing Ordinary Shares voting at the EGM:
    - authorisation of the Board of Directors (or duly authorised committee thereof) to issue and allot the Placing Shares at the Placing Price to the Placees and to any Existing Shareholders who have participated in the Open Offer;
    - the Nominal Value Reduction; and
    - the disapplication of the Existing Shareholders' pre-emption rights;
- the issue of the Court Order approving the Nominal Value Reduction; and
- the filing of the Court Order with the Department of the Registrar of Companies and Official Receiver.

The Nominal Value Reduction is required because, under Cypriot corporate law, the Bank is not permitted to issue Ordinary Shares at a price per Ordinary Share which is below the nominal value of each Ordinary Share and the Placing Price will be set at a discount in respect of the current nominal value of the Ordinary Shares. Accordingly, the Nominal Value Reduction is required in order to reduce, by writing off cumulative losses of the Bank, the nominal value of each Ordinary Share to a nominal value at par with, or below, the Placing Price.

Upon and conditional on receipt of all duly completed and executed Forms of Confirmation, the Bank will publicly announce the Placing, the launch of the Open Offer and the date of the EGM at the same time. In accordance with the Articles of Association of the Bank and the provisions of the Cyprus Companies Law, Cap. 113, at least 21 clear calendar days' notice must be provided to the Existing Shareholders for the EGM. Notification of the EGM will be made by way of a shareholders circular which will include, amongst other things, the date, place and time of the EGM and the full text of the special resolutions proposed for approval at the EGM. The shareholders circular will also contain the terms and conditions of the Open Offer and information on the Group and the Placing substantively as set out in this Information Memorandum.

Assuming the shareholder resolutions necessary for the implementation of the Placing and the Open Offer are approved at the EGM, the Bank will file an application with the District Court of Nicosia (the "**Court**") for the approval of the Nominal Value Reduction. Provided the Court approves the Nominal Value Reduction, the Bank will file the Court Order with the Department of Registrar of Companies and Official Receiver and the Nominal Value Reduction will take effect upon such filing.

As soon as reasonably practicable after the filing of the Court Order, the Bank (or the Placing Agents, on behalf of the Bank) will send each Placee which has been allocated Placing Shares the Placing Confirmation indicating the number of Placing Shares allocated to it, the Placing Price, the aggregate amount of cash consideration owed by such Placee to the Bank and settlement instructions, including the Closing Date. Upon receipt of the relevant amount of cleared funds on the Closing Date from each Placee in accordance with the settlement instructions contained in the Placing Confirmation, the Bank will deliver the Placing Shares to such Placee through the registration of such Placee (or its custodian, nominee, trustee or agent as indicated in the relevant Form of Confirmation) in the register of members of the Bank on the Closing Date. As soon as reasonably practicable following the Closing Date, the Bank shall deliver Share Statements confirming the number of Placing Shares issued and allotted to such Placee to the address indicated by such Placee in the relevant Form of Confirmation. Upon the written request of a Placee, the Bank will deliver a share certificate to such Placee.

Although the Bank has a primary listing on the CSE and a secondary listing on ATHEX, 0.5% of the Bank's Existing Ordinary Shares (the "**Listed Existing Ordinary Shares**") are currently listed on these stock exchanges and Listed Existing Ordinary Shares have been suspended from trading on both stock exchanges since 19 March 2013. Accordingly, the Bank intends to seek a listing for the entire class of Ordinary Shares on the CSE and ATHEX in the short term, and a second potential listing on a major European stock exchange in the medium term. If and when all of the Ordinary Shares are admitted to trading on the CSE and ATHEX, the Ordinary Shares will automatically be dematerialized in accordance with the Bank's articles of association and the relevant listing rules of the CSE and ATHEX and tradeable in accordance with the procedures of the CSE and ATHEX. It is currently intended that any such listing will provide Existing Shareholders (which, for the avoidance of doubt, will not include Placees who have committed to purchase Placing Shares in the Placing) with an opportunity to purchase new Ordinary Shares at the Placing Price of up to €100 million in nominal value.

Set out below is an indicative timetable of principal events in relation to the Placing. Any of the dates specified below may be subject to change and, subject to law, the Bank reserves the right to change any such dates as it, in its discretion, considers appropriate or necessary. For more detail on the uncertainties concerning the timetable for the Placing, see "*Risk Factors—Risks relating to the Placing and the Ordinary Shares—The issue of the Placing Shares is subject to approval, and clawback, by the Existing Shareholders and the approval of the Cypriot courts and investors participating in the Placing will be subject to restrictions in relation to the trading of Existing Ordinary Shares*".

Date	**Event**
Late July 2014	Receipt of executed Forms of Confirmation from Placees
Late July 2014	Public announcement by the Bank of the Placing, Open Offer and EGM Publication of the shareholders circular for Existing Shareholders
Late July to August 2014	Open Offer Period
Late August/September 2014[1]	EGM
Late August/September 2014	Application to the Court to approve the Nominal Value Reduction.
September 2014 (assumes no notice to shareholders concerning the Nominal Value Reduction is required by the Court)	Court Hearing on Nominal Value Reduction.
September 2014	Filing of Court Order with the Department of Registrar of Companies and Official Receiver
September 2014	Placing Confirmations sent to Placees
Late September/early October 2014	Closing Date

Terms and Conditions of the Placing

1. **Introduction**

1.1 Reference is made to an information memorandum dated 4 July 2014 (including its appendices, the "**Information Memorandum**") issued by Bank of Cyprus Public Company Limited (the "**Bank**") in relation to the placing of new ordinary shares in the share capital of the Bank (the "**Placing Shares**"). Unless otherwise defined herein, all capitalised terms used in these terms and conditions (the "**Terms and Conditions of the Placing**") shall have the meanings ascribed to them in the Information Memorandum.

[1] In accordance with the articles of association of the Bank and the provisions of the Cyprus Companies Law, Cap. 113, at least 21 clear calendar days' notice must be provided to the Existing Shareholders for the EGM. However the Bank reserves the right to give the Existing Shareholders a longer notice period than is legally required in its discretion in order to give the Existing Shareholders a greater time period to consider the matters to be voted on at the EGM.

1.2 Members of the public are not eligible to take part in the placing. The Terms and Conditions of the Placing are directed only at persons in Member States of the EEA who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State of the EEA) and any implementing measure in each relevant Member State of the EEA (the "**Prospectus Directive**") ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), the Placing set out herein is directed only to persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Terms and Conditions of the Placing must not be acted on or relied on (i) in the UK, by persons who are not Relevant Persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which the Information Memorandum relates is available only to (i) in the UK, Relevant Persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

1.3 The Placing Shares may only be placed outside the United States in an "offshore transaction" as defined in, and in accordance with, Regulation S under the US Securities Act of 1933, as amended (the "**Securities Act**"), or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any forwarding, redistribution or reproduction of the Information Memorandum in whole or in part is unauthorised. Failure to comply with this notice may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

1.4 Neither the Information Memorandum nor the Terms and Conditions of the Placing constitute, and under no circumstances are they to be construed as, an offer of securities for sale in the United States or any other jurisdiction where it is unlawful to do so. The Placing Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States or in any other jurisdiction and may not be offered, sold, pledged or otherwise transferred except in an "offshore transaction" in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state or local securities laws.

1.5 For the purposes of the Terms and Conditions of the Placing, "**Placee**" means a person (including individuals, funds or others) by whom or on whose behalf a commitment to take up Placing Shares has been given and/or who has been invited to participate in the Placing by the Bank. By participating in the Placing, each Placee is deemed to have read and understood the Information Memorandum in its entirety and to be providing the representations, warranties, undertakings, agreements and acknowledgements contained herein.

1.6 Each Placee which confirms its agreement (whether orally or in writing) to the Bank to subscribe for the Placing Shares under the Placing will be bound by the Terms and Conditions of the Placing and will be deemed to have accepted them.

2. **Details of the Placing**

Each of HSBC Bank plc ("**HSBC**"), Credit Suisse Securities (Europe) Limited ("**CS**" and, together with HSBC, the "**Lead Placing Agents**"), Deutsche Bank AG, London Branch ("**DB**") and VTB Capital plc ("**VTB**" and, together with DB, the "**Co-Lead Placing Agents**"), the Cyprus Investment and Securities Corporation Limited as local placing agent (the "**Local Placing Agent**") (the Lead Placing Agents together with the Co-Lead Placing Agents and the Local Placing Agent, the "**Placing Agents**") will enter into a placing agent agreement (the "**Placing Agent Agreement**") under which the Placing Agents will agree on a several (but not joint and several) basis to use their reasonable endeavours to identify persons who wish to subscribe for the Placing Shares at the Placing Price, subject to the satisfaction of the Conditions Precedent (as defined below).

3. **Listing and trading of Placing Shares**

The Placing Shares are unlisted.

4. **Ranking of Placing Shares**

The Placing Shares will be fully fungible and rank pari passu in all respects with each other and with all other Existing Ordinary Shares (other than the Listed Existing Ordinary Shares).

5. **Dividends**

The CBC has imposed a prohibition on the distribution of dividends by the Bank during the period of the Restructuring Plan which is up to and including 31 December 2017.

6. **Voting rights**

Each Ordinary Share gives the holder the right to cast one vote at a general meeting of shareholders. No shareholder possesses different voting rights per Ordinary Share from other shareholders. As of the date of the Information Memorandum, there are no other classes of shares outstanding other than Ordinary Shares.

7. **Participation in, and principal terms of, the Placing**

7.1 Each of the Placing Agents is acting on a several (but not joint and several) basis as agent for and on behalf of the Bank. Prospective Placees will be identified and contacted by the Placing Agents, who will present a list of potential Placees to the Bank. The Bank will determine, in its absolute discretion, the extent of each Placee's participation in the Placing (which will not necessarily be the same for each Placee) and the price per Placing Share which will be at a discount in respect of the current nominal value of the Ordinary Shares (the "**Placing Price**"). The Placing is not underwritten.

7.2 The allocation of Placing Shares to Placees is subject to the clawback to satisfy valid applications by existing holders of the Existing Ordinary Shares (the "**Existing Shareholders**") under the Open Offer as defined in Condition 7.5 below. Any allocation of Placing Shares to Placees shall be reduced *pro rata* to the number of Placing Shares initially allocated to them, in accordance with any allocations made to Existing Shareholders under the Open Offer.

7.3 A Placee's commitment to acquire a fixed number of Placing Shares at the Placing Price under the Placing will be agreed orally or in writing with the Bank (or the Placing Agents, on behalf of the Bank). Such agreement will constitute an irrevocable legally binding commitment (the "**Irrevocable Commitment**") on such Placee's part to acquire that number of Placing Shares (subject to the clawback and/or scale back as described in Conditions 7.2, 7.7 and 7.8) at the Placing Price upon and subject to the Terms and Conditions of the Placing and subject to the Bank's Memorandum and Articles of Association. By its entry into the Irrevocable Commitment, each Placee will be deemed to have read and understood the Information Memorandum in its entirety, including the Terms and Conditions of the Placing, and each Placee will be deemed to have made the representations, warranties, acknowledgments and undertakings, and agreed to the terms and conditions, contained in the Terms and Conditions of the Placing.

7.4 After the Irrevocable Commitment is entered into and in order to further evidence the terms thereof, each Placee allocated Placing Shares in the Placing will be sent a letter by the Bank (or the Placing Agents, on behalf of the Bank) stating the number of Placing Shares allocated to it at the Placing Price (the "**Contract Letter**"). Each Placee shall return the form of confirmation attached to the Contract Letter (the "**Form of Confirmation**") as indicated in the Contract Letter. Such Form of Confirmation shall include, amongst other things, the number of Placing Shares the relevant Placee irrevocably commits to acquire, the amount payable in respect of such Placing Shares, the name in which the Placing Shares should be registered, the details of where the Share Statements (as defined in Condition 10.2 below) are to be delivered and certain acknowledgements, representations and warranties with respect to investor status and other restrictions specified in Condition 11. Such Form of Confirmation will contain an acknowledgement by the Placee that the Placing Agents have no responsibility for the truth, accuracy, completeness or contents of the Information Memorandum or any other information provided to it relating to the Bank or the Placing and that the Placing Agents have not made and do not make any representations, warranties or undertakings regarding the same and furthermore that the Placing Agents are under no obligation to provide the Placee with access to any additional information or to update, revise or supplement the Information Memorandum or any other information provided to the Placee relating to the Bank or the Placing or to correct any inaccuracies which may become apparent. The Bank may require any Placee to agree to such further terms and/or conditions and/or give such additional warranties and/or representations as it (in its absolute discretion) sees fit to include in the Form of Confirmation. The terms and conditions contained in the Form of Confirmation shall be supplemental and in addition to the Terms and Conditions of the Placing.

7.5 The Bank will provide its Existing Shareholders with the opportunity to apply, over a period of 15 business days (the "**Open Offer Period**"), for 20% of the total number of Placing Shares at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder (the "**Open Offer**") pursuant to certain terms and conditions which will be included in a shareholders' circular to be sent by the Bank to Existing Shareholders in relation to the Open Offer and the EGM (as defined in Condition 8 below).

7.6 In conjunction with the Placing, the Bank may place Placing Shares to certain eligible placees in a separate private placement in the United States pursuant to an exemption from, and in a transaction not subject to, the registration requirements of the Securities Act.

7.7 As soon as reasonably practicable following allocation of Placing Shares to Existing Shareholders in accordance with the Open Offer and the separate private placement in the United States, if any, the Bank (or the Placing Agents, on behalf of the Bank) will re-contact and confirm orally or in writing (as the Bank in its absolute discretion may decide) to Placees the size of their respective allocations. The Bank's (or the Placing Agents', on behalf of the Bank) oral confirmation of the size of allocations will constitute a legally binding agreement pursuant to which each such Placee will be required to accept the number of Placing Shares allocated to the Placee at the Placing Price and otherwise on the Terms and Conditions of the Placing and subject to the Bank's Memorandum and Articles of Association.

7.8 The Bank reserves the right to scale back on a *pro rata* basis the number of Placing Shares to be subscribed by any Placee in the event of an oversubscription under the Placing. The Bank also reserves the right not to accept offers to subscribe for Placing Shares or to accept such offers in part rather than in whole. The Bank shall be entitled to effect the Placing by such method as it shall in its sole discretion determine. No commissions will be paid to Placees or directly by Placees in respect of any Placing Shares or the Placing.

7.9 Each Placee's obligations will be owed to the Bank. Pursuant to the Irrevocable Commitment, each Placee will have an immediate, separate, irrevocable and binding obligation, owed to the Bank, to pay to the Bank (or as the Bank may direct) in cleared funds an amount equal to the product of the Placing Price and the number of Placing Shares which such Placee has agreed to acquire, subject only to the adjustment (if any) of the number of Placing Shares allocated to such Placee in accordance with Condition 7.7 and/or Condition 7.8. The Bank shall allot the Placing Shares to each Placee following each Placee's payment to it of such amount.

8. **Conditions of the Placing**

8.1 The completion of the Placing is subject to:

(a) the approval of the following shareholder resolutions by holders of shares representing not less than 75% of the Existing Ordinary Shares voting at an extraordinary general meeting of shareholders of the Bank (the "**EGM**"):

(i) authorisation of the Board of Directors (or a duly authorised committee thereof) to issue and allot the Placing Shares at the Placing Price to the Placees and to any Existing Shareholders who have participated in the Open Offer;

(ii) the reduction of the nominal value of each of the Ordinary Shares to a nominal value at par with, or below, the Placing Price (the "**Nominal Value Reduction**"); and

(iii) the disapplication of the Existing Shareholders' pre-emption rights;

(b) the issue of a court order by the District Court of Nicosia approving the Nominal Value Reduction (the "**Court Order**"); and

(c) the filing of the Court Order with the Department of the Registrar of Companies and Official Receiver,

(together, the "**Conditions Precedent**").

8.2 By accepting Placing Shares, each Placee irrevocably agrees that the Bank may, in its absolute discretion, exercise the right to extend the time for fulfilment of any of the Conditions Precedent (provided that the completion of the Placing does not occur later than any long stop date which may be specified in the Contract Letter) without consulting with any Placee. Any such extension will not affect the Placees' commitments. If there is any change to the timetable the Placees will be notified at the first practicable opportunity.

9. **Information Memorandum**

Each Placee, by participating in the Placing, agrees that the content of the Information Memorandum is exclusively the responsibility of the Bank and confirms that it has neither received nor relied on any other information or representation concerning the Bank, its subsidiaries, the Placing or the Ordinary Shares. Neither the Bank nor the Placing Agents nor any of their respective officers, directors or employees will be liable for any Placee's decision to participate in the Placing based on any other information, representation, warranty or statement which the Placees may have obtained or received. Each Placee acknowledges and agrees that (i) it has relied on its own investigation of the business, financial or other position of the Bank in accepting a participation in the Placing, (ii) the Placing Agents have no responsibility for the truth, accuracy, completeness or contents of the Information Memorandum or any other information provided to it relating to the Bank or the Placing and that the Placing Agents have not made and do not make any representations, warranties or undertakings regarding the same, and (iii) the Placing Agents are under no obligation to provide the Placee with access to any additional information or to update, revise or supplement the Information Memorandum or any other information provided to the Placee relating to the Bank or the Placing or to correct any inaccuracies which may become apparent.

10. **Registration and settlement**

10.1 As soon as reasonably practicable following the satisfaction of the Conditions Precedent, each Placee allocated Placing Shares in the Placing will be sent a confirmation (the "**Placing Confirmation**") by the Bank (or the Placing Agents on behalf of the Bank) indicating the number of Placing Shares allocated to it, the Placing Price, the aggregate amount of cash consideration owed by such Placee to the Bank and settlement instructions, including the expected date on which payment for the Placing Shares and the issue of the Placing Shares will take place (the "**Closing Date**"). Each Placee agrees that it will do all things necessary to ensure that payment is completed on the Closing Date in accordance with the settlement instructions included in the Placing Confirmation.

10.2 Upon receipt of the relevant amount of cleared funds on the Closing Date from each Placee in accordance with the settlement instructions contained in the Placing Confirmation, the Bank shall deliver the Placing Shares to such Placee through the registration of such Placee (or its custodian, nominee, trustee or agent as indicated in the relevant Form of Confirmation) in the register of members of the Bank on the Closing Date. As soon as reasonably practicable following the Closing Date, the Bank shall deliver a statement of shareholding confirming the number of Placing Shares issued and allotted to such Placee (the "**Share Statements**") to the address indicated by such Placee in the relevant Form of Confirmation. Upon the written request of a Placee, the Bank will deliver a share certificate to such Placee.

10.3 Interest is chargeable daily on payment not received from Placees on the due date in accordance with the arrangements set out above at the rate of 2 percentage points above the main refinancing rate of the European Central Bank.

10.4 Each Placee is deemed to agree that, if it does not comply with these obligations, the Bank may sell any or all of the Placing Shares allocated to that Placee on such Placee's behalf and retain from the proceeds, for the Bank's account and benefit, an amount equal to the aggregate amount owed by the Placee plus any interest due. The relevant Placee will, however, remain liable for any shortfall below the aggregate amount owed by it and may be required to bear any stamp duty, registration, documentary or other similar tax (together with any interest or penalties) which may arise upon the sale of such Placing Shares on such Placee's behalf.

10.5 If Placing Shares are to be delivered to a custodian, nominee, trustee or agent, Placees should ensure that the Placing Confirmation is copied and delivered immediately to the relevant person within that organisation.

10.6 Insofar as Placing Shares are registered in a Placee's name or that of its custodian, nominee, trustee or agent, such Placing Shares should, subject as provided below, be so registered free from any liability to stamp duty, registration, documentary or other similar tax.

11. **Representations and warranties**

By participating in the Placing each Placee (and any person acting on such Placee's behalf) acknowledges, undertakes, represents, warrants and agrees (as the case may be) to and with the Bank the following:

(a) it has read the Information Memorandum and the Terms and Conditions of the Placing in their entirety and acknowledges and agrees that its participation in the Placing will be governed by the Terms and Conditions of the Placing and any other terms and conditions specified in the Contract Letter. In particular, it has reviewed the description of the Placing and of the Ordinary Shares set forth in the Information Memorandum, and understands the nature and the terms of each of the Placing and the Placing Shares, which will be in physical certificated form and not global form;

(b) it has conducted its own investigation with respect to the Bank, the Placing and the Placing Shares and it (i) has received any other information that it has deemed necessary or appropriate in order to make an investment decision about the Placing, has been given access to the Bank and has been provided with an opportunity to ask questions of the Bank, (ii) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits, risks and suitability of the Placing, (iii) is able to bear the risk of an entire loss of its investment in the Placing Shares, (iv) is participating in the Placing with a full understanding of all of the terms, conditions and risks and willingly assumes those terms, conditions and risks, (v) has evaluated the merits and risks (including tax risks) of the Placing based exclusively on its own independent review and consultations with such investment, legal, tax, accounting and other advisers as it deemed necessary and (vi) acknowledges that the Bank and the Placing Agents have made no representation to it with respect to the merits of an investment in the Placing Shares;

(c) it is not relying on any information or representation or warranty in relation to the Bank or any of its subsidiaries or any of the Placing Shares other than as contained in the Information Memorandum, the Terms and Conditions of the Placing and any other materials that have been circulated to the Placee with the approval of the Bank; and neither the Bank nor any of its officers, directors or employees will have any liability for any such other information or representation;

(d) the Placing Agents have no responsibility for the truth, accuracy, completeness or contents of the Information Memorandum or any other information provided to the Placee relating to the Bank or the Placing and that the Placing Agents have not made and do not make any representations, warranties or undertakings regarding the same and furthermore the Placing Agents are under no obligation to provide the Placee with access to any additional information or to update, revise or supplement the Information Memorandum or any other information provided to the Placee relating to the Bank or the Placing or to correct any inaccuracies which may become apparent;

(e) its obligations are irrevocable and legally binding and shall not be capable of rescission or termination by it in any circumstances except fraud;

(f) its obligations will be owed to the Bank and it acknowledges that it has an immediate, separate, irrevocable and binding obligation, owed to the Bank, to pay to the Bank (or as it may direct) in cleared funds an amount equal to that shown in the Placing Confirmation;

(g) it is entitled to subscribe for the Placing Shares under the laws of all relevant jurisdictions which apply to it and that it has fully observed such laws and obtained all governmental and other consents which may be required thereunder or otherwise and complied with all necessary formalities and that it has not taken any action which will or may result in the Bank or any of their respective directors, officers, employees or agents acting in breach of any regulatory or legal requirements of any territory in connection with the Placing or its acceptance of Placing Shares and that its commitment constitutes a valid and binding obligation on it;

(h) it has obtained all necessary consents and authorities (regulatory or otherwise) to enable it to give its commitment to subscribe for the Placing Shares and to perform its subscription obligations and the person entering into the Irrevocable Commitment and signing the Form of Confirmation or entering into any other agreement on its behalf has been duly authorised to do so;

(i) if it is in a Member State of the EEA, it is a Qualified Investor;

(j) if it is in the UK, it is a Relevant Person;

(k) it has not offered or sold and will not offer or sell any Placing Shares to persons in the European Economic Area except in circumstances which have not resulted in, and will not result in, an offer to the public within the meaning of the Prospectus Directive;

(l) it is not, and will not be subscribing on behalf of, a resident of Australia, Canada, South Africa or Japan and it acknowledges that the Placing Shares have not been and will not be registered under the securities legislation of Australia, Canada, South Africa or Japan and, subject to certain exceptions, may not be offered, sold, taken up, delivered or transferred, directly or indirectly, within those jurisdictions;

(m) it has not and will not send the Information Memorandum to any person in the United States, Australia, Canada, South Africa or Japan;

(n) it is not in the United States;

(o) it understands and acknowledges that the Placing Shares have not been and will not be registered under the Securities Act or any U.S. state securities laws and none of the Placing Shares may be offered, sold, resold, pledged or otherwise transferred except in an "offshore transaction" as defined in, and in accordance with, Rule 903 or Rule 904 of Regulation S under the Securities Act, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state or local securities laws;

(p) it is acquiring the Placing Shares in the Placing for its own account or, if it is acquiring the Placing Shares for one or more managed accounts, it is authorised in writing by each managed account (i) to subscribe for the Placing Shares for the managed account, (ii) to make on the managed account's behalf the representations, warranties, acknowledgments and agreements in the Terms and Conditions of the Placing and the Contract Letter and (iii) to execute and deliver the Form of Confirmation on behalf of the managed account. Each Placee agrees to indemnify and hold the Bank and the Placing Agents harmless from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of or in connection with any breach of the representations and warranties in this sub-paragraph. Each Placee agrees that the provisions of this sub-paragraph shall survive the resale of the Placing Shares by or on behalf of the managed accounts;

(q) it is not acquiring the Placing Shares with a view to distribution thereof or with any present intention of offering or selling any of the Placing Shares except in compliance with the transfer restrictions set forth above;

(r) it will not offer, transfer or sell the Placing Shares to or for the benefit of any persons (including individuals and legal entities) unless and only to the extent, permitted under the laws of all relevant jurisdictions;

(s) from the date of its entry into the Irrevocable Commitment, until and including the last date of the Open Offer Period, it shall not, and shall procure that its subsidiaries and affiliates over which it exercises management or voting control and any person acting on its behalf shall not, without the prior written consent of the Bank (i) offer, sell (directly or indirectly), contract to sell, transfer, pledge, charge, grant security or an option over, or enter into any other agreement or arrangement having similar effect, or in any way, whether directly or indirectly, dispose of or encumber the legal title to or beneficial interest in any Ordinary Shares it may hold; (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of its Ordinary Shares; **provided that** the foregoing shall not apply to:

> (i) accepting a general offer made to all holders of Ordinary Shares for the time being made in accordance with Cypriot corporate law on terms which treat all such holders alike;
>
> (ii) transferring or disposing of Ordinary Shares pursuant to a compromise or arrangement between the Bank and its creditors or any class of them or between the Bank or its members or any class of them which is agreed to by the creditors or members and (where required) sanctioned by the Cypriot courts under Cypriot corporate law;
>
> (iii) disposing of Ordinary Shares in accordance with any order made by a court of competent jurisdiction;
>
> (iv) disposing of any title or interest in any Ordinary Shares (x) to one or more companies or other entities (including any fund, limited partnership or other partnership, whether or not having legal personality) of which such Placee is an affiliate, trustee, designee or nominee (each, a "**PE Entity**") or (y) on a distribution under the constitutive documents of a PE Entity, directly or indirectly, to the partners in or holders of units in, or to shareholders of, participants in or the holders of other interests in such PE Entity (or to a nominee or trustee for any such partners, holders, members or investors), so long as, prior to the making of any such disposal described in this sub-paragraph (iv), the relevant transferee shall have agreed to be bound by the restrictions of this paragraph (r) as if it was the Placee; or
>
> (v) procuring any disposal of Ordinary Shares arising by operation of or required by applicable law;

(t) the Placing Shares, when issued, will be unlisted and no assurances are given that the Placing Shares will ultimately be listed at all or will be listed within any timeframe;

(u) it is aware of, has complied with and will continue to comply with any obligations it has under any anti-money laundering laws and regulations applicable to it and in respect of its subscription for Placing Shares and it will provide the Bank on demand with any information it may require for the purposes of verification under the anti-money laundering laws and regulations applicable to the Bank and the Bank's "know your customer" procedures;

(v) that to ensure compliance with the anti-money laundering laws and regulations applicable to the Bank and the Bank's "know your customer" procedures, the Bank may, in its absolute discretion, require verification of the Placees identity to the extent that it has not already provided the same. Pending the provision to the Bank of evidence of identity, Share Statements or, if requested, share certificates in respect of Placing Shares may be retained at the Bank's absolute discretion. If within a reasonable time after a request for verification of identity the Bank has not received evidence satisfactory to it, the Bank may, at its absolute discretion, terminate the proposed issue of Placing Shares to the Placee in which event the monies payable on acceptance of the allotment will, if paid, be returned without interest to the account of the drawee bank from which they were originally debited. No Placing Shares will be placed with a Placee if before completion of the Placing its acceptance of any Placing Shares is rejected pursuant to the anti-money laundering laws and regulations applicable to the Bank and the Bank's "know your customer" procedures;

(w) it understands that the Bank and the Placing Agents have relied upon the truth and accuracy of the foregoing acknowledgements and representations contained in the Terms and Conditions of the Placing and the Form of Confirmation and if any of such acknowledgements or representations deemed to have been made at the time of the delivery of the Placing Shares is no longer accurate, such person will promptly notify the Bank. It further understands that these representations are required in connection with U.S. securities laws and that the Bank and the Placing Agents are entitled to rely on the Form of Confirmation and that the Bank and the Placing Agents are irrevocably authorized to produce the Form of Confirmation or a copy thereof to any interested party in any administrative or legal proceeding or official enquiry with respect to the matters covered hereby; and

(x) to indemnify and hold harmless the Bank and the Placing Agents from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of or in connection with any breach by it (or any person on whose behalf it is acting) of the representations, warranties, acknowledgements, agreements and undertakings contained in the Terms and Conditions of the Placing, the Contract Letter, the Form of Confirmation and any other agreement into which it enters with the Bank and further agrees that the provisions herein shall survive after completion of the Placing.

12. **Stamp Duty**

12.1 Whilst the Bank does not believe there to be any liability to stamp duty, registration, documentary or other similar tax in respect of the issue of the Placing Shares under Cypriot law, should any such stamp duty, registration, documentary or other similar tax be payable, it shall be entirely for the Bank's account and the Placee will not have any liability in respect thereof.

12.2 The Bank's agreement to settle a Placee's acquisition of Placing Shares (and/or the acquisition by a person for whom such Placee is contracting as agent) free of stamp duty, registration, documentary or other similar tax depends on the settlement relating only to an acquisition of the Placing Shares by such Placee (and/or such person) directly from the Bank for the Placing Shares in question. Such agreement assumes that the Placing Shares are not being acquired in connection with any arrangements to issue depositary receipts or to transfer the Placing Shares into a clearance service. If there are any such arrangements, or the settlement relates to any other dealing in the Placing Shares, stamp duty, registration, documentary or other similar tax may be payable, for which the Bank will not be responsible. If this is the case, each Placee should seek its own advice in this respect and notify the Placing Agents and the Bank.

12.3 In addition, Placees should note that they will be liable for any stamp duty and all other stamp, issue, securities, transfer, registration, documentary or other duties or taxes (including any interest, fines or penalties relating thereto) payable outside Cyprus by them or any other person on the acquisition by them of any Placing Shares or the agreement by them to acquire any Placing Shares.

13. **Relationship with Placing Agents**

Each Placee, and any person acting on behalf of the Placee, acknowledges that the Placing Agents do not owe any fiduciary or other duties to any Placee in respect of any representations, warranties, undertakings or indemnities expected to be contained in the Placing Agent Agreement. The Placing Agents, each of which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, are acting solely for the Bank and for no one else in connection with the Placing and will not be responsible to anyone other than the Bank for providing the protections afforded to clients of the Placing Agents or for affording advice in relation to the Placing or any other matters referred to herein.

14. **Miscellaneous**

14.1 The rights and remedies of the Bank under the Terms and Conditions of the Placing are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

14.2 On application, if a Placee is a discretionary fund manager, that Placee may be asked to disclose in writing or orally the jurisdiction in which its funds are managed or owned. All documents provided in connection with the Placing will be sent at the Placee’s risk. They may be returned by post to such Placee at the address notified by such Placee.

14.3 Each Placee agrees to be bound by the Memorandum and Articles of Association of the Bank (as amended from time to time) once the Placing Shares, which the Placee has agreed to subscribe for pursuant to the Placing, have been acquired by the Placee.

14.4 The Irrevocable Commitment, the Contract Letter, the Form of Confirmation and the appointments and authorities mentioned in the Information Memorandum and any non-contractual obligations arising out of or in connection with the Irrevocable Commitment, the Contract Letter, the Form of Confirmation and the appointments and authorities mentioned in the Information Memorandum will be governed by, and construed in accordance with, English law. For the exclusive benefit of the Bank, each Placee irrevocably submits to the jurisdiction of the English courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum. This does not prevent an action being taken against a Placee by the Bank in any other jurisdiction.

14.5 In the case of a Joint Agreement to subscribe for Placing Shares under the Placing, references to a “**Placee**” in the Terms and Conditions of the Placing are to each of the Placees who are a party to that joint agreement and their liability is joint and several.

14.6 The Bank expressly reserves the right to modify the Placing (including, without limitation, their timetable and settlement) at any time before allocations are determined.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

The distribution of this Information Memorandum and the offer of Placing Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Information Memorandum comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Placing Shares, or possession or distribution of this Information Memorandum or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Placing Shares may not be offered or sold, directly or indirectly, and neither this Information Memorandum nor any other offering material or advertisement in connection with the Placing Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Information Memorandum does not constitute an offer to subscribe for any of the Placing Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Cyprus

This Information Memorandum has not been submitted to the approval procedure of the CySEC, pursuant to the Prospectus Law and Regulation (EC) 809/2004 of the European Union, and accordingly, may not be used in connection with any offer to purchase or sell any Placing Shares or as part of any form of general solicitation or advertising in circumstances that would constitute an offer to the public in Cyprus.

United States

The Placing Shares have not been, and will not be, registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Placing Shares are being offered and sold only outside the United States in "offshore transactions" in reliance on Regulation S, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Regulation S

Each subscriber or purchaser of the Placing Shares outside the United States, by accepting delivery of this Information Memorandum and any Placing Shares, will be deemed to have represented, warranted, undertaken, agreed and acknowledged as follows:

1. (i) The sale of the Placing Shares is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S; (ii) it is, or at the time such Placing Shares are purchased will be, the beneficial owner of those Placing Shares; and (iii) it is, and the person, if any, for whose account it is acquiring such Placing Shares is, located outside the United States (within the meaning of Regulation S) and is purchasing the Placing Shares in an offshore transaction meeting the requirements of Regulation S.

2. It is not an affiliate of the Bank or a person acting on behalf of such an affiliate.

3. The Placing Shares have not been, and will not be, registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

4. It acknowledges that the Bank and its respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations, warranties, undertakings and agreements in the foregoing paragraphs.

United Kingdom

In the United Kingdom, this Information Memorandum is only being distributed to and is only directed at persons (i) who have professional experience in matters relating to investments and fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). Any investment or investment activity to which this Information Memorandum relates, including the Placing Shares, is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Information Memorandum or any of its contents.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, no offer of the Placing Shares may be made to the public in that Relevant Member State other than:

a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Bank for any such offer; or

c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Placing Shares shall result in a requirement for the publication of a prospectus by the Bank pursuant to Article 3 of the Prospectus Directive.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Placing Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Placing Shares so as to enable an investor to decide to purchase or subscribe for the Placing Shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

GLOSSARY OF SELECTED TERMS

€ and euro	The common legal currency of the EU Member States participating in the third stage of the European Economic and Monetary Union, including Cyprus
$, USD, US$ and U.S. dollar	The lawful currency of the United States of America
2007 Capital Securities	Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as of 29 March 2013 was €22,169,560
2008 Convertible Bonds	Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as of 29 March 2013 was €27,283,632
2009 Convertible Capital Securities	Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as of 29 March 2013 was €73,088,145
2010 PD Amending Directive	Directive 2010/73/EU
2011 EUR CECS	Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in euro by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was €428,521,983
2011 USD CECS	Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was $39,711,653
90+DPD	Loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired
90+DPD Ratio	The ratio of loans that are 90+DPD to gross loans for any period
ALCO	The Assets and Liabilities Committee of the Group
AML/CTF	Anti-money laundering and counter-terrorism financing
AQR	The ECB's asset quality review, run as part of the ECB's comprehensive assessment prior to inception of the SSM
Arrears Management Directive	The consolidated Directives on Arrears Management of 2013 and 2014 issued by the CBC
Assessment and Collection of Taxes Law	The Assessment and Collection of Taxes Law of 4/1978 as amended with 79(I)/2014
ATHEX	The Athens Stock Exchange
Bail-in Decrees	The Bail-in of Bank of Cyprus Public Company Limited Decree of 2013 issued on 29 March 2013, the Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013 issued on 21 April 2013 and the Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013 issued on 30 July 2013 by the CBC in its capacity as Resolution Authority

Bail-in Shares	Ordinary Shares issued to bailed in holders of conventional cash deposits, capital guaranteed structured deposit products, investment products and schuldschein loans
Bank	Bank of Cyprus Public Company Limited
Banking Law	The Cypriot Banking Law of 1997
Basel II	The final proposals pertaining to the revised capital adequacy framework issued by the Basel Committee in June 2004
Basel III	The final proposals pertaining to the reform of capital and liquidity requirements issued by the Basel Committee on 12 September 2010 and revised in June 2011.
Basel Committee	The Basel Committee for Banking Supervision
Board of Directors	The board of directors of the Bank, which is also the Group's main board of directors
BOC CI	Bank of Cyprus (Channel Islands) Ltd
BOC UK	Bank of Cyprus UK Ltd
BRRD	Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012
Capital Controls Decree	Each Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree issued by the Ministry of Finance of Cyprus
Capital Securities	The 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the CECS
CBC	The Central Bank of Cyprus
CBR	The Central Bank of the Russian Federation
CCI	Cooperative credit institutions in Cyprus
CCP	Central counterparties as defined by EMIR
CECS	The 2011 EUR CECS and the 2011 USD CECS
CISCO	The Cyprus Investment and Securities Corporation Ltd
CIWUD	Directive 2001/24/EC on the reorganisation and winding up of credit institutions
Closing Date	The date on which payment for the Placing Shares and the issue of the Placing Shares will take place

CNP	CNP Cyprus Insurance Holdings Ltd
CNP France	CNP Assurances S.A.
Code	The CSE's Fourth Edition (Amended) Corporate Governance Code issued in April 2014
Companies Law	The Cyprus Companies Law
COREPER	The Committee of Permanent Representatives of the Member States of the EU
Council	The Council of the European Union
CPC	The Cypriot Commission for the Protection of Competition
CRA	The Credit Risk Assessment department of the Group
CRD I	EU Directives 2006/48 and 2006/49
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
CRD IV/CRR	CRD IV and the CRR
CRP	The Credit Risk Policy department of the Group
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms
CRR&C	The Credit Risk Reporting & Control department of the Group
CRSA	The Credit Risk Systems & Analytics department of the Group
CSE	The Cyprus Stock Exchange
CYPEF	The Cyprus Entrepreneurship Fund
Cyprus Income Tax Laws	The Cyprus Income Tax Law 118(I)/2002 as amended by 27(I) of 2013
CySEC	The Cyprus Securities and Exchange Commission
Defence Tax	The 17% Special Contribution under the Cyprus Defence of the Republic Law
Deposit Protection Scheme	The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013
Diluted Shares	Diluted Existing Shares and Ordinary Shares issued to bailed in holders of Capital Securities

EAP	The Economic Adjustment Programme agreed between the Government and the Troika on 2 April 2013
EBA	The European Banking Authority
ECB	The European Central Bank
ECB Assessment	The comprehensive assessment to be conducted in preparation of the ECB assuming full supervisory responsibility for Eurozone banks and other credit institutions as part of the SSM
ECB Regulation	Regulation (EU) No 1024/2013
EGM	An extraordinary general meeting of the holders of Ordinary Shares of the Bank
EIB	The European Investment Bank
EIF	The European Investment Fund
ELA	Emergency Liquidity Assistance
EMTN	Euro Medium Term Note
ESM	The European Stability Mechanism
EU	The European Union
Euro Capital Securities	The 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the 2011 EUR CECS
Eurogroup	The main forum for the management of the single currency area, consisting of the finance ministers of the countries whose currency is the euro
Eurogroup Statement on Cyprus	The agreement reached by the Government and the Eurogroup on 25 March 2013 on the key elements and principles necessary for a future macroeconomic adjustment programme
EuroLife	Eurolife Ltd
Eurosystem	The ECB and the national central banks together
Eurozone	The member states of the EU that have adopted the euro as their national currency in accordance with the Treaty on EU signed at Maastricht on 7 February 1992
Existing Ordinary Shares	Existing ordinary registered shares of the Bank
Existing Shares	The Ordinary Shares of the Bank in issue as of 29 March 2013
FATCA	The U.S. Foreign Account Tax Compliance Act
FATF	The Financial Action Task Force
FCs	Financial counterparties

FFI	Foreign Financial Institutions
Fitch	Fitch Ratings Ltd.
FTT	The Financial Transactions Tax, a legislative proposal published by the European Commission on 14 February 2013
Fund	The Cypriot Investor Compensation Fund for Customers of Banks which was established pursuant to the Investment Firms Law of 2002 and the Establishment and Operation of an Investor Compensation Fund for Customers of Banks Regulations of 2004 (Regulations 530/2004)
GCD	The Group Compliance Division
GCEO	The Group Chief Executive Officer
GCRO	The Group Chief Risk Officer
GDP	Gross domestic product
GHES	Grand Hotel Enterprises Society Ltd
GIC	General Insurance of Cyprus Ltd
GIIN	Global Intermediary Identification Number
Government	The government of the Republic of Cyprus
Greek Operations Decree	The Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013 issued by the Resolution Authority
Group	The Bank and its consolidated subsidiaries
GVA	Gross value added
HCMC	The Hellenic Capital Markets Commission
HCSD	The Hellenic Central Securities Depository
HQLA	High quality liquid assets
IAS	International Accounting Standards
IASB	The International Accounting Standards Board
IBS	The International Banking Services division of the Group
ICB	The International Corporate Banking unit of the Group
IFRS	International Financial Reporting Standards as adopted by the European Union
IGA	Intergovernmental agreements
IMF	The International Monetary Fund

IO	The International Operations division of the Group
IRS	The U.S. Internal Revenue Service
JCC	JCC Payment Systems Limited
Laiki Bank	Cyprus Popular Bank Public Co Ltd
Laiki Shares	Ordinary Shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees
Laiki Transfer Decrees	The Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013 issued by the Resolution Authority
LCR	Liquidity coverage ratio
LFS	Laiki Financial Services Ltd
Loan Origination Directive	The Directive on Loan Origination Processes and Processes of Reviewing Existing Loans issued by the CBC
Loan Provisioning Directive	The Directive on Loan Impairment and Provisioning Procedures of 2014 issued by the CBC
Marfin Bank Romania	Marfin Bank (Romania) SA
Member State	A member state of the EU
MiFID	Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006)
MiFID II	The forthcoming European Union Directive that will amend MiFID
MiFIR	The forthcoming European Union Regulation that will amend MiFID
MLF rate	Marginal lending facility rate
Mokas	The Cypriot Unit for Combating Money Laundering
Money Laundering Activities Laws	Council Directives 2005/60/EC and 2006/70/EC, the International Convention for the Suppression of the Financing of Terrorism with the Prevention and Suppression of Money Laundering Activities Law 2007 to 2013 and the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing
Moody’s	Moody’s Investors Service
MoU	The Memorandum of Understanding (as amended) prepared by Troika

	and approved by the ESM on 24 April 2013, which specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance
MR	The Market Risk Department of the RMD
MREL	The minimum requirements for own funds and eligible liabilities set by national resolution authorities pursuant to the BRRD
MRO	Main refinancing operations
NCA	National competent authority
NFCs	Non-financial counterparties
Nominal Value Reduction	The reduction of the nominal value of the Ordinary Shares to a nominal value at par with, or below, the Placing Price
NPL	Non-performing loan as defined pursuant to the NPL Directive
NPL Directive	The Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013 issued by the CBC
Open Offer	The offer to Existing Shareholders to apply, over a period of 15 business days for the proportion of the total number of Placing Shares indicated in the Contract Letter at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder, pursuant to certain terms and conditions
Order	The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)
Ordinary Shares	The Existing Ordinary Shares and the Placing Shares
OTC	Over-the-counter
Piraeus Bank	Piraeus Bank S.A.
Placing	The offering of the Placing Shares to eligible investors
Placing Price	The price per Placing Share which will be at a discount in respect of the current nominal value of the Ordinary Shares
Placing Shares	The new ordinary shares in the share capital of the Bank issued pursuant to the Placing
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State)
PSD	Directive 2007/64/EC on payment services (as amended)
PSD2	The proposal for a new payment services directive to incorporate and repeal the PSD published by the European Commission on 24 July 2013
RBS	The Royal Bank of Scotland Group

Recapitalisation	The recapitalisation of the Bank effected by the Resolution Authority through the issue of the Bail-in Decrees
Regulation S	Regulation S under the Securities Act
Relevant Member State	Any member state of the European Economic Area which has implemented the Prospectus Directive
Resolution Authority	The CBC in its capacity as resolution authority pursuant to the Resolution Law
Resolution Law	The Resolution of Credit and other Institutions Law of 2013
Restricted Deposits	Deposits subject to interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of those deposits
Restructuring Plan	The Group's comprehensive restructuring plan covering the period from 2013 through 2017, which was approved by the CBC in November 2013
RMD	The Risk Management Division of the Group
Romanian Operations Decree	The Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013
RRD	The Restructuring and Recoveries Division of the Group
RUB and Rouble	The lawful currency of the Russian Federation
RWA	Risk-weighted assets
Securities Act	The U.S. Securities Act of 1933, as amended
SEK	The lawful currency of the Kingdom of Sweden
SEPA	Single euro payments area
SEPA Regulation	Regulation (EU) No 260/2012
SMEs	Small and medium-sized enterprises
Solvency II	Directive 2009/138/EC of 25 November 2009
SRB	The single resolution board
SRF	The Single Banking Resolution Fund
SRM	The Single Resolution Mechanism
SRM Regulation	The proposal for a regulation on the SRM adopted by the European Parliament on 15 April 2014
SSM	The ECB's single supervisory mechanism for Eurozone banks and other credit institutions

Standard & Poor's	Standard & Poor's Credit Market Services
Supreme Court	The Supreme Court of Cyprus
Troika	The European Commission, the ECB and the IMF
Uniastrum	CB Uniastrum Bank LLC
United States	The United States of America, its territories and possessions, any state of the United States and the District of Columbia
UK	The United Kingdom
Union	The Cyprus Union of Bank Employees
VRS	Voluntary retirement scheme

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	Notes	Three months ended 31 March 2014 €000
Continuing operations		
Turnover		480.026
Interest income		392.716
Interest expense		(125.758)
Net interest income		266.958
Fee and commission income		48.180
Fee and commission expense		(2.901)
Net foreign exchange losses		(5.571)
Net gains on financial instrument transactions		19.570
Insurance income net of claims and commissions		13.126
Other income	8	491
		339.853
Staff costs	8	(67.456)
Other operating expenses	8	(61.043)
Profit before impairment of loans and advances		211.354
Provisions for impairment of loans and advances	25	(146.465)
Profit before share of profit from associates and joint ventures		64.889
Share of profit from associates and joint ventures		2.135
Profit before tax		67.024
Tax	9	(2.232)
Profit after tax		64.792
Discontinued operations		
Loss after tax from discontinued operations	7	(35.987)
Profit for the period		28.805

Attributable to:		
Owners of the Company - continuing operations	7	67.257
Owners of the Company - discontinued operations	7	(35.948)
Total profit attributable to the owners of the Company		31.309
Non-controlling interests - continuing operations	7	(2.465)
Non-controlling interests - discontinued operations	7	(39)
Profit for the period		28.805

Basic and diluted earnings per share (cent) – continuing operations	10	1,4
Basic and diluted earnings per share (cent)	10	0,7

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

	Three months ended 31 March
	2014
	€000
Profit for the period	28.805
Other comprehensive income (OCI)	
OCI to be reclassified in the consolidated income statement in subsequent periods	
Foreign currency translation reserve	
Loss on translation of net investment in overseas subsidiaries and branches	(21.893)
Profit on hedging of net investments	7.630
	(14.263)
Available-for-sale investments	
Gains on revaluation before tax	9.218
Transfer to the consolidated income statement on impairment	215
Transfer to the consolidated income statement on sale	(2.148)
Tax	7
	7.292
	(6.971)
OCI not to be reclassified in the consolidated income statement in subsequent periods	
Property revaluation	
Tax	10
	10
Other comprehensive loss after tax	(6.961)
Total comprehensive income for the period	21.844

Attributable to:	
Owners of the Company	25.962
Non-controlling interests	(4.118)
Total comprehensive income for the period	21.844

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

Interim Consolidated Balance Sheet

as at 31 March 2014

	Notes	31 March 2014 €000	31 December 2013 (restated) €000
Assets			
Cash and balances with central banks		**963.963**	1.240.043
Placements with banks		**1.141.169**	1.290.102
Investments	*11*	**2.809.356**	2.759.855
Investments pledged as collateral	*11*	**665.382**	672.809
Derivative financial assets	*12*	**27.877**	28.765
Loans and advances to customers	*14*	**21.233.958**	21.764.338
Life insurance business assets attributable to policyholders		**449.907**	443.579
Property and equipment		**403.424**	414.404
Intangible assets		**129.967**	130.580
Other assets	*15*	**1.347.334**	1.401.833
Investments in associates and joint ventures	*33*	**205.932**	203.131
Total assets		**29.378.269**	30.349.439
Liabilities			
Amounts due to banks	*16*	**171.236**	196.422
Funding from central banks	*17*	**10.905.788**	10.956.277
Repurchase agreements		**582.489**	594.004
Derivative financial liabilities	*12*	**77.662**	83.894
Customer deposits		**14.065.675**	14.971.167
Insurance liabilities		**556.143**	551.829
Debt securities in issue	*18*	**1.493**	1.515
Other liabilities	*19*	**253.482**	251.979
Subordinated loan stock	*20*	**4.743**	4.676
Total liabilities		**26.618.711**	27.611.763
Equity			
Share capital	*21*	**4.699.503**	4.683.985
Shares subject to interim orders	*21*	**46.244**	58.922
Revaluation and other reserves		**67.099**	72.251
Accumulated losses		**(2.123.523)**	(2.151.835)
Equity attributable to owners of the Company		**2.689.323**	2.663.323
Non-controlling interests		**70.235**	74.353
Total equity		**2.759.558**	2.737.676
Total liabilities and equity		**29.378.269**	30.349.439

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

BANK OF CYPRUS GROUP

Interim Consolidated Statement of Changes in Equity

for the three months ended 31 March 2014

	Attributable to the owners of the Company											
	Share capital (Note 21)	Shares subject to interim orders (Note 21)	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury Shares	**Total**	Non-controlling interest	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2014	**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**
Finalisation of accounting for Laiki Bank acquisition (Note 32)	**-**	**-**	**495**	**-**	**6.587**	**-**	**-**	**-**	**-**	**7.082**	**-**	**7.082**
1 January 2014 (restated)	**4.683.985**	**58.922**	**(2.151.835)**	**115.958**	**42.450**	**6.059**	**92.297**	**(96.462)**	**(88.051)**	**2.663.323**	**74.353**	**2.737.676**
Profit/(loss) for the period	-	-	31.309	-	-	-	-	-	-	**31.309**	(2.504)	**28.805**
Other comprehensive income/(loss) for the period	-	-	-	9	7.256	-	-	(12.612)	-	**(5.347)**	(1.614)	**(6.961)**
Total comprehensive income/(loss) for the period	-	-	31.309	9	7.256	-	-	(12.612)	-	**25.962**	(4.118)	**21.844**
Bail-in of deposits and structured products	38	-	-	-	-	-	-	-	-	**38**	-	**38**
Shares subject to interim orders	12.678	(12.678)	-	-	-	-	-	-	-	**-**	-	**-**
Acquisitions (Note 32)	2.802	-	(2.802)	-	-	-	-	-	-	**-**	-	**-**
Transfer of realised profits on sale of property	-	-	54	(54)	-	-	-	-	-	**-**	-	**-**
Increase in value of in-force life insurance business	-	-	(244)	-	-	-	244	-	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	(5)	-	-	-	5	-	-	**-**	-	**-**
31 March 2014	**4.699.503**	**46.244**	**(2.123.523)**	**115.913**	**49.706**	**6.059**	**92.546**	**(109.074)**	**(88.051)**	**2.689.323**	**70.235**	**2.759.558**

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

		Three months ended 31 March
		2014
	Note	€000
Net cash flows from operating activities		
Profit before tax from continuing operations		67.024
Loss before tax from discontinued operations		(36.641)
Share of profit from associates and joint ventures		(2.135)
Provisions for impairment of loans and advances		184.993
Depreciation of property and equipment and amortisation of intangible assets		6.883
Increase in value of in-force life insurance policies		(244)
Amortisation of discounts/premiums of debt securities		(46.940)
Income from investments and disposals of property, equipment and intangible assets less interest on subordinated loan stock and interest on funding from central banks		(17.426)
		155.514
Net decrease in loans and advances to customers and other accounts		845.246
Net decrease in customer deposits and other accounts		(944.448)
		56.312
Tax paid		-
Net cash flow from operating activities		56.312
Cash flows from investing activities		
Proceeds on disposal/redemption of investments		23.151
Interest received from debt securities and treasury bills		53.232
Dividend income from equity securities		42
Proceeds on disposal of subsidiaries		17.500
Purchase of property and equipment		(1.905)
Proceeds on disposal of property and equipment		567
Purchase of intangible assets		(2.606)
Proceeds on disposal of investment property		7.119
Net cash flow from investing activities		97.100
Cash flows from financing activities		
Funding from central banks		(50.489)
Interest on subordinated loan stock		(21)
Interest on funding from central banks		(42.593)
Net cash flow used in financing activities		(93.103)
Net increase in cash and cash equivalents for the period		60.309
Cash and cash equivalents		
1 January		1.463.243
Exchange adjustments		27.089
Net increase in cash and cash equivalents for the period		60.309
31 March	*23*	1.550.641

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

1. Corporate information

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 subsidiary companies during the period continued to be the provision of banking, financial and insurance services.

The Company is a limited liability company incorporated in Cyprus 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 Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 19 March 2013, the shares of the Company have been suspended from trading on the Cyprus and Athens Stock Exchanges.

Interim Condensed Consolidated Financial Statements

The Interim Condensed Consolidated Financial Statements include the financial statements of the Company and its subsidiaries and were authorised for issue by a resolution of the Board of Directors on 30 May 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 four 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 fourth quarterly review mission of Troika has concluded that the Cyprus adjustment programme remains on track. All fiscal targets were met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution and a less severe deterioration of economic activity than originally projected. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector and banks are advancing with their restructuring plans. This has allowed for a significant liberalisation of domestic payment restrictions, in line with the government's roadmap.

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 measures described below:

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 of Laiki Bank in Cyprus, 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 32.

- 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.

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

2.1. Restructuring of the financial sector (continued)

- 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 recapitalisation of Laiki Bank and the Company.

Additionally, 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 decisions of the Eurogroup, the House of Representatives of Cyprus voted a number of amending bills regarding direct and indirect taxes.

2.3 Temporary restrictions on money transfers

The Cypriot authorities 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 included restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad.

Since their introduction, these restrictive measures are gradually relaxed and the government has published a roadmap for their full abolition, 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.

Acquisition of certain operations of Laiki Bank
The 'Sale of Certain Operations of Cyprus Public Co Ltd Popular Bank Public Co Ltd Decree' issued on 29 March 2013, provided for the acquisition of the insured deposits and the majority of assets of 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. 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.

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.

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

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

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, cash and other liquid assets, as well as customer deposits amounting to €77.000 thousand.

2.5 Recapitalisation of the Company

Pursuant to the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree' of 2013 and subsequent amendments to it, the Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits and structured products. The holders of ordinary shares and subordinated loan stock in issue as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses by a reduction of the nominal value of shares and the conversion into shares respectively. The debt securities in issue by the Company were also bailed-in via conversion into shares. A detailed description of these measures is set out in the Notes to the Consolidated Financial Statements for the year ended 31 December 2013.

2.6 Release of six-month and nine-month time deposits

On 31 January 2014 and 30 April 2014 the Company, after witnessing improving liquidity and stabilising signs of its deposit base, released the six-month and nine-month time deposits maturing on 31 January 2014 and 30 April 2014 respectively. The six-month time deposits were fully released on 31 January 2014. The nine-month time deposits will be released in three equal tranches on 30 April, 31 July and 31 October 2014. These deposits were blocked as per the decrees relating to the recapitalisation of the Company issued in July 2013. The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

3. Unaudited financial statements

The Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 have not been audited by the Group's external auditors.

4. Basis of preparation

The Interim Condensed Consolidated Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

4.1 Statement of compliance

The Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 have not been prepared in accordance with the International Accounting Standard applicable to interim financial reporting as adopted by the European Union ('IAS 34'), since the Group has not presented comparative information as no information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time of the Eurogroup events of March 2013.

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2013.

5. Accounting policies

5.1 New and amended standards and interpretations

The accounting policies adopted for the preparation of the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 are consistent with those followed for the preparation of the annual Consolidated Financial Statements for the year ended 31 December 2013. In addition, the Group has adopted the following new standards, amendments and interpretations, which did not have a material impact on the Interim Condensed Consolidated Financial Statements:

5. **Accounting policies** (continued)

5.1 **New and amended standards and interpretations** (continued)

- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Involvement with Other Entities
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Comparatives have been re-presented to conform with changes in the presentation in the current period and to reflect the reclassification of the Ukrainian operations disposed on 18 April 2014, from continuing to discontinued operations.

6. **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 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described in the Consolidated Financial Statements for the year ended 31 December 2013.

The critical judgements, estimates and assumptions are set out below, updated for current developments.

6.1 **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 three months ended 31 March 2014 and the developments up to the date of approval of these interim condensed consolidated financial statements that have been considered in management's going concern assessment, include amongst others, the following:

6.1.1 **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 prosperity 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 Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.

6. Significant judgements, estimates and assumptions (continued)

6.1 Going concern (continued)

6.1.1 Restructuring Plan (continued)

- Enhancing 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.

6.1.2 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.

The Troika has recently concluded the forth 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 better-than-projected revenue performance, prudent budget execution, and a less severe deterioration of economic activity than originally projected. Furthermore, since the last review, there has been significant progress toward the recapitalisation and restructuring of the financial sector and the banks are advancing with their restructuring plans. This has allowed for a significant liberalisation of domestic payment restrictions, in line with the government's milestone-based roadmap. The Troika noted that the authorities have also taken steps toward implementing the structural reform agenda.

The Troika also noted that while the recession in 2014 is expected to be somewhat less severe than anticipated, the outlook remains challenging. The contraction of output for 2014 has been revised down to 4,2% from 4,8%, given the better-than-expected outturn for 2013 and other recent indicators pointing to gains in confidence. Unemployment remains very high, and large non-performing loans are constraining the ability of banks to supply credit to the economy. As a result, the recovery is now expected to be more subdued than previously forecast, with growth projected at 0,4% in 2015 and gradually improving thereafter, as domestic demand is weighed down by the need to reduce very high levels of indebtedness.

6.1.3 Regulatory capital ratios

The Core Tier 1 ratio of the Group at 31 March 2014 stands at 10,4%. 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.

6.1.4 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.

6. Significant judgements, estimates and assumptions (continued)

6.1 Going concern (continued)

6.1.4 Liquidity (continued)

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 Group has been gradually repaying the ELA funding. The level of central bank funding (ELA and ECB funding) of the Group as at 31 March 2014 amounts to €10,91 billion, comprising €1,40 billion of ECB funding and €9,51 billion of ELA funding. The level of ELA funding has been further reduced in the period since 31 March 2014 by €270 million as a result of the deleveraging actions of the Group.

The Cypriot authorities introduced in March 2013 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.

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.

6.1.5 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.

6.1.6 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 restructuring and recovery units to manage large or distressed exposures, through which the Group aims to proactively and efficiently manage problem loans in order to contain the 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.

6. Significant judgements, estimates and assumptions (continued)

6.1 Going concern (continued)

6.1.7 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 is planned for late 2014.

6.1.8 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.

6.1.9 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.

6.2 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.

6. Significant judgements, estimates and assumptions (continued)

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

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property 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 3 years, and 4 years for customers that have been managed by Recoveries Division for less than 3 years. For all other loans a maximum expected recovery period of 5 years is assumed.

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.

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.

6.3 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.

6. Significant judgements, estimates and assumptions (continued)

6.3 Tax (continued)

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.

6.4 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, 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 value of property.

6.5 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.

6. Significant judgements, estimates and assumptions (continued)

6.6 Investments in associates and joint ventures

The Group's investments in joint venture comprises of Byron Capital Partners Ltd (BCP) and Marfin Diversified Strategy Fund Plc (MDFS) acquired by the Group as part of the acquisition of certain operations of Laiki Bank. The Group is a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulates a number of matters which require consent by both shareholders. The management of the shares of the MDFS are 100% owned by BCP. The Group considers that it jointly controls Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc.

7. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group as described in Note 35. As a result, the Ukrainian operations are presented as discontinued.

The Group's activities in Greece, the United Kingdom and Romania are separate operating segments for which information is provided 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 include the provision of financial and insurance services, as well as the 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 Group's total profit as presented in the consolidated income statement is not affected.

7. **Segmental analysis** (continued)

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.

	Cyprus	Russia	Other countries	**Total continuing operations**	**Discontinued operations**
Three months ended 31 March 2014	€000	€000	€000	**€000**	**€000**
Net interest income	235.739	18.675	12.544	**266.958**	**4.064**
Net fee and commission income	39.681	4.157	1.441	**45.279**	**270**
Net foreign exchange (losses)/gains	(6.535)	680	284	**(5.571)**	**617**
Net gains on financial instrument transactions	19.474	-	96	**19.570**	**-**
Insurance income net of claims and commissions	11.905	-	1.221	**13.126**	**-**
Other (expenses)/income	(811)	177	1.125	**491**	**1.051**
	299.453	23.689	16.711	**339.853**	**6.002**
Staff costs	(54.770)	(9.389)	(3.297)	**(67.456)**	**(1.233)**
Other operating expenses	(35.573)	(9.505)	(11.376)	**(56.454)**	**(2.882)**
Restructuring costs (Note 8)	(4.589)	-	-	**(4.589)**	**-**
Profit before impairment of loans and advances	204.521	4.795	2.038	**211.354**	**1.887**
Provisions for impairment of loans and advances	(108.531)	(17.557)	(20.377)	**(146.465)**	**(38.528)**
Share of profit from associates and joint ventures	2.135	-	-	**2.135**	**-**
Profit/(loss) before tax	**98.125**	**(12.762)**	**(18.339)**	**67.024**	**(36.641)**
Tax	**(1.007)**	**15**	**(1.240)**	**(2.232)**	**654**
Profit/(loss) after tax	**97.118**	**(12.747)**	**(19.579)**	**64.792**	**(35.987)**
Non-controlling interests (profit)/loss	**(38)**	**2.503**	**-**	**2.465**	**39**
Profit/(loss) after tax attributable to the owners of the Company	**97.080**	**(10.244)**	**(19.579)**	**67.257**	**(35.948)**

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**
Three months ended 31 March 2014	€000	€000	€000	**€000**	**€000**
Banking and financial services	280.970	28.291	16.793	**326.054**	**6.351**
Insurance services	12.276	-	1.368	**13.644**	**-**
Property and hotel business	(115)	-	(79)	**(194)**	**-**
Total revenue from third parties	293.131	28.291	18.082	**339.504**	**6.351**
Inter-segment revenue/(expense)	6.322	(4.602)	(1.371)	**349**	**(349)**
Total revenue	**299.453**	**23.689**	**16.711**	**339.853**	**6.002**

7. Segmental analysis (continued)

Analysis of assets

	Cyprus	Russia	Other countries	Total
31 March 2014	€000	€000	€000	**€000**
Assets	27.957.658	1.112.392	1.984.991	31.055.041
Inter-segment assets				(1.676.772)
Total assets				**29.378.269**
31 December 2013				
Assets	28.663.107	1.316.068	2.044.721	32.023.896
Inter-segment assets				(1.674.457)
Total assets				**30.349.439**

Analysis of liabilities

	Cyprus	Russia	Other countries	Total
31 March 2014	€000	€000	€000	**€000**
Liabilities	24.445.882	1.198.384	2.653.402	28.297.668
Inter-segment liabilities				(1.678.957)
Total liabilities				**26.618.711**
31 December 2013				
Liabilities	25.183.780	1.380.412	2.724.213	29.288.405
Inter-segment liabilities				(1.676.642)
Total liabilities				**27.611.763**

8. Other income, staff costs and other operating expenses

Other income

	Three months ended 31 March
	2014
	€000
Dividend income	42
Losses on sale of stock of property held for sale	(70)
Losses on sale and write-off of property and equipment and intangible assets	(1.101)
Rental income from investment properties	852
Losses from revaluation of investment properties	(2.870)
Losses from hotel activities	(291)
Other income	3.929
	491

Staff costs

	Three months ended 31 March
	2014
	€000
Salaries	53.514
Employer's contributions to state social insurance and pension funds	8.492
Retirement benefit plan costs	5.450
	67.456

The number of persons employed by the Group as at 31 March 2014 was 7.400 (31 December 2013: 7.752).

8. Other income, staff costs and other operating expenses (continued)

Other operating expenses

	Three months ended 31 March
	2014
	€000
Operating lease rentals for property and equipment	**5.811**
Advertising and marketing	**2.353**
Repairs and maintenance of property and equipment	**5.654**
Other property–related costs	**2.939**
Communication expenses	**3.045**
Printing and stationery	**952**
Depreciation of property and equipment	**4.537**
Amortisation of intangible assets	**1.808**
Contributions to depositor protection schemes	**725**
Special tax levy on credit institutions	**4.805**
Provisions and settlements of litigations or claims	**11.170**
Other operating expenses	**12.655**
	56.454
Advisory and other restructuring costs	**4.589**
	61.043

The special tax levy on credit institutions is imposed at the rate of 0,15% on deposits as at the end of the previous year and is payable in equal quarterly instalments.

Advisory and other restructuring costs comprise mainly costs of implementing the restructuring plan of the Group.

9. Tax

	Three months ended 31 March
	2014
	€000
Current tax:	
- Cyprus	**790**
- overseas	**1.415**
Cyprus defence contribution	**29**
Deferred tax	**105**
Prior year tax adjustments	**(107)**
	2.232

10. Earnings per share

	Three months ended 31 March
	2014
Basic and diluted earnings per share	
Profit after tax attributable to the owners of the Company (€ thousand)	**31.309**
Weighted average number of shares in issue during the period excluding treasury shares (thousand)	**4.678.967**
Basic and diluted earnings per share (€ cent)	**0,7**
Basic and diluted earnings per share – continuing operations	
Profit after tax attributable to the owners of the Company – continuing operations (€ thousand)	**67.257**
Weighted average number of shares in issue during the period, excluding treasury shares-continuing operations (thousand)	**4.678.967**
Basic and diluted profits per share – continuing operations (€ cent)	**1,4**

11. Investments

	31 March 2014	31 December 2013
Investments	**€000**	€000
Investments at fair value through profit or loss	**27.178**	25.160
Investments available-for-sale	**163.273**	161.258
Investments classified as loans and receivables	**2.618.905**	2.573.437
	2.809.356	2.759.855

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

	31 March 2014	31 December 2013
Investments pledged as collateral	**€000**	€000
Investments available-for-sale	**665.382**	672.809

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

11. Investments (continued)

Reclassification of investments

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 March 2014		31 December 2013		Three months ended 31 March 2014		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional income in the income statement had the debt securities not been reclassified	Additional loss in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	37.390	33.603	38.059	32.204	1.400	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	163.407	166.316	159.677	164.875	145.171	-	(6.639)	4,6%-4,7%
- loans and receivables	30 June 2011	164.035	186.353	170.481	185.666	158.170	-	(15.872)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	87.725	90.539	90.539	90.114	90.114	-	-	0,4%-3,1%

12. Derivative financial instruments

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

	31 March 2014			31 December 2013		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**289.506**	**4.498**	**562**	139.847	109	2.674
Currency swaps	**1.816.697**	**5.799**	**11.161**	1.723.306	3.778	15.465
Interest rate swaps	**457.928**	**7.352**	**9.886**	517.264	4.203	11.407
Currency options	**239.382**	**5.191**	**-**	-	-	-
Equity options	**9.408**	**1.505**	**1.371**	4.295	1.591	1.485
Interest rate caps/floors	**6.520**	**10**	**227**	6.574	11	250
GDP warrant securities	**2.581**	**83**	**-**	1.622.997	19.073	-
	2.822.022	**24.438**	**23.207**	4.014.283	28.765	31.281
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**674.888**	**-**	**54.455**	674.888	-	47.090
Fair value of net investments – forward exchange rate contracts	**71.341**	**3.439**	**-**	126.936	-	5.523
	746.229	**3.439**	**54.455**	801.824	-	52.613
Total	**3.568.251**	**27.877**	**77.662**	4.816.107	28.765	83.894

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.

12. Derivative financial instruments (continued)

Hedge accounting (continued)

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 contracts. As at 31 March 2014, deposits and forward exchange rate contracts amounting to €209.216 thousand (31 December 2013: €346.725 thousand) have been designated as hedging instruments and have given rise to a gain of €7.630 thousand (31 December 2013: gain of €25.917 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.

13. Fair value measurement

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

	31 March 2014		31 December 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	€000	**€000**	€000	€000
Financial assets				
Cash and balances with central banks	**963.963**	**963.963**	1.240.043	1.240.043
Placements with banks	**1.141.169**	**1.124.471**	1.290.102	1.192.513
Investments at fair value through profit or loss	**27.178**	**27.178**	25.160	25.160
Investments available-for-sale	**828.655**	**828.655**	834.067	834.067
Investments classified as loans and receivables	**2.618.905**	**2.762.605**	2.573.437	2.593.941
Derivative financial assets	**27.877**	**27.877**	28.765	28.765
Loans and advances to customers	**21.233.958**	**20.108.438**	21.764.338	20.888.492
Life insurance business assets attributable to policy holders	**436.447**	**436.447**	430.119	430.119
Other assets	**115.220**	**143.062**	113.175	113.175
	27.393.372	**26.422.696**	28.299.206	27.346.275
Financial liabilities				
Funding from central banks and amounts due to banks	**11.077.024**	**11.077.024**	11.152.699	11.152.699
Repurchase agreements	**582.489**	**586.321**	594.004	596.006
Derivative financial liabilities	**77.662**	**77.662**	83.894	83.894
Customer deposits	**14.065.675**	**14.061.220**	14.971.167	14.895.350
Debt securities in issue	**1.493**	**1.156**	1.515	1.515
Subordinated loan stock	**4.743**	**4.471**	4.676	4.101
Other liabilities	**83.038**	**79.008**	66.491	66.491
	25.892.124	**25.886.862**	26.874.446	26.800.056

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.

13. Fair value measurement (continued)

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.

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. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

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 one 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.

13. Fair value measurement (continued)

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	**Total**
31 March 2014	€000	€000	€000	**€000**
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	4.498	-	**4.498**
Currency swaps	-	5.799	-	**5.799**
Interest rate swaps	-	7.352	-	**7.352**
Currency rate options	-	5.191	-	**5.191**
Equity options	-	1.505	-	**1.505**
Interest rate caps/floors	-	10	-	**10**
GDP warrant securities	-	83	-	**83**
	-	24.438	-	**24.438**
Derivatives for fair value of net investments				
Forward exchange rate contracts	-	3.439	-	**3.439**
Investments at fair value through profit or loss				
Trading investments	3.811	6.903	-	**10.714**
Other investments at fair value through profit or loss	7	16.457	-	**16.464**
	3.818	23.360	-	**27.178**
Investments available-for-sale	823.653	1.526	3.476	**828.655**
	827.471	52.763	3.476	**883.710**

31 March 2014				
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	562	-	**562**
Currency swaps	-	11.161	-	**11.161**
Interest rate swaps	-	9.886	-	**9.886**
Equity options	-	1.371	-	**1.371**
Interest rate caps/floors	-	227	-	**227**
	-	23.207	-	**23.207**
Derivatives designated as fair value hedges				
Interest rate swaps	-	54.455	-	**54.455**
	-	77.662	-	**77.662**

13. Fair value measurement (continued)

	Level 1	Level 2	Level 3	**Total**
31 December 2013	€000	€000	€000	**€000**
Financial assets				
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	4.308	**834.067**
	830.122	53.562	4.308	**887.992**

31 December 2013				
Financial liabilities				
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**

13. Fair value measurement (continued)

During the three months ended 31 March 2014 and during the year 2013 there were no significant transfers from Level 1 to Level 2.

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

	31 March 2014	31 December 2013
	€000	€000
1 January	**4.308**	496
Acquired through business combinations	**-**	5.314
Disposals	**(167)**	(104)
Unrealised losses recognised in the consolidated statement of comprehensive income	**(665)**	(603)
Realised losses recognised in the consolidated income statement	**-**	(795)
31 March 2014/31 December 2013	**3.476**	4.308

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 rate of 10%. An increase in the liquidity discount rate of the available-for-sale investments to 15% would lead to a fall in the carrying value of the investment by €521 thousand, with the relevant change in value reflected in the consolidated statement of comprehensive income.

14. Loans and advances to customers

	31 March 2014	31 December 2013
	€000	€000
Loans and advances to customers	**23.990.156**	24.294.680
Hire purchase and finance lease debtors	**459.868**	545.928
Gross loans and advances to customers	**24.450.024**	24.840.608
Provisions for impairment of loans and advances to customers (Note 25)	**(3.216.066)**	(3.076.270)
	21.233.958	21.764.338

Further analyses with respect to credit risk of loans and advances to customers and provisions for impairment are presented in Note 25.

At 31 March 2014, loans and advances to customers include loans of a carrying amount of €250.076 thousand (31 December 2013: €305.507 thousand), which are part of the Ukrainian operations of the Group classified as a disposal group held for sale (Note 32.4).

15. Other assets

	31 March 2014	31 December 2013
	€000	€000
Debtors	**24.809**	22.956
Stock of property held for sale	**13.611**	14.110
Investment properties	**473.700**	495.658
Taxes refundable	**48.282**	48.544
Deferred tax asset	**477.627**	479.060
Retirement benefit plan assets	**1.497**	1.319
Reinsurers' share of insurance contract liabilities	**66.362**	68.387
Prepaid expenses	**4.349**	2.840
Receivable relating to acquisitions and disposals of operations	**90.411**	90.219
Other assets	**146.686**	178.740
	1.347.334	1.401.833

At 31 March 2014, investment property includes property amounting to €34.395 thousand (31 December 2013: €49.430 thousand) which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale.

16. Amounts due to banks

	31 March 2014	31 December 2013
	€000	€000
Amounts due to banks	**171.236**	196.422

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

17. Funding from central banks

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

	31 March 2014	31 December 2013
	€000	€000
Emergency Liquidity Assistance	**9.505.542**	9.556.035
Monetary policy operations	**1.400.246**	1.400.242
	10.905.788	10.956.277

The amount of ELA funding as at 31 March 2014 includes €9,1 billion ELA funding which was acquired as part of the transferred 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.

17. Funding from central banks (continued)

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.

18. Debt securities in issue

	Contractual interest rate	**31 March 2014**	31 December 2013
		€000	€000
Medium term senior debt			
€2 million 2010/2016	DJ EUROSTOXX 50 index	**531**	531
USD 2 million 2010/2016	S&P 500 index	**143**	143
		674	674
Other debt securities in issue			
RUB Certificates of Deposit and Promissory Notes	11%	**327**	349
Interest-free loan from the European Development Bank	-	**492**	492
		819	841
		1.493	1.515

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.

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2013: €4.000 million).

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company were bailed in and were thus converted into ordinary shares. The debt securities in issue outstanding at the balance sheet date represent the residual holding of the products following the bail-in, as described under the Establishment and Operation of an Investor Compensation Fund for Clients of Banks Regulations of 2004 to 2007.

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (31 December 2013: €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.

18. Debt securities in issue (continued)

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 CBC.

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 had a maturity of 3 years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1,25% annually and were 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 26.

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.

19. Other liabilities

Other liabilities at 31 March 2014 include deferred tax liabilities of €49.289 thousand (31 December 2013: €49.937 thousand) and retirement benefit plan liabilities of €11.484 thousand (31 December 2013: €9.139 thousand).

In addition, a negative amount of €46.244 thousand representing shares subject to interim orders (31 December 2013: negative liabilities of €58.922 thousand) is included within other liabilities.

19.1 Pending litigation and claims

Other liabilities at 31 March 2014 include provisions for pending litigation or claims of €63.138 thousand (31 December 2013: €52.312 thousand).

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 of the Consolidated Financial Statements for the year ended 31 December 2013.

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.

19. Other liabilities (continued)

19.1 Pending litigation and claims (continued)

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 March 2014. 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 Courts in Cyprus and Greece.

The Company considers the likelihood of the claims brought by holders of Capital Securities being successful to be low, particularly with respect to institutional holders. However, the resolution of the claims brought in the courts of Cyprus and Greece could take a number of years and there can be no assurance that the Company will be successful in defending these claims and, if the Company is obligated to refund to investors the purchase price in respect of the Capital Securities, it could have a material impact on the financial condition of the Company as well as the reputation of the Company in the market.

In another development, the CBC 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 Convertible Enhanced Capital Securities (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.

Hellenic Capital Market Commission investigations (HCMC)

The Company is currently under investigation in Greece by the HCMC in relation to the 2009 issuance of Convertible Capital Securities (CCS) and the 2011 issuance of CECS. The HCMC is investigating whether the Company violated certain provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test.

The HCMC may impose a fine of up to €3.000 thousand or an amount equal to double the amount of any benefit accrued to the Company, whichever is greater. The notice provided by the HCMC does not identify any alleged benefit accrued to the Company. If the HCMC fines the Company, the Company has the right to judicial review in the administrative courts in Greece.

Cyprus Securities and Exchange Commission (CySEC) investigation for non-disclosure of information

The CySEC has conducted an investigation into Company concerning alleged non-disclosure of material information in relation to 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 has filed 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 have been 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.

19. Other liabilities (continued)

19.1 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.

Laiki Bank depositors and shareholders
The Company has been joined as a defendant to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above and the Company is of the view that the likelihood of the claims brought by these depositors being successful is low.

Claims based on set-off
Certain claims have been filed by customers against the Company. These claims allege that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company is of the view that the likelihood of the claims brought by these depositors being successful is low.

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 judgement was issued against the Company and its subsidiary in Ukraine by the Court of first instance for the amount of €11.000 thousand. The Group had filed an Appeal against this judgement, 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.

19. Other liabilities (continued)

19.1 Pending litigation and claims (continued)

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 increase of the share capital of CB Uniastrum Bank LLC in 2008.
- The goodwill impairment of CB Uniastrum Bank LLC.
- The assets pledged for eurosystem funding.
- Preliminary investigations on the adequacy of provisions in the year 2011 and 2012.

The above investigations are in progress and it is not practical at this stage for the Company to estimate reliably possible liability that might arise.

Commission for the Protection of Competition Investigation (CPC)

Following an investigation, which began in 2010, the Cypriot Commission for the CPC in April 2014 issued its preliminary findings alleging violations of Cypriot and EU Competition Law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company. The CPC has alleged that the market conduct of JCC Payment Systems Ltd ('JCC'), a card-processing business, in which the Company holds 75% is common conduct serving the interests of JCC and its shareholders, in violation of applicable competition regulations. In particular, the CPC has alleged that JCC and its shareholders, including the Company, fix the price of the interchange fees at artificially low levels that create barriers to entry in the market for new entrants.

The CPC has requested all interested parties to provide their written response to the allegations raised. The Company, and the other interest parties, namely JCC and the other shareholders of JCC, are contesting the CPC's findings. A fine, if any, could be imposed as a percentage of the turnover of the Company.

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 €38.300 thousand has been recognised.

20. Subordinated loan stock

	Contractual interest rate	**31 March 2014**	31 December 2013
		€000	€000
Subordinated Bonds in USD 2014/2015	2,50%	**4.743**	4.676

The subordinated bonds were issued by CB Uniastrum Bank LLC and denominated in USD.

20. Subordinated loan stock (continued)

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2013: €4.000 million). As at 31 March 2014, the Company does not have any subordinated loan stock in issue under the EMTN Programme.

21. Share capital

	31 March 2014		31 December 2013	
	Shares (thousand)	**€000**	Shares (thousand)	€000
Issued				
1 January	**4.683.985**	**4.683.985**	1.795.141	1.795.141
Bail-in of deposits and structured products	**38**	**38**	3.814.495	3.814.495
Shares subject to interim orders	**12.678**	**12.678**	-	-
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 32)	**2.802**	**2.802**	845.758	845.758
31 March 2014 / 31 December 2013	**4.699.503**	**4.699.503**	4.683.985	4.683.985

Issued share capital

During the three months ended 31 March 2014 the issued share capital increased by 12.678 thousand shares as a result of the cancellation of interim orders prohibiting the Company from converting deposits to shares as a result of the bail-in (Note 19.1). Consequently, 2.802 thousand shares were issued to Laiki Bank in accordance with the provisions of the decrees.

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 Decrees of 2013' issued on 29 March 2013 and amended on 21 April 2013 and 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority.

Details of the provisions of the decrees relating to the share capital structure of the Group are described in Note 2.5 of the Consolidated Financial Statements for the year ended 31 December 2013.

All issued ordinary shares carry the same rights.

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.

21. **Share capital** (continued)

Shares subject to interim orders (continued)

The shares which as per the bail-in Decree correspond to the deposits which are subject to these interim orders 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. During the three months ended 31 March 2014 12.678 thousand ordinary shares of a nominal value of €1,00 each were transferred from the 'Shares subject to interim orders' to the share capital account. The ordinary shares which are subject to interim orders as at the balance sheet date amount to 46.244 thousand 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 March 2014 was 20.767 thousand (31 December 2013: 20.767 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 (31 December 2013: €88.051 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 March 2014, a total of 16.031 thousand (31 December 2013: 16.031 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €21.463 thousand (31 December 2013: €21.463 thousand).

22. Convertible Enhanced Capital Securities

	31 March 2014	31 December 2013
	€000	€000
1 January	**-**	428.835
Conversion into shares	**-**	(429.580)
Exchange difference	**-**	745
31 March 2014/31 December 2013	**-**	-

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 CBC under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013.

23. Cash and cash equivalents

	31 March 2014
	€000
Cash and non-obligatory balances with central banks	**698.013**
Treasury bills repayable within three months	**199.085**
Placements with banks with maturity less than three months	**653.543**
	1.550.641

24. Analysis of assets and liabilities by expected maturity

	31 March 2014			31 December 2013		
	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	**737.244**	**226.719**	**963.963**	784.128	455.915	1.240.043
Placements with banks	**698.894**	**442.275**	**1.141.169**	734.578	555.524	1.290.102
Investments	**438.247**	**3.036.491**	**3.474.738**	261.731	3.170.933	3.432.664
Derivative financial instruments	**15.016**	**12.861**	**27.877**	25.045	3.720	28.765
Life insurance business assets attributable to policyholders	**17.627**	**432.280**	**449.907**	17.323	426.256	443.579
Loans and advances to customers	**5.787.155**	**15.446.803**	**21.233.958**	6.006.000	15.758.338	21.764.338
Property, equipment and intangible assets	**8.055**	**525.336**	**533.391**	1.025	543.959	544.984
Other assets	**436.126**	**911.208**	**1.347.334**	390.346	1.011.487	1.401.833
Investments in associates and joint ventures	**-**	**205.932**	**205.932**	-	203.131	203.131
	8.138.364	**21.239.905**	**29.378.269**	8.220.176	22.129.263	30.349.439
Liabilities						
Amounts due to banks	**96.288**	**74.948**	**171.236**	117.219	79.203	196.422
Funding from central banks	**515.339**	**10.390.449**	**10.905.788**	157.000	10.799.277	10.956.277
Repurchase agreements	**13.994**	**568.495**	**582.489**	13.928	580.076	594.004
Derivative financial instruments	**11.920**	**65.742**	**77.662**	16.027	67.867	83.894
Customer deposits	**5.164.679**	**8.900.996**	**14.065.675**	5.579.459	9.391.708	14.971.167
Insurance liabilities	**95.172**	**460.971**	**556.143**	97.394	454.435	551.829
Debt securities in issue	**819**	**674**	**1.493**	841	674	1.515
Other liabilities	**218.815**	**34.667**	**253.482**	144.539	107.440	251.979
Subordinated loan stock	**2.635**	**2.108**	**4.743**	2.598	2.078	4.676
	6.119.661	**20.499.050**	**26.618.711**	6.129.005	21.482.758	27.611.763

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, most of the funding from central banks has been included in the over one year column, 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.

24. Analysis of assets and liabilities by expected maturity (continued)

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.

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 and Channel Islands they are classified on the basis of contractual maturities.

The Ukrainian operations are classified as a disposal group held for sale, therefore the related assets and liabilities are classified in the less than one year band.

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.

25. 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 of the consolidated financial statements for year 2013.

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.

25. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements

The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and other credit enhancement held.

	31 March 2014	31 December 2013
	€000	€000
Balances with central banks	**825.899**	1.084.830
Placements with banks	**1.141.169**	1.290.102
Trading investments - debt securities	**44**	103
Debt securities at fair value through profit or loss	**16.409**	15.549
Debt securities classified as available-for-sale and loans and receivables	**3.241.098**	3.207.366
Derivative financial instruments	**27.877**	28.765
Loans and advances to customers	**21.233.958**	21.764.338
Debtors (Note 15)	**24.809**	22.956
Reinsurers' share of insurance contract liabilities (Note 15)	**66.362**	68.387
Other assets	**237.097**	268.959
On-balance sheet total	**26.814.722**	27.751.355
Contingent liabilities		
Acceptances and endorsements	**18.857**	20.467
Guarantees	**1.083.874**	1.207.501
Commitments		
Documentary credits	**11.205**	10.919
Undrawn formal standby facilities, credit lines and other commitments to lend	**2.651.243**	2.903.714
Off-balance sheet total	**3.765.179**	4.142.601
Total credit risk exposure	**30.579.901**	31.893.956

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.

25. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	31 March 2014	31 December 2013
On-balance sheet	**€000**	€000
Cyprus	**22.766.788**	23.345.633
Greece	**260.547**	253.996
Russia	**1.081.250**	1.259.494
United Kingdom	**1.830.582**	1.936.330
Romania	**598.093**	619.311
Ukraine	**277.462**	336.591
	26.814.722	27.751.355

Off-balance sheet		
Cyprus	**3.354.453**	3.629.580
Greece	**260.698**	335.073
Russia	**128.204**	154.901
United Kingdom	**20.387**	18.995
Romania	**1.225**	3.466
Ukraine	**212**	586
	3.765.179	4.142.601

Total on and off balance sheet		
Cyprus	**26.121.241**	26.975.213
Greece	**521.245**	589.069
Russia	**1.209.454**	1.414.395
United Kingdom	**1.850.969**	1.955.325
Romania	**599.318**	622.777
Ukraine	**277.674**	337.177
	30.579.901	31.893.956

25. 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 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 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 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.

Credit risk concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the CBC. According to these restrictions, the 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.

25. 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 adjustment on initial recognition**
31 March 2014	€000	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
By economic activity									
Trade	2.495.990	-	237.818	43.627	12.653	31.397	**2.821.485**	**(186.283)**	**2.635.202**
Manufacturing	824.229	-	90.926	16.108	10.456	10.336	**952.055**	**(61.947)**	**890.108**
Hotels and catering	1.612.601	-	-	130.865	103.998	6.598	**1.854.062**	**(105.038)**	**1.749.024**
Construction	4.066.627	-	60.503	41.732	26.552	9.914	**4.205.328**	**(385.527)**	**3.819.801**
Real estate	2.825.728	-	149.144	778.298	213.719	157.476	**4.124.365**	**(351.358)**	**3.773.007**
Private individuals	7.955.928	255	356.688	41.748	3.652	46.769	**8.405.040**	**(388.539)**	**8.016.501**
Professional and other services	1.583.612	-	368.831	59.580	71.251	98.913	**2.182.187**	**(104.682)**	**2.077.505**
Other sectors	1.398.141	171.666	26.034	82.462	30.085	9.952	**1.718.340**	**(229.464)**	**1.488.876**
	22.762.856	**171.921**	**1.289.944**	**1.194.420**	**472.366**	**371.355**	**26.262.862**	**(1.812.838)**	**24.450.024**
By customer sector									
Corporate	9.751.752	171.666	700.635	559.506	431.140	318.568	**11.933.267**	**(957.917)**	**10.975.350**
Small and medium-sized enterprises (SMEs)	5.216.228	-	232.621	587.683	37.642	19.011	**6.093.185**	**(510.481)**	**5.582.704**
Retail									
- housing	5.227.419	-	37.768	27.212	1.829	10.460	**5.304.688**	**(120.987)**	**5.183.701**
- credit cards	160.089	-	96.298	-	-	1	**256.388**	**(20.123)**	**236.265**
- consumer and other	2.407.368	255	222.622	20.019	1.755	23.315	**2.675.334**	**(203.330)**	**2.472.004**
	22.762.856	**171.921**	**1.289.944**	**1.194.420**	**472.366**	**371.355**	**26.262.862**	**(1.812.838)**	**24.450.024**

25. Risk management – Credit risk (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**
31 December 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**

25. 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:

	31 March 2014			31 December 2013		
	Gross loans before fair value on initial recognition	**Fair value adjustment on initial recognition**	**Gross loans after fair value on initial recognition**	Gross loans before fair value on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value on initial recognition
	€000	**€000**	**€000**	€000	€000	€000
Neither past due nor impaired	**11.491.024**	**(196.325)**	**11.294.699**	11.855.363	(226.207)	11.629.156
Past due but not impaired	**6.036.583**	**(181.835)**	**5.854.748**	6.732.583	(417.169)	6.315.414
Impaired	**8.735.255**	**(1.434.678)**	**7.300.577**	8.155.373	(1.259.335)	6.896.038
	26.262.862	**(1.812.838)**	**24.450.024**	26.743.319	(1.902.711)	24.840.608

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 in 2013 (Note 32). 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.

Loans and advances to customers that are past due but not impaired

	31 March 2014	31 December 2013
	€000	€000
Past due:		
- up to 30 days	**865.567**	822.037
- 31 to 90 days	**1.150.585**	1.063.243
- 91 to 180 days	**682.021**	1.316.042
- 181 to 365 days	**1.634.525**	2.099.424
- over one year	**1.703.885**	1.431.837
	6.036.583	6.732.583

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 March 2014 is €4.738.147 thousand (31 December 2013: €5.133.851 thousand).

25. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Impaired loans and advances to customers on an individual basis

	31 March 2014		31 December 2013	
	Gross Loans and advances	**Fair value of collateral**	Gross Loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**7.701.051**	**4.453.034**	7.110.927	4.111.343
Greece	**171.666**	**-**	171.465	-
Russia	**270.106**	**169.517**	284.869	191.672
United Kingdom	**168.025**	**141.468**	163.979	128.734
Romania	**260.291**	**114.674**	256.612	126.046
Ukraine	**164.116**	**124.439**	167.521	132.015
	8.735.255	**5.003.132**	8.155.373	4.689.810

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

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**
2014	€000	€000	€000	€000	**€000**
1 January	2.574.670	189	286.366	215.045	**3.076.270**
Exchange adjustments	11.809	-	(16.927)	(11.882)	**(17.000)**
Applied in writing off impaired loans and advances	(277)	-	(9)	-	**(286)**
Interest accrued on impaired loans and advances	(27.141)	-	(238)	(1.262)	**(28.641)**
Collection of loans and advances previously written off	123	-	-	607	**730**
Charge for the period - continuing operations	129.888	-	17.557	(980)	**146.465**
Charge for the period – discontinued operations	-	-	-	38.528	**38.528**
31 March	**2.689.072**	**189**	**286.749**	**240.056**	**3.216.066**
Individual impairment	**2.076.051**	**189**	**139.635**	**210.603**	**2.426.478**
Collective impairment	**613.021**	**-**	**147.114**	**29.453**	**789.588**

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.

25. Risk management – Credit risk (continued)

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

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property 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 3 years, and 4 years for customers that have been managed by Recoveries Division for less than 3 years. For all other loans a maximum expected recovery period of 5 years is assumed.

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 of impaired loans from collateral in Cyprus portfolio is lower than the amount estimated as at 31 March 2014 by 5% and 10%, then provisions for impairment of loans and advances would increase by €307.690 thousand and €536.836 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 €74.459 thousand and €238.114 thousand respectively.

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).

25. Risk management – Credit risk (continued)

Forbearance (continued)

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 5 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.

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.

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
	€000	€000	€000	€000	€000	€000	**€000**
2014							
1 January	5.135.646	-	187.031	107.624	124.312	62.051	**5.616.664**
New loans and advances rescheduled in the period	767.131	70.749	9.920	47.449	-	4.481	**899.730**
Assets no longer rescheduled (including repayments)	(339.698)	-	(18.433)	(25.793)	(70.118)	(3.975)	**(458.017)**
Interest accrued on rescheduled loans and advances	69.275	-	1.503	1.264	689	2.460	**75.191**
Exchange adjustments	1.035	-	(13.666)	682	174	(6.188)	**(17.963)**
31 March	**5.633.389**	**70.749**	**166.355**	**131.226**	**55.057**	**58.829**	**6.115.605**

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount on 31 March 2014 of €1.604.875 thousand which were rescheduled prior to the acquisition date (29 March 2013).

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
31 March 2014	€000	€000	€000	€000	€000	€000	**€000**
Neither past due nor impaired	2.993.249	-	144.975	102.072	10.856	7.401	**3.258.553**
Past due but not impaired	1.534.833	-	10.443	19.332	2.516	18.870	**1.585.994**
Impaired	1.105.307	70.749	10.937	9.822	41.685	32.558	**1.271.058**
	5.633.389	**70.749**	**166.355**	**131.226**	**55.057**	**58.829**	**6.115.605**
31 December 2013							
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**

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
31 March 2014	€000	€000	€000	€000	€000	€000	**€000**
Neither past due nor impaired	2.587.624	-	141.208	102.071	10.857	7.401	**2.849.161**
Past due but not impaired	1.313.820	-	10.309	18.466	1.561	17.770	**1.361.926**
Impaired	860.026	-	7.114	6.870	19.008	15.115	**908.133**
	4.761.470	**-**	**158.631**	**127.407**	**31.426**	**40.286**	**5.119.220**
31 December 2013							
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**

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
31 March 2014	€000	€000	€000	€000	€000	€000	**€000**
By economic activity							
Trade	487.278	-	29.568	417	5.048	4.383	**526.694**
Manufacturing	192.927	-	4.416	4.896	740	1.003	**203.982**
Hotels and catering	458.982	-	-	13.226	6.281	6.337	**484.826**
Construction	1.114.196	-	9.116	16.788	9.646	8.951	**1.158.697**
Real estate	743.774	-	-	82.581	10.918	25.069	**862.342**
Private individuals	1.945.421	-	-	1.750	60	8.628	**1.955.859**
Professional and other services	422.405	-	123.255	10.650	21.186	4.033	**581.529**
Other sectors	268.406	70.749	-	918	1.178	425	**341.676**
	5.633.389	**70.749**	**166.355**	**131.226**	**55.057**	**58.829**	**6.115.605**
By customer sector							
Corporate	2.701.275	70.749	144.981	69.451	39.974	51.389	**3.077.819**
Small and medium-sized enterprises (SMEs)	1.032.437	-	19.787	61.430	15.024	4.799	**1.133.477**
Retail							
- housing	1.489.145	-	94	62	-	236	**1.489.537**
- credit cards	253	-	310	-	-	-	**563**
- consumer and other	410.279	-	1.183	283	59	2.405	**414.209**
	5.633.389	**70.749**	**166.355**	**131.226**	**55.057**	**58.829**	**6.115.605**

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus	Russia	United Kingdom	Romania	Ukraine	**Total**
31 December 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**

25. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	**Total**
31 March 2014	€000	€000	€000	€000	€000	€000	**€000**
Individual impairment	436.027	5.846	2.365	3.998	11.061	20.343	**479.640**
Collective impairment	184.379	-	9.818	23	1.365	-	**195.585**
	620.406	**5.846**	**12.183**	**4.021**	**12.426**	**20.343**	**675.225**
31 December 2013							
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**

26. 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 the 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 liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. 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 position of the Group. Information on inflows/outflows is also provided.

Restriction on withdrawal of deposits

In March 2013 the Ministry of Finance imposed temporary restrictive measures on the free flow of funds due to lack of substantial liquidity and risk of deposits outflow with possible outcome the risk of the viability of the credit institutions with chain effects that could lead to instability of the financial system and have destabilizing consequences on the economy and society of the country as a whole. These restrictive measures comprised maximum limits on withdrawals, transfers to other financial institutions within the Republic, movement of funds outside the Republic and mandatory rollovers of maturing fixed deposits and notice accounts.

Given the continuing stabilisation of the financial sector the majority of these restrictions have been abolished in line with the Ministry of Finance roadmap for the abolition of Restrictive Measures. Currently, the restrictive measures in force, restrict the movement of funds outside the Republic (subject to exceptions) and the majority of restrictions for the flow of funds within the Republic have been abolished.

26. Risk management – Liquidity risk and funding (continued)

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 months period. Group Treasury prepares and submits a liquidity report to the Board of Directors and EXCO on a weekly basis.

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
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 the 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.

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:

	31 March 2014	31 December 2013
	%	%
31 March 2014/31 December 2013	**12,14**	12,28
Average ratio	**12,67**	11,16
Highest ratio	**12,39**	14,42
Lowest ratio	**12,36**	8,69

The minimum liquidity ratios for Cyprus operations as set by the CBC are 20% for Euro and 70% for foreign currencies.

The liquidity ratios remained at low levels due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

26. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

The ratio of loans and advances to customer deposits is presented below:

	31 March 2014	31 December 2013
	%	%
31 March 2014/31 December 2013	**150,96**	145,38
Average ratio	**148,17**	128,84
Highest quarter ratio	**150,96**	145,95
Lowest quarter ratio	**145,38**	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').

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 March 2014, the funding from the ELA amounted to €9,51 billion. (Note 17).

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.

The carrying value of the Group's encumbered assets as at 31 March 2014 and 31 December 2013 are summarised below:

	31 March 2014	31 December 2013
	€000	€000
Cash and other liquid assets	**278.252**	367.080
Other investments	**3.279.952**	3.289.810
Loans and advances	**14.915.805**	15.136.002
Property	**93.646**	90.181
	18.567.655	18.883.073

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under CSA and repurchase agreements, and (ii) 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.

26. Risk management – Liquidity risk and funding (continued)

Sources of funding (continued)

Cash and other liquid assets include amounts placed with banks as collateral under ISDA agreements of €177.566 thousand (31 December 2013: €221.255 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 March 2014 and 31 December 2013 are mainly used as collateral for funding from the CBC.

In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand are pledged as collateral for obtaining funding from CBC (Note 18).

27. Risk management – Other risks

Other business risks include insurances risks, relating to the occurrence of an insured event under an insurance contract and to the uncertainty of the amount and the timing of the resulting claim, operational risks, regulatory risks associated with the increasing regulatory obligations imposed on the Group, risks associated with intensive competition, litigation and political risks. Operational and regulatory risk is analysed below.

Operational risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of Operational Risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures 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.

Operational risks can arise from all business lines and from all activities carried out by the Group. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, 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. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. 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.

The past year has been extremely challenging from an operational risk management perspective due to the occurrence of several events following the Eurogroup decisions in March 2013, which gave rise to a number of important operational risk drivers. These risk drivers impinged upon a wide spectrum of the Group's operations. During the first quarter of 2014, the major task that remained to be completed was the full absorption of the operations of Laiki Bank in Cyprus and the final integration of the information technology systems and data with those of Bank of Cyprus.

27. Risk management – Other risks (continued)

Operational risk (continued)

The day-to-day operational issues are being addressed by the business lines in consultation and close cooperation with the Operational risk department and other control functions. Operational Risk Management is monitoring and assessing the potential risks and measures are taken to control and mitigate them. No risks have materialised in loss incidents for the Company from this process. The project of integrating the IT systems of the two organisations and migrating all customer and account data is well governed and is progressing successfully in line with the initial target dates.

During the past six months, a number of regulatory changes were put in effect. From these new regulations emanate demands for new software and procedures that give rise to operational risks related to data integrity, data aggregation as well as non-compliance with the 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. During the three months ended 31 March 2014, 165 loss events with gross loss over €1.000 were recorded (year 2013: 434).

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.

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.

28. 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 countries are: Cyprus, Greece, Italy, Russia, Romania, Ukraine, Portugal and Spain.

The Group had no exposure to Greek government bonds as at 31 March 2014 or 31 December 2013. The sovereign exposure to the other countries, other than Cyprus, was not considered to be impaired as at 31 March 2014 and 31 December 2013, 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 was 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 was 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 had 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 of June 2013 are not considered as impaired as at 31 March 2014, 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.

28. Sovereign exposure (continued)

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%.

The Group's exposure to sovereign debt securities and other assets in the countries above, is analysed below:

	Cyprus	**Greece**	**Italy**	**Russia**	**Romania**	**Ukraine**
31 March 2014	€000	€000	€000	€000	€000	€000
Deposits with central banks	238.046	-	-	44.157	3.142	6.720
Placements with banks	111.866	18.201	25.132	15.510	219.750	12.620
Investments in sovereign debt securities						
- available-for-sale	197	-	52.811	1.856	-	-
- loans and receivables	2.618.403	-	-	-	-	-
- fair value through profit or loss	16.402	-	-	-	-	-
Investments in debt securities of banks and other corporations						
- available-for-sale	3.526	-	-	-	-	1
- loans and receivables	502	-	-	-	-	-
- fair value through profit or loss	44	-	-	-	-	-
Loans and advances to customers (before provisions)	21.062.359	97.038	-	1.289.944	462.924	363.195
Derivative financial assets	-	-	-	-	15	-
Total on balance sheet	**24.051.345**	**115.239**	**77.943**	**1.351.467**	**685.831**	**382.536**
Contingent liabilities	834.251	260.698	-	3.705	21	32
Commitments	2.520.202	-	-	124.499	1.204	180
Total off balance sheet	**3.354.453**	**260.698**	**-**	**128.204**	**1.225**	**212**
Total exposure to credit risk	**27.405.798**	**375.937**	**77.943**	**1.479.671**	**687.056**	**382.748**

28. Sovereign exposure (continued)

Credit risk (continued)

	Cyprus	**Greece**	**Italy**	**Russia**	**Romania**	**Ukraine**
31 December 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 in 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**

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

On 31 March 2014 the revaluation reserve of available-for-sale investments includes losses amounting to €4.894 thousand (31 December 2013: €5.851 thousand) relating to the above sovereign debt securities and gains amounting €584 thousand (31 December 2013: losses of €142 thousand) relating to debt securities of banks and other corporations.

28. Sovereign exposure (continued)

Credit risk (continued)

The analysis of loans and advances to customers for the countries above is set out in Note 25.

In Cyprus, loans and advances to customers include loans to local authorities, semi-governmental organisations and government controlled businesses of €136.551 thousand (31 December 2013: €139.733 thousand). In addition, contingent liabilities and commitments include an amount of €58.429 thousand for these entities (31 December 2013: €56.389 thousand).

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**
31 March 2014	€000	€000	€000	€000	€000	**€000**
Cyprus						
- available-for-sale	27	-	-	170	-	**197**
- loans and receivables	-	199.085	1.826.500	292.839	299.979	**2.618.403**
- fair value through profit or loss	-	-	-	16.402	-	**16.402**
	27	**199.085**	**1.826.500**	**309.411**	**299.979**	**2.635.002**
31 December 2013						
Cyprus						
- available-for-sale	-	-	-	1.423	-	**1.423**
- loans and receivables	-	199.003	1.749.757	327.267	296.913	**2.572.940**
- fair value through profit or loss	-	-	-	15.413	-	**15.413**
	-	**199.003**	**1.749.757**	**344.103**	**296.913**	**2.589.776**

The Cyprus Government Bond of €1,6 billion is due on 1 July 2014 and the government has a unilateral roll-over option up to July 2017.

As at 31 March 2014 and 31 December 2013, the Group had no sovereign debt security exposure to Spain, Portugal and Greece.

29. Capital management

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.

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus (CBC).

The minimum capital adequacy ratios as determined by the CBC for the year 2013 until 30 December 2013 were: Core Tier 1 ratio of 8,7%, Tier 1 ratio of 10,2% and total capital ratio of 12,2%. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios were abolished.

As from 1 January 2014, the new Capital Requirements Regulations ('CRR') and amended Capital Requirements Directive IV ('CRD IV') became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member States. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, the directive needs to be transposed into national laws and means national regulators can impose additional capital buffer requirements. CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment and taking into account the parameters of the balance sheet assessment and the EU-wide stress test, the minimum capital requirements will be determined 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.

29. Capital management (continued)

Capital position under CRD IV
The information presented below represents the Group's estimated capital position under CRD IV/CRR, including the application of the transitional arrangements published by the CBC on 26 May 2014.

The Group's provisional capital position on a CRD IV/CRR basis is presented below. The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014.

	31 March 2014	31 December 2013
Regulatory capital	**€000**	€000
Transitional Common Equity Tier 1 (CET1)	**2.496.549**	2.495.585
Transitional Additional Tier capital (AT1)	**-**	-
Tier 2 capital (T2)	**51.794**	45.204
Transitional total regulatory capital	**2.548.343**	2.540.789
Risk weighted assets – credit risk	**21.417.827**	21.788.374
Risk weighted assets – market risk	**54.379**	3.398
Risk weighted assets – operational risk	**2.058.000**	2.057.687
Total risk weighted assets	**23.530.206**	23.849.459
	%	%
Transitional Common Equity Tier 1 (CET1) ratio	**10,6**	10,5
Transitional total capital ratio	**10,8**	10,7

The Group continued to strengthen its capital position with the CET1 ratio increasing to 10,6% primarily driven by the reduction of risk weighted assets and by the increase on earnings. The CET1 at 31 March 2014 includes unaudited profits for the quarter amounting to €18.321 thousand.

The Group continues to be in excess of the minimum capital requirements.

The regulatory capital as at 31 March 2014 includes 'Shares subject to interim orders' (Note 21) which amounted to €46.244 thousand (31 December 2013: €58.922 thousand).

29. Capital management (continued)

Capital position on prevailing rules as at 31 December 2013

The Group's capital position applying the rules which were prevailing as at 31 December 2013 is set out below.

	31 December 2013
Regulatory capital	€000
Core original own funds (Core tier 1)	2.281.513
Original own funds (Tier 1)	2.281.513
Additional own funds (Tier 2)	75.581
Total regulatory capital	2.357.094
Risk weighted assets – credit risk	20.380.360
Risk weighted assets – market risk	3.398
Risk weighted assets – operational risk	2.057.687
Total risk weighted assets	22.441.445
	%
Core tier 1 ratio	10,2
Tier 1 ratio	10,2
Tier 2 ratio	0,3
Total capital ratio	10,5

Minimum ratios per the CBC Directive	
Core tier 1 ratio	9,0
Tier 1 ratio	n/a
Total capital ratio	n/a

30. Related party transactions

	31 March 2014	31 December 2013
	€000	€000
Loans and advances:		
- members of the Board of Directors and key management personnel	**3.278**	3.224
- connected persons	**645**	526
	3.923	3.750
Deposits:		
- members of the Board of Directors and key management personnel	**1.952**	1.881
- connected persons	**33.266**	36.536
	35.218	38.417

The above table does not include period or year balances for members of the Board of Directors and their connected persons who resigned during the period or year.

Interest income and expense from related parties for the three months ended 31 March 2014 amounted to €26 thousand and €130 thousand respectively.

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 €195 thousand (31 December 2013: €231 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €602 thousand (31 December 2013: €743 thousand).

The total unsecured amount of the loans and advances and of the 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 March 2014 amounted to €1.332 thousand (31 December 2013: €1.439 thousand).

During the three months ended 31 March 2014 the Group paid €41 thousand relating to insurance transactions to Universal Insurance Agency Ltd in which Mr Xanthos Vrachas is a director.

Connected persons include spouses, minor children and companies in which directors or 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.

30. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	Three months ended 31 March
	2014
Director emoluments	**€000**
Executives	
Salaries and other short term benefits	**211**
Employer's contributions	**11**
Retirement benefit plan costs	**28**
	250
Non-executives	
Fees	**102**
Total directors' emoluments	**352**
Other key management personnel emoluments	
Salaries and other short term benefits	**510**
Employer's contributions	**40**
Retirement benefit plan costs	**52**
Total other key management personnel emoluments	**602**
Total	**954**

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.

The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other Directors who report directly to the CEO.

31. Group companies

The main companies and branches included in the interim consolidated financial statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 March 2014 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	58
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

31. 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 Asset Management LLC	Russia	Special purpose entity	-
PJSC 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 March 2014 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, 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, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd and Salecom Ltd.

31. Group companies (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 and Frozenport Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

All Group companies are accounted for as subsidiaries using the full consolidation method.

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. This process is expected to be completed in June 2014.

32. Acquisitions and non-current assets held for sale

32.1 Acquisition of certain operations of Laiki Bank

As part of the agreement with Eurogroup, the Company acquired all of the insured deposits, ELA funding and the majority of the loans and assets of Laiki Bank. These assets included all assets of Laiki Bank in Cyprus, the loans of Laiki Bank in the 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, 848.560 thousand shares were issued to Laiki Bank with nominal value €1,00 each.

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.

32. Acquisitions and non-current assets held for sale (continued)

32.1 Acquisition of certain operations of Laiki Bank (continued)

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, the Company used the services of an independent international firm.

Accounting for the business combination
In March 2014 the accounting for the business combination was completed and the company recognised final adjustments on the acquisition date fair values, amounted to €7.082 thousand on the assets and liabilities acquired.

In addition an investment provisionally classified as available for sale was classified to investment in associates and joint ventures (Note 33) following information obtained for this investment about facts and circumstances that existed on the acquisition date.

Fair values acquired
The table below sets out the final 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.

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	**2.430.044**
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 and joint ventures	**236.977**
Other assets	**374.083**
Total assets	**15.101.028**
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	**449.887**
Fair value of consideration transferred (comprising of 848.560 thousand shares of nominal value €1,00 each)	**449.887**

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	**-**

32. Acquisitions and non-current assets held for sale (continued)

32.1 Acquisition of certain operations of Laiki Bank (continued)

Fair values acquired (continued)
The fair value of loans and advances to customers amounts to €8.667.731 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 €2.420.380 thousand.

32.2 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.

32.3 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.

32.4 Non-current assets held for sale

The Ukrainian operations of the Group were classified as a disposal group held for sale (Note 35.1).

The carrying value of the major classes of assets and liabilities of the disposal group is set out below.

	31 March 2014	31 December 2013
	€000	€000
Cash and balances with central banks	**10.181**	14.842
Placements with banks	**15.924**	14.049
Loans and advances to customers	**250.076**	305.507
Investment properties	**34.395**	49.430
Property and equipment	**-**	-
Other assets	**1.168**	1.067
Customer deposits	**(47.235)**	(73.462)

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 €9.210 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.

33. Investments in associates and joint ventures

Carrying value of the investment

	31 March 2014	31 December 2013
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**101.099**	98.324
Marfin Diversified Strategy Fund Plc	**94.407**	94.407
Byron Capital Partners Ltd	**5.322**	5.322
Interfund Investments Plc	**3.026**	3.000
Aris Capital Management LLC	**2.078**	2.078
Rosequeens Properties SRL	**-**	-
Grand Hotel Enterprises Society Ltd	**-**	-
	205.932	203.131

The Group's investments in associates comprise of CNP Cyprus Insurance Holdings Ltd, Aris Capital Management LLC (shareholding 49,90%, and 30,00% respectively), Interfund Investments Plc (shareholding of 23,12%), Grand Hotel Enterprises Society Ltd (shareholding of 35,20%) and Rosequeens Properties SRL (shareholding 33,33%). The carrying value of Rosequeens Properties SRL and Grand Hotel Enterprises Society Ltd is restricted to zero.

The Group's investments in joint venture comprises of Byron Capital Partners Ltd (BCP) and Marfin Diversified Strategy Fund Plc (MDSF) acquired by the Group as part of the acquisition of certain operations of Laiki Bank (Note 32.1). The Group is a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulates a number of matters which require consent by both shareholders. The management of the shares of the MDFS are 100% owned by BCP. The Group considers that it jointly controls Byron Capital Partners Ltd (shareholding 70,00%) and Marfin Diversified Strategy Fund Plc (shareholding approximately 90% of the units of the fund).

34. Other information

The total capital expenditure of the Group for the three months ended 31 March 2014 amounted to €4.511 thousand.

On 4 April 2014 Mr Marios Yiannas resigned from the Board of Directors.

35. Events after the reporting date

35.1 Disposal of the Group's Ukrainian business

On 18 April 2014 the Group completed the sale of its Ukrainian business, comprising (i) its holding of 99,77% in its subsidiary bank in Ukraine, PJSC Bank of Cyprus, (ii) the funding provided by the Group to PJSC Bank of Cyprus, and (iii) its loans with Ukrainian exposures, to Alfa Group.

The sale consideration was €202.500 thousand, comprising €102.500 thousand received and €100.000 thousand deferred up to 31 March 2015.

The disposal will be reflected in the Group's second quarter results. The accounting loss from the sale is estimated at €115.000 thousand and represents the difference of the consideration and the net book value of the assets and liabilities disposed as at 31 March 2014, as well as the unwinding of the related foreign currency reserve of €56.000 thousand as at the disposal date. The impact of this disposal on the Group's capital which will be recognised during the second quarter of 2014 is estimated at €24.000 thousand or 0,1 percentage points negative on the Group's capital ratios.

35. Events after the reporting date (continued)

35.2 Disposal of the Group's investment in Romanian Banca Transilvania

On 18 April 2014 the Group sold its investment in Romanian Banca Transilvania comprising 220.461.952 shares, representing 9,99% of the issued share capital of Banca Transilvania. The disposal took place on the Bucharest Stock Exchange at a transaction price of RON 1,67.

The sale consideration amounted to approximately €82.000 thousand and the realised accounting gain from the transaction was €47.000 thousand. The impact on the Group's capital is estimated to be €55.000 thousand or 0,2 percentage points positive on the Core Tier 1 capital ratio.

35.3 Release of the nine-month time deposits

On 30 April 2014 the Group after witnessing improved liquidity positions and within the scope of further enhancing its liquidity through deleveraging released the nine-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013 and matured on 30 April 2014.

In order to normalise the maturity profile of its deposit base, the Company decided the gradual release as follows: (i) one third of the nine-month time deposits to be immediately released and available in clients' current accounts, (ii) one third of the nine-month time deposits to be converted into a three-month time deposit maturing and automatically released on 31 July 2014, and (iii) one third of the nine-month time deposits to be converted into a six-month time deposit maturing and automatically released on 31 October 2014.

The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

35.4 Disposal of loans in Serbia

On 22 May 2014 the Group sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank S.A., thereby enhancing the Company's liquidity position.

The sale consideration amounts to approximately €165.000 thousand and the realised accounting gain from the transaction is €27.000 thousand. The impact on the Group's capital is estimated to be €46.000 thousand or 0,2 percentage points positive on the Core Tier 1 capital ratio.

	Notes	2013	2012 (restated and represented)
		€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)

Consolidated Balance Sheet

as at 31 December 2013

	Notes	**2013** €000	2012 (restated) €000	2011 (restated) €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**

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

		2013	2012 (restated and represented)
	Notes	**€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 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	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 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										
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.

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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

THE BANK

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