

Annual Financial Report 2011

Bank of Cyprus Group



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| | |
|--|--|
| Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company) | <p>Theodoros Aristodemou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Vassilis G. Rologis Costas Z. Severis Evdokimos Xenophontos Anna Diogenous George M. Georgiades Christos Mouskis Manthos Mavrommatis Andreas Eliades</p> <p>Yiannis Kypri Costas Hadjipapas Nikolas P. Tsakos Yiannis Pehlivanidis Stavros J. Constantinides Irene Karamanou Elias Neocleous</p> |
| Senior Group Executive Management | <p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Pehlivanidis FIRST DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Christis Hadjimitsis SENIOR GROUP GENERAL MANAGER</p> <p>Nicolas Karydas SENIOR GROUP GENERAL MANAGER</p> |
| Secretary | <p>Yiannis Kypri</p> |
| Legal Advisers | <p>Chryssafinis & Polyviou</p> |
| Independent Auditors | <p>Ernst & Young Cyprus Ltd</p> |
| Registered Office | <p>51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY-1398 Nicosia, Cyprus Telephone: +357 22122100, Telefax: +357 22336258</p> |

BANK OF CYPRUS PUBLIC COMPANY LTD
Statement by the Members of the Board of Directors
and the Company Officials Responsible for the Drafting
of the Consolidated Financial Statements

Annual Financial Report 2011

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

We, the members of the Board of Directors and the officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2011, confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 11 to 141.
 - (i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole, and
- (b) the Directors' Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

| | |
|---------------------------|------------------------------|
| Theodoros Aristodemou | Chairman |
| Andreas Artemis | Vice Chairman |
| Vassilis G. Rologis | Non-executive Director |
| Costas Z. Severis | Non-executive Director |
| Evdokimos Xenophontos | Non-executive Director |
| Anna Diogenous | Non-executive Director |
| George M. Georgiades | Non-executive Director |
| Christos Mouskis | Non-executive Director |
| Manthos Mavrommatis | Non-executive Director |
| Andreas Eliades | Executive Director |
| Yiannis Kypri | Executive Director |
| Costas Hadjipapas | Non-executive Director |
| Nikolas P. Tsakos | Non-executive Director |
| Yiannis Pehlivanidis | Executive Director |
| Stavros J. Constantinides | Non-executive Director |
| Irene Karamanou | Non-executive Director |
| Elias Neocleous | Non-executive Director |
| Christis Hadjimitsis | Senior Group General Manager |

24 April 2012

The Board of Directors submit to the shareholders of the Company their Report together with the audited consolidated financial statements for the year ended 31 December 2011.

Activities

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

All Group companies and branches are set out in Note 51 of the consolidated financial statements.

Financial results

The Group achieved the profitability targets set for 2011, excluding the impairment of Greek Government Bonds (GGBs), despite the continuing negative economic developments in the main markets in which it operates, and has reported increased profit before provisions and increased profit before tax and GGBs impairment. Profit before provisions and the impairment of GGBs reached €805 million, noting an increase of 11% compared to €725 million for 2010 and profit after tax excluding the impairment of GGBs reached €312 million compared to €306 million for 2010, noting an increase of 2%.

Following the finalisation of the impact of the GGBs debt exchange plan, the Group has reduced the carrying value of its GGBs by 74% of their nominal value. The post-tax impairment of GGBs, including related hedging costs, amounted to €1.682 million for 2011. At 31 December 2011 the carrying value of GGBs held by the Group amounted to €616 million. Including the impairment of GGBs, Group losses after tax for 2011 amounted to €1.371 million. The losses after tax of the Company amounted to €1.380 million (2010: profits of €332 million).

We note that the final audited financial results of the Group for year ended 31 December 2011 differ from the preliminary results announced on 21 February 2012 as a result of the finalisation of the impact of the voluntary exchange program of GGBs. For the final results, the Group has reduced the carrying value of its GGBs by 74% of their nominal value, compared to an impairment of 60% for the preliminary results.

Financial results (continued)

The main financial highlights for 2011 are set out in the table below:

| Group Financial Highlights | | | |
|---|------------|-------------|--------------|
| | Change | 2011 | 2010 |
| | | €000 | €000 |
| Profit before provisions for impairment of loans and advances and the impairment of Greek Government Bonds (GGBs) | +11% | 805.104 | 724.964 |
| Profit after tax attributable to the owners of the Company before GGBs impairment | +2% | 311.532 | 306.189 |
| Impairment of GGBs and change in fair value of related hedging derivatives after tax | - | (1.682.303) | - |
| (Loss)/profit after tax attributable to the owners of the Company | - | (1.370.771) | 306.189 |
| Basic earnings per share excluding GGBs impairment | -9,5 cent | 30,9 cent | 40,4 cent |
| Cost to income ratio | -2,2 p.p.* | 47,8% | 50,0% |
| Return on equity excluding GGBs impairment | -1,3 p.p.* | 10,6% | 11,9% |
| Net interest margin | +32 b.p.* | 2,98% | 2,66% |
| Gross Loans | +4% | 28.872.429 | 27.874.290** |
| Deposits | -7% | 29.654.498 | 32.055.293** |
| Net loans to deposits ratio | +8,2 p.p.* | 92,3% | 84,1% |
| Non performing loans ratio | +2,9 p.p.* | 10,2% | 7,3% |

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

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

** Restated so as to exclude Bank of Cyprus Australia Ltd

- **Significant increase of total income:** Total income recorded a significant annual increase of 6%, reaching €1.541 million for 2011 (2010: €1.450 million), demonstrating the Group's ability to achieve increased recurring income despite the adverse economic conditions.
- **Improved efficiency:** The cost to income ratio has improved to 47,8% for 2011 from 50,0% for 2010 due to the increase in total income and the contained increase of expenses.
- **Significant increase in profit before provisions and impairment of GGBs:** The improved efficiency led to a significant increase in profit before provisions and impairment of GGBs for 2011. Profit before provisions and impairment of GGBs reached €805 million for 2011, noting an increase of 11% compared to 2010 (€725 million).
- **Improvement of interest margin:** The Group's net interest margin reached 2,98% for 2011, a significant increase of 32 basis points compared to 2,66% for 2010.
- **Healthy liquidity:** The Group has a healthy liquidity position with a net loans to deposits ratio of 92%, minimal repayments of debt securities in the next two years and limited reliance on the interbank market and wholesale funding. The ratio of deposits to total assets stood at 79% at 31 December 2011 (2010: 77%).
- **Adequate return on equity:** The return on equity excluding the impairment of GGBs was maintained at satisfactory levels (2011: 10,6%) in a particularly challenging environment (2010: 11,9%).
- **Loans and deposits:** At 31 December 2011 Group gross loans and deposits were €28,9 billion and €29,7 billion respectively.
- **Credit risk management:** The non-performing loans ratio reached 10,2% at 31 December 2011 compared to 7,3% at 31 December 2010. The provisions coverage ratio (ratio of provisions to non-performing loans) amounted to 51% at 31 December 2011 (2010: 55%). The non-performing loans are loans in arrears for more than three months which are not fully covered by tangible collateral. The coverage ratio including tangible collateral amounted to 118%. (2010: 118%).

Financial results (continued)

Geographic analysis of profitability

The **Group** has achieved satisfactory profitability excluding the impairment of GGBs, having increased its recurring income for 2011. Profit before provisions and the impairment of GGBs reached €805 million for 2011, recording an annual increase of 11%.

In **Cyprus**, profit before provisions for 2011 reached €500 million which is an increase of 15% compared to 2010 (€437 million). Profit after tax excluding the impairment of GGBs for 2011 reached €315 million which is an increase of 23% compared to 2010 (€256 million).

In **Greece**, profit before provisions for 2011 reached €197 million, compared to €194 million for 2010. Loss after tax excluding the impairment of GGBs for 2011 was €26 million against a profit after tax of €11 million for 2010, as a result of higher provisions and tax.

In **Russia**, profit before provisions for 2011 reached €59 million, recording an annual increase of 29% compared to €46 million for 2010. Profit after tax for 2011 reached €3 million compared to €16 million for 2010, as a result of higher provisions.

Profit after tax for the **other countries** (United Kingdom, Ukraine, Romania and Australia (up to disposal)) reached €20 million (2010: €23 million). Profit after tax for year 2011 includes profit of €6 million from the Group's operations in Australia.

Capital adequacy

The Group proceeds with actions to enhance its capital base. As at 31 December 2011, the Group capital adequacy ratios after the impairment of GGBs were as follows: core tier 1 ratio of 3,6%, tier 1 ratio of 7,5% and total capital ratio of 7,8%.

The Group's capital adequacy ratios are lower than the minimum ratios required by the Central Bank of Cyprus.

Following the exercise of the Rights and the conversion of the Convertible Enhanced Capital Securities (CECS) to shares in March 2012, the Group's core tier 1 has increased by €592 million of which €160 million relate to the exercise of Rights and €432 million relate to the conversion of CECS to shares. Including these amounts, the pro-forma core tier 1, tier 1 and total capital ratios as at 31 December 2011 amount to 6,0%, 8,1% and 8,4%, respectively.

The Group has the right at any time until 18 June 2012 to place all or part of the €237 million unsubscribed share capital (Note 53).

The Group expects that it will be in a position to cover the minimum required core tier 1 and tier 1 ratios within a reasonable period of time through the sale of all or part of the unsubscribed shares, future profitability, the effective management of risk weighted assets and the CECS which have not been converted in shares.

European Banking Authority Capital Exercise

The Group participated in a Capital Exercise conducted by the European Banking Authority (EBA) in cooperation with the Central Bank of Cyprus.

The Capital Exercise covered 71 banks across Europe and its objective was to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment. This buffer is not explicitly designed to cover losses in sovereigns but to provide a reassurance to markets about banks' ability to withstand a range of shocks and still maintain adequate capital.

The Capital Exercise has determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which must be covered by 30 June 2012.

It is noted that the Group has submitted a plan to the Central Bank of Cyprus which sets out the various measures which the Group will take to achieve the required capital enhancement target as set by the EBA.

Capital adequacy (continued)

The Group has already implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital impact of €80 million, (iii) profitability during the fourth quarter of 2011 and (iv) management of its risk weighted assets.

In addition, the Group is taking the necessary actions in order to satisfy the conditions set by EBA in order for it to accept the inclusion of the remaining CECS of €455 million as eligible in the capital buffer. It is noted that, for regulatory capital purposes, CECS form part of the tier 1 ratio.

The Group is taking all necessary actions in order to cover the remaining capital shortfall through the sale of all or part of the unsubscribed shares (Note 53), the profitability of the first half of 2012, as well as, other actions including the effective management of its weighted assets.

Share capital

Issued share capital

As at 31 December 2011 the Company had in issue 899,527,638 ordinary shares of nominal value €1.00 each. The Company's shares are listed on the Cyprus Stock Exchange and the Athens Exchange.

During 2011, the issued share capital of the Company increased by €4.193 thousand as a result of dividend reinvestment and by €387 thousand as a result of the conversion of Convertible Bonds and Convertible Capital Securities (Note 34).

Authorised share capital

At the Extraordinary General Meetings of the shareholders held on 23 March 2011 and 5 December 2011 the authorised share capital of the Company was increased by €400 million and €1,500 million respectively, by creating new ordinary shares of nominal value €1.00 each, which rank *pari passu* with the existing ordinary shares of the Company.

Capital Strengthening Plan

In November 2011 the Group decided to strengthen its capital base through a Capital Strengthening Plan. The Plan included a share capital increase through a pre-emptive rights offering to raise up to €397 million and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600 million.

The Rights were issued and allocated to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of their current 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 could 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 would grant one Bonus Share.

The period for the exercise of the Rights, the submission of applications for pre-registration and the acceptance of offers to exchange CECS expired on 19 March 2012. As a result, the Bank's core tier 1 capital has increased by €592 million of which approximately €160 million relate to the exercise of Rights and €432 million relate to the acceptance of the offer to exchange CECS. As a result of the above, approximately €896 million new shares were issued.

Furthermore, the Group is proceeding with the completion of the Capital Strengthening Plan and has the right at any time until 18 June 2012 to exercise all or part of the rights that have not been subscribed by their holders and have not been exercised by 19 March 2012. Any distribution of unsubscribed shares will be at the discretion of the Board of Directors and can take place at the same or at a higher price than the Subscription Price of the New Shares (Note 53).

Share capital (continued)

Other information

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

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

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

As at 31 December 2011, Odella Resources Ltd, which belongs to the trustees of a Cypriot discretionary trust whose beneficiaries are Mr Dmitriy Rybolovlev and his two daughters, held 9,99% of the share capital of the Company (11 April 2012: 5,01%). The Company is not aware of any other shareholders who held, directly or indirectly, more than 5% of the issued share capital of the Company.

Dividends

The Board of Directors does not propose the payment of dividend for 2011. The final dividend for year 2010 of €0,03 per share (amounting to €26.848 thousand) was paid in June 2011.

An interim dividend for 2010 of €0,06 per share in cash, amounting to €46.612 thousand, was paid in November 2010. In addition, in November 2010 the Board of Directors, taking into consideration the level of reserves and the applicable legislation for dividend distribution, decided the payment of a special interim dividend payable in the form of shares of €0,50 per share, amounting to €388.430 thousand, at the reinvestment price of €3,25 per share.

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

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

The service contracts of the executive directors include a clause for compensation in the event of an unjustified early termination. The maximum compensation payable is two annual salaries.

Strategy and priorities

Over the next 1-2 years, the Group's strategy will focus on strengthening its capital adequacy and maintaining its healthy liquidity.

Capital adequacy strengthening will be pursued through:

- The increase of the Company's share capital.
- The effective management of risk weighted assets aiming at their reduction.
- Internal capital generation through profitability.

Maintaining healthy liquidity is pursued through the attraction of deposits whilst avoiding any negative impact on the interest spread.

The strategy of the Group in each country in which it operates is summarised below:

Cyprus and Greece:

- Manage the size of the loan portfolio, aiming at maintaining it at similar levels in Cyprus and at reduced levels in Greece.
- Effective management of asset quality and non-performing loans.
- Cost containment in Cyprus and cost reduction in Greece, with increased productivity in both countries.

Russia:

- Increase in productivity and profitability.
- Gradual reduction of funding provided by the Group.

Ukraine:

- Increase in productivity and the sales capabilities of the branch network.
- Limited growth rate of funding provided by the Group.

Romania:

- Gradual reduction in the size of the loan portfolio.
- Cost reduction.

United Kingdom:

- Gradual reduction in the size of loan portfolio.
- Cost reduction.

Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 53 of the consolidated financial statements.

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 44 to 47 of the consolidated financial statements. The Group's exposure to sovereign debt to countries which have entered the European Support Mechanism or whose Moody's credit rating is below Aa1 and total Group exposure exceeds €100 million is set out in Note 48.

In addition, details of the significant judgements, estimates and assumptions which may have a material impact on the Group's financial performance and position are set out in Note 3.

Corporate Governance Statement

The Group recognises the importance of implementing sound corporate governance policies, practices and procedures. Being listed on the Cyprus Stock Exchange (CSE), the Company has adopted the CSE's Corporate Governance Code and applies its principles. The CSE's Corporate Governance Code is available on the CSE website (www.cse.com.cy).

Corporate Governance Statement (continued)

The Group confirms that it complies with the provisions of the 3rd (Revised) Edition of the Corporate Governance Code. The new edition of the Code includes new provisions which are effective from 2011 and the Group proceeded with the necessary actions to ensure full compliance with the revised Code.

In addition, being listed on the Athens Exchange (AE), the Company follows the provisions on corporate governance of listed companies as laid out in law L3016/2002 of the Hellenic Republic, which is available on the website of the Hellenic Capital Markets Commission (www.hcmc.gr).

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in section 1.5 of the Annual Corporate Governance Report for 2011. The powers of the executive and supervisory bodies of the Group are set out in the Corporate Governance Report.

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

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

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

The Annual Corporate Governance Report for 2011 is available on the Group's website (www.bankofcyprus.com).

Preparation of periodic reporting

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

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

Board of Directors

The members of the Board of Directors of the Company are listed on page 1. All Directors were members of the Board throughout the year 2011 and up to the date of this Report, except for Mrs Irene Karamanou and Mr Elias Neocleous who were appointed on 8 April 2011 and 9 February 2012 respectively. Messrs Andreas J. Jacovides and Christakis G. Christofides resigned from the Board of Directors on 1 January 2012 and 31 March 2012 respectively.

The members of the Board of Directors express their gratitude to Messrs Andreas J. Jacovides and Christakis G. Christofides for their valuable contribution during their tenure on the Board of Directors of the Company.

In accordance with the Company's Articles of Association, Messrs Theodoros Aristodemou, Andreas Artemis, George M. Georgiades, Christos Mouskis, Andreas Eliades, Yiannis Kypri and Elias Neocleous retire and being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Directors' interest in the share capital of the Company

The beneficial interest in the Company's shares held by members of the Board of Directors, directly or indirectly, at 31 December 2011 and 11 April 2012, is set out below:

| | 31 December 2011 | 11 April 2012 |
|----------------------------|---------------------|------------------|
| <i>Non-executives</i> | % | % |
| Theodoros Aristodemou | 1,82 | 2,98 |
| Andreas Artemis | 0,37 | 0,45 |
| Vassilis G. Rologis | 0,12 | 0,06 |
| Costas Z. Severis | 0,44 | 0,38 |
| Christakis G. Christofides | 0,07 | n/a |
| Evdokimos Xenophontos | - | - |
| Anna Diogenous | 0,17 | 0,15 |
| George M. Georgiades | 0,03 | 0,01 |
| Andreas J. Jacovides | 0,02 | n/a |
| Christos Mouskis | 0,03 | 0,11 |
| Manthos Mavrommatis | 0,05 | 0,08 |
| Costas Hadjipapas | - | 0,01 |
| Nikolas P. Tsakos | - | - |
| Stavros J. Constantinides | 0,02 | 0,01 |
| Irene Karamanou | - | - |
| Elias Neocleous | n/a | 0,01 |
| <i>Executives</i> | | |
| Andreas Eliades | 0,07 | 0,06 |
| Yiannis Pehlivanidis | - | - |
| Yiannis Kypri | 0,01 | 0,04 |
| | 3,22 | 4,35 |

In the context of the Share Options 2008/2010 granted by the Group to its employees in 2008, 2.000 thousand options were granted to the executive directors and 12 thousand options were granted to a non-executive director in his capacity as employee of the Company.

Independent auditors

The independent auditors of the Company, Ernst & Young Cyprus Ltd, have expressed their willingness to continue in office. A resolution for their re-appointment and remuneration will be proposed at the Annual General Meeting.

Theodoros Aristodemou

Chairman

24 April 2012

Consolidated Financial Statements

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| | | 2011 | 2010 |
|--|-------|--------------------|-------------|
| | Notes | €000 | €000 |
| Turnover | | 2.808.300 | 2.577.028 |
| Interest income | 5 | 2.295.116 | 2.091.794 |
| Interest expense | 6 | (1.127.443) | (1.051.375) |
| Net interest income | | 1.167.673 | 1.040.419 |
| Fee and commission income | 7 | 247.044 | 244.589 |
| Fee and commission expense | 7 | (14.679) | (13.410) |
| Foreign exchange gains | 8 | 45.178 | 38.634 |
| Net gains on financial instrument transactions and disposal of subsidiaries | 9 | 3.571 | 71.380 |
| Insurance income | 10 | 116.976 | 175.435 |
| Insurance expense | 10 | (55.786) | (116.074) |
| Other income | 11 | 31.329 | 8.916 |
| | | 1.541.306 | 1.449.889 |
| Staff costs | 12 | (443.205) | (430.208) |
| Other operating expenses | 13 | (292.997) | (294.717) |
| Profit before provisions for impairment of loans and advances and the impairment of Greek Government Bonds (GGBs) | | 805.104 | 724.964 |
| Provisions for impairment of loans and advances | 44 | (426.287) | (374.497) |
| Profit before impairment of GGBs | | 378.817 | 350.467 |
| Impairment of GGBs and change in fair value of related hedging derivatives | 15 | (1.729.261) | - |
| (Loss)/profit before share of profit of associates | | (1.350.444) | 350.467 |
| Share of loss of associates | 14 | (1.441) | (1.953) |
| (Loss)/profit before tax | | (1.351.885) | 348.514 |
| Taxation | 16 | (25.959) | (45.989) |
| (Loss)/profit after tax | | (1.377.844) | 302.525 |
| Attributable to: | | | |
| Non-controlling interests (loss) | | (7.073) | (3.664) |
| Owners of the Company ((loss)/profit)) | | (1.370.771) | 306.189 |
| Basic earnings/(losses) per share (cent) | 17 | (156,9) | 40,4 |
| Diluted earnings/(losses) per share (cent) | 17 | (156,9) | 37,3 |
| Basic earnings per share excluding the impairment of GGBs (cent) | 17 | 30,9 | 40,4 |
| Diluted earnings per share excluding the impairment of GGBs (cent) | 17 | 18,1 | 37,3 |

| | | 2011 | 2010 |
|---|-------|--------------------|-----------|
| | Notes | €000 | €000 |
| (Loss)/profit after tax | | (1.377.844) | 302.525 |
| Other comprehensive income | | | |
| Foreign currency translation reserve | | | |
| (Losses)/profits on translation of net investment in subsidiaries and overseas branches | | (1.842) | 53.930 |
| Losses on hedging of net investments | 20 | (5.673) | (18.705) |
| Transfer to the consolidated income statement on disposal of subsidiary | | (815) | 362 |
| | | (8.330) | 35.587 |
| Available-for-sale investments | | | |
| Losses from revaluation before tax | | (190.243) | (300.495) |
| Transfer to the consolidated income statement on impairment | | 326.062 | 23.770 |
| Transfer to the consolidated income statement on sale | | 1.580 | 11.737 |
| Taxation | | 397 | 2.571 |
| | | 137.796 | (262.417) |
| Cash flow hedges | | | |
| (Losses)/gains from revaluation before tax | | (2.496) | 1.407 |
| Transfer to the consolidated income statement on sale of subsidiary before taxation | | 1.054 | - |
| Taxation | | 151 | (148) |
| | | (1.291) | 1.259 |
| Property revaluation | | | |
| Fair value gains before taxation | 25 | 73.648 | - |
| Taxation | | (11.770) | 192 |
| | | 61.878 | 192 |
| Other comprehensive income/(expense) after tax | | 190.053 | (225.379) |
| Total comprehensive (expense)/income for the year | | (1.187.791) | 77.146 |

| | | | |
|---|--|--------------------|---------|
| Attributable to: | | | |
| Non-controlling interests (expense) | | (7.180) | (1.456) |
| Owners of the Company ((expense)/income) | | (1.180.611) | 78.602 |

| | | 2011 | 2010 |
|--|-------|-------------------|------------|
| | Notes | €000 | €000 |
| Assets | | | |
| Cash and balances with central banks | 18 | 1.375.047 | 2.241.825 |
| Placements with banks | 18 | 2.627.831 | 5.264.628 |
| Reverse repurchase agreements | | 215.936 | 120.166 |
| Investments | 19 | 2.629.124 | 4.307.558 |
| Investments pledged as collateral | 19 | 938.070 | 1.038.036 |
| Derivative financial assets | 20 | 193.734 | 76.278 |
| Loans and advances to customers | 22 | 27.366.917 | 27.725.451 |
| Life insurance business assets attributable to policyholders | 24 | 504.579 | 561.695 |
| Property and equipment | 25 | 473.188 | 418.781 |
| Intangible assets | 26 | 472.510 | 479.058 |
| Other assets | 27 | 675.343 | 400.459 |
| Investments in associates | 52 | 2.820 | 3.805 |
| Total assets | | 37.475.099 | 42.637.740 |
| Liabilities | | | |
| Obligations to central banks and amounts due to banks | 28 | 3.065.756 | 3.706.975 |
| Repurchase agreements | | 785.993 | 913.109 |
| Derivative financial liabilities | 20 | 488.111 | 240.412 |
| Customer deposits | 29 | 29.654.498 | 32.952.567 |
| Insurance liabilities | 30 | 611.264 | 658.309 |
| Debt securities in issue | 31 | 49.791 | 83.957 |
| Other liabilities | 32 | 262.227 | 323.120 |
| Subordinated loan stock | 33 | 128.380 | 930.942 |
| Total liabilities | | 35.046.020 | 39.809.391 |
| Equity | | | |
| Share capital | 34 | 899.528 | 894.948 |
| Share premium | | 1.164.903 | 1.159.819 |
| Convertible Enhanced Capital Securities | 35 | 862.233 | - |
| Revaluation and other reserves | | 3.232 | (186.253) |
| (Accumulated losses)/retained earnings | 37 | (585.261) | 868.531 |
| Equity attributable to owners of the Company | | 2.344.635 | 2.737.045 |
| Non-controlling interests | | 84.444 | 91.304 |
| Total equity | | 2.429.079 | 2.828.349 |
| Total liabilities and equity | | 37.475.099 | 42.637.740 |

| | |
|-------------------------|--------------------------------------|
| Th. Aristodemou | Chairman |
| A. Artemis | Vice-Chairman |
| A. Eliades | Group Chief Executive Officer |
| Y. Kypri | Deputy Group Chief Executive Officer |
| Chr. Hadjimitsis | Senior Group General Manager |

BANK OF CYPRUS GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

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| | Attributable to the owners of the Company | | | | | | | | | | | | Non-controlling interests | Total equity |
|--|---|------------------|--|--|------------------------------|---|-------------------------|--|---|--------------------------------------|-----------------------|------------------|---------------------------|------------------|
| | Share capital (Note 34) | Share premium | Convertible Enhanced Capital Securities (Note 35) | (Accumulated losses)/ retained earnings (Note 37) | Property revaluation reserve | Revaluation reserve of available-for-sale investments | Cash flow hedge reserve | Life insurance in-force business reserve | Equity component of convertible subordinated loan stock | Foreign currency translation reserve | Shares of the Company | Total | | |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 January 2011 | 894.948 | 1.159.819 | - | 868.531 | 100.329 | (271.012) | 1.291 | 83.697 | 12.420 | (104.701) | (8.277) | 2.737.045 | 91.304 | 2.828.349 |
| Cost of share-based payments | - | - | - | 2.611 | - | - | - | - | - | - | - | 2.611 | - | 2.611 |
| Purchase of shares of the Company by subsidiaries and associates | - | - | - | - | - | - | - | - | - | - | (1.946) | (1.946) | - | (1.946) |
| Disposal of shares of the Company by subsidiaries and associates | - | - | - | (2.649) | - | - | - | - | - | - | 3.544 | 895 | - | 895 |
| Transfer of realised profits on sale of property | - | - | - | 104 | (104) | - | - | - | - | - | - | - | - | - |
| Increase in value of in-force life insurance policies | - | - | - | (5.364) | - | - | - | 5.364 | - | - | - | - | - | - |
| Tax on increase in value of in-force life insurance policies | - | - | - | 364 | - | - | - | (364) | - | - | - | - | - | - |
| Conversion of Convertible Bonds and Convertible Capital Securities | 387 | 892 | (1.273) | - | - | - | - | - | - | - | - | 6 | - | 6 |
| Change in ownership percentage of subsidiary (Note 51) | - | - | - | 170 | - | - | - | - | - | - | - | 170 | 411 | 581 |
| Dividend paid and reinvested (Note 36) | 4.193 | 4.192 | - | (26.822) | - | - | - | - | - | - | - | (18.437) | - | (18.437) |
| Defence contribution on deemed dividend distribution | - | - | - | (2.191) | - | - | - | - | - | - | - | (2.191) | - | (2.191) |
| Issue of Convertible Enhanced Capital Securities (CECS) less buybacks (Note 35) | - | - | 857.084 | - | - | - | - | - | - | - | - | 857.084 | - | 857.084 |
| Exchange of Convertible Bonds and Convertible Capital Securities with CECS (Note 35) | - | - | - | (6.733) | - | - | - | - | (7.169) | - | - | (13.902) | - | (13.902) |
| Issue costs of CECS | - | - | - | (1.458) | - | - | - | - | - | - | - | (1.458) | - | (1.458) |
| Interest on CECS | - | - | - | (34.631) | - | - | - | - | - | - | - | (34.631) | - | (34.631) |
| Exchange difference on CECS | - | - | 6.422 | (6.422) | - | - | - | - | - | - | - | - | - | - |
| Increase in the share capital of subsidiary companies | - | - | - | - | - | - | - | - | - | - | - | - | 887 | 887 |
| Dividend paid by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | (978) | (978) |
| Total comprehensive (expense)/income for the year | - | - | - | (1.370.771) | 60.994 | 137.791 | (1.291) | - | - | (7.334) | - | (1.180.611) | (7.180) | (1.187.791) |
| 31 December 2011 | 899.528 | 1.164.903 | 862.233 | (585.261) | 161.219 | (133.221) | - | 88.697 | 5.251 | (112.035) | (6.679) | 2.344.635 | 84.444 | 2.429.079 |

BANK OF CYPRUS GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

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| | Attributable to the owners of the Company | | | | | | | | | | | Non-controlling interests | Total equity |
|--|---|------------------|--------------------------------|------------------------------|---|-------------------------|--|---|--------------------------------------|-----------------------|------------------|---------------------------|------------------|
| | Share capital (Note 34) | Share premium | Retained earnings (Note 37) | Property revaluation reserve | Revaluation reserve of available-for-sale investments | Cash flow hedge reserve | Life insurance in-force business reserve | Equity component of convertible subordinated loan stock | Foreign currency translation reserve | Shares of the Company | Total | | |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 January 2010 | 598.197 | 712.170 | 1.084.132 | 101.583 | (8.537) | 32 | 74.599 | 12.420 | (138.138) | (13.346) | 2.423.112 | 62.386 | 2.485.498 |
| Reattribution of reserves due to change in ownership of subsidiary (Note 51) | - | - | (29.824) | - | - | - | - | - | - | - | (29.824) | 29.824 | - |
| Cost of share-based payments | - | - | 3.079 | - | - | - | - | - | - | - | 3.079 | - | 3.079 |
| Transfer of realised profits on sale of property | - | - | 1.446 | (1.446) | - | - | - | - | - | - | - | - | - |
| Purchase of shares of the Company by subsidiaries and associates | - | - | - | - | - | - | - | - | - | (3.754) | (3.754) | - | (3.754) |
| Disposal of shares of the Company by subsidiaries and associates | - | - | (4.524) | - | - | - | - | - | - | 8.823 | 4.299 | - | 4.299 |
| Defence contribution on deemed dividend distribution | - | - | (570) | - | - | - | - | - | - | - | (570) | - | (570) |
| Increase in value of in-force life insurance policies | - | - | (10.071) | - | - | - | 10.071 | - | - | - | - | - | - |
| Tax on increase in value of in-force life insurance policies | - | - | 973 | - | - | - | (973) | - | - | - | - | - | - |
| Conversion of Convertible Bonds and Convertible Capital Securities | 23 | 112 | - | - | - | - | - | - | - | - | 135 | - | 135 |
| Issue of shares | 172.630 | 172.630 | - | - | - | - | - | - | - | - | 345.260 | - | 345.260 |
| Costs relating to the issue of shares | - | (1.244) | - | - | - | - | - | - | - | - | (1.244) | - | (1.244) |
| Dividend in the form of shares (Note 36) | 113.199 | 254.697 | (388.430) | - | - | - | - | - | - | - | (20.534) | - | (20.534) |
| Dividend paid and reinvested (Note 36) | 10.899 | 21.454 | (93.869) | - | - | - | - | - | - | - | (61.516) | - | (61.516) |
| Increase in the share capital of subsidiary companies | - | - | - | - | - | - | - | - | - | - | - | 620 | 620 |
| Dividend paid by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | (70) | (70) |
| Total comprehensive income/(expense) for the year | - | - | 306.189 | 192 | (262.475) | 1.259 | - | - | 33.437 | - | 78.602 | (1.456) | 77.146 |
| 31 December 2010 | 894.948 | 1.159.819 | 868.531 | 100.329 | (271.012) | 1.291 | 83.697 | 12.420 | (104.701) | (8.277) | 2.737.045 | 91.304 | 2.828.349 |

BANK OF CYPRUS GROUP
Consolidated Statement of Cash Flows
for the year ended 31 December 2011

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| | | 2011 | 2010 |
|--|-------|--------------------|-------------|
| | Notes | €000 | €000 |
| Net cash flow (used in)/from operating activities | 40 | (3.397.882) | 821.461 |
| Cash flows used in investing activities | | | |
| Purchases of investments: | | | |
| - debt securities | | (1.379.091) | (4.203.037) |
| - equity securities | | (528) | (5.213) |
| Proceeds on disposal/redemption of investments: | | | |
| - debt securities | | 1.904.463 | 3.640.374 |
| - equity securities | | 4.404 | 108 |
| Interest received from debt securities | | 62.890 | 176.026 |
| Dividend income from equity securities | | 666 | 2.859 |
| Dividend received from associates | | - | 314 |
| Cash acquired on acquisition of subsidiary | | - | 4.571 |
| Net (decrease in cash)/proceeds from disposal of subsidiary | | (178.168) | 2.892 |
| Purchase of property and equipment | | (44.091) | (40.598) |
| Proceeds on disposal of property and equipment | | 1.164 | 4.228 |
| Purchase of intangible assets | | (9.855) | (10.152) |
| Purchase of investment properties | | (70.552) | (63.456) |
| Proceeds on disposal of investment properties | | 2.667 | 2.135 |
| Net cash flow from/(used in) investing activities | | 293.969 | (488.949) |
| Cash flows from financing activities | | | |
| Issue of share capital net of issue costs paid | | - | 344.016 |
| Redemption of subordinated loan stock | | (127.315) | - |
| Issue of senior debt | | 43.753 | 14.517 |
| Redemption of senior debt | | (77.920) | (449.671) |
| Issue of Convertible Enhanced Capital Securities net of issue costs paid | | 171.553 | - |
| Dividend payment net of reinvestment | | (18.437) | (82.050) |
| Dividend paid by subsidiaries to non-controlling interests net of reinvestment | | (91) | (70) |
| Increase of capital of subsidiary attributed to non-controlling interests | | 581 | 620 |
| Interest on subordinated loan stock | | (20.458) | (43.669) |
| Interest on senior debt | | (3.110) | (5.092) |
| Interest on CECS | | (34.631) | - |
| Acquisition of own shares | | (1.946) | (3.754) |
| Disposal of own shares | | 895 | 4.299 |
| Net cash flow used in financing activities | | (67.126) | (220.854) |
| Net (decrease)/increase in cash and cash equivalents for the year | | (3.171.039) | 111.658 |
| Cash and cash equivalents | | | |
| 1 January | | 6.339.767 | 6.156.656 |
| Exchange adjustments | | 20.490 | 71.453 |
| Net (decrease)/increase in cash and cash equivalents for the year | | (3.171.039) | 111.658 |
| 31 December | 41 | 3.189.218 | 6.339.767 |

1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2011 were authorised for issue by a resolution of the Board of Directors on 24 April 2012.

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 was incorporated as a limited liability company in 1930 and is a public company under the Cyprus Companies Law, the Cyprus Stock Exchange Laws and Regulations and the Income Tax Law of Cyprus.

The accounting policies used by Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (the 'Group') that are relevant to an understanding of the consolidated financial statements are stated below.

2. Accounting Policies

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties, 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.

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 43.

Statement of compliance

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

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption by the Group of the following new and amended IFRSs and IFRIC Interpretations as from 1 January 2011:

- IFRIC 14 'Prepayments of a Minimum Funding Requirement' (Amended)
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- IAS 24 'Related Party Disclosures' (Amended)
- IAS 32 'Classification on Rights Issues' (Amended)
- Amendments resulting from annual improvements to IFRSs (May 2010) to:
 - IFRS 3 'Business Combinations'
 - IFRS 7 'Financial Instruments'
 - IAS 1 'Presentation of Financial Statements'
 - IAS 27 'Consolidated and Separate Financial Statements'
 - IAS 34 'Interim Financial Statements'
 - IFRIC 13 'Customer Loyalty Programmes'

Adoption of the above did not have any impact on the financial statements of the Group except for the adoption of the amendments to IFRS 7 as part of the May 2010 annual improvements which were intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information in order to present the quantitative information in context. The Group presents the revised disclosure requirements in Notes 44 to 47.

2. Accounting Policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective

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:

(i) Standards and Interpretations issued by the IASB and adopted by the EU

IFRS 7 'Financial Instruments: Disclosures' (Amended) - Enhanced Derecognition Disclosure Requirements

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment only has disclosure effects and is not expected to have a significant impact on the Group's financial statements.

(ii) Standards and interpretations issued by the IASB but not yet adopted by the EU

IAS 1 'Financial Statement Presentation' (Amended) – Presentation of items of Other Comprehensive Income

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position. The Group is in the process of assessing the impact of this amendment on the presentation of its financial statements.

IAS 12 'Income Taxes' (Amended) – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group does not expect that this amendment will have a significant effect on its financial statements.

IAS 19 'Employee Benefits' (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. The Group is in the process of assessing the impact of this amendment on its financial position.

IAS 27 'Separate Financial Statements' (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. 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.

IAS 28 'Investments in Associates and Joint Ventures' (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. 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 expected to result in a change in the accounting treatment of the Group's investment in JCC Payment Systems Ltd, which however is not expected to have a significant effect on the Group financial statements.

2. Accounting Policies (continued)

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

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

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.

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. The Group's management does not expect that this amendment will have a significant impact on its financial position.

IFRS 9 'Financial Instruments - Classification and Measurement'

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the fair value option. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected during the first half of 2012. Early application is permitted.

The Group is currently assessing the impact of adopting the first phase of IFRS 9, which is expected to have a significant effect on the classification and measurement of the Group's financial assets. 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.

IFRS 10 'Consolidated Financial Statements'

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 'Consolidated and 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.

IFRS 11 'Joint Arrangements'

The new standard is effective for annual periods beginning on or after 1 January 2013. 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.

IFRS 12 'Disclosures of Involvement with Other Entities'

The new standard is effective for annual periods beginning on or after 1 January 2013. 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 its financial position.

2. Accounting Policies (continued)

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

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

IFRS 13 'Fair Value Measurement'

The new standard is effective for annual periods beginning on or after 1 January 2013. 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 when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. The Group is in the process of assessing the impact of the new standard on its financial position.

IFRIC Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine'

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (stripping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. The Interpretation is not relevant to the Group and its operations.

2.4 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. The results 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.

Business combinations are accounted for using the purchase method. 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.

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.

2. Accounting Policies (continued)

2.4 Basis of consolidation (continued)

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.

2.5 Investments in associates

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 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.

2.6 Interest in joint ventures

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.

2.7 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.

2. Accounting Policies (continued)

2.7 Foreign currency translation (continued)

(i) 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 balance sheet date. All differences are taken to '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 directly in equity in the 'Foreign currency translation reserve' until the disposal of the net investment, at which time they are recognised 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 was determined.

(ii) Subsidiary companies and branches

At the balance sheet 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 balance sheet 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 balance sheet date.

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

2.8 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 Group has determined the Senior Group Executive Management as its chief operating decision-maker.

2.9 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.

2.10 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:

(i) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

(ii) 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 in the consolidated income statement using the effective interest rate method.

(iii) Dividend income

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

2. Accounting Policies (continued)

2.10 Revenue recognition (continued)

(iv) 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'.

(v) 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.

2.11 Retirement benefits

The Group operates several defined benefit retirement plans. The main retirement benefit plans require the payment of contributions to separately administered funds (funded schemes).

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

Actuarial gains or losses are recognised as income or expense if the net cumulative unrecognised gains or losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligations of the plan or 10% of the fair value of plan assets as at that date. The portion of the actuarial gains or losses to be recognised is the excess amount determined above, divided by the expected average remaining working lives of the employees participating in the plan.

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), less past service costs not yet recognised and less 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. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Gains or losses on the curtailment of a defined benefit plan are recognised when the curtailment occurs. The gain or loss on a curtailment comprises of any resulting change in the present value of the defined benefit obligation, any resulting change in the fair value of plan assets and any related actuarial gains and losses and past service cost that had not previously been recognised.

The cost of providing benefits under defined contribution and early retirement plans is recognised in the consolidated income statement on an accruals basis.

2.12 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.

2. Accounting Policies (continued)

2.12 Share-based payments (continued)

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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 17).

2.13 Taxation

Taxation 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.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet 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.

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 balance sheet 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.

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 balance sheet 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.

2.14 Financial instruments

(i) Date of recognition

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.

(ii) 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.

2. Accounting Policies (continued)

2.14 Financial instruments (continued)

(iii) 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 '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.

(iv) 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.

(v) 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.

(vi) 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 the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs and change in fair value of related hedging derivatives'.

2. Accounting Policies (continued)

2.14 Financial instruments (continued)

(vii) 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 balance sheet captions 'Placements with banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables'. 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 the case of loans and advances to customers, in 'Impairment of GGBs and change in fair value of related hedging derivatives' 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.

(viii) 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 equity in the 'Revaluation reserve of available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal of subsidiaries' and in the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs 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 as '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 the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs and change in fair value of related hedging derivatives'.

(ix) 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.

(x) 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.

2. Accounting Policies (continued)

2.14 Financial instruments (continued)

(x) Convertible bonds (continued)

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.

2.15 Derecognition of financial assets and financial liabilities

(i) 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.

(ii) Financial liabilities

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

2.16 Impairment of financial assets

The Group assesses at each balance sheet 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.

(i) Loans and advances to customers

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.

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.

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.

2. Accounting Policies (continued)

2.16 Impairment of financial assets (continued)

(i) Loans and advances to customers (continued)

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 (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. 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. Loans are monitored continuously and are reviewed for impairment every six months. 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.

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.

(ii) 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 balance sheet 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 the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs 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 the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs and change in fair value of related hedging derivatives'.

(iii) Available-for-sale investments

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

2. Accounting Policies (continued)

2.16 Impairment of financial assets (continued)

(iii) Available-for-sale investments (continued)

In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease 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' and recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in the case of Greek Government Bonds (GGBs) in 'Impairment of GGBs and change in fair value of related hedging derivatives'. 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 reserve of available-for-sale investments' in equity.

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 (GGBs) in 'Impairment of GGBs and change in fair value of related hedging derivatives'.

2.17 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 of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship, a formal assessment is also 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.

(i) 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 terminated.

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 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.

2. Accounting Policies (continued)

2.17 Hedge accounting (continued)

(ii) 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 equity 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.

(iii) 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 directly in equity while gains or losses relating to the ineffective portion are recognised in 'Foreign exchange gains' in the consolidated income statement.

On disposal of an overseas branch or subsidiary, the cumulative gains or losses recognised directly in equity are recognised in 'Foreign exchange gains' in the consolidated income statement.

2.18 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.

2.19 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.

2.20 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.

(i) 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.

2. Accounting Policies (continued)

2.20 Insurance business (continued)

(ii) 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 balance sheet 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.

(iii) 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 balance sheet 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 balance sheet 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 balance sheet date.

(iv) 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.

(v) Liability adequacy test

At each balance sheet 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.

2.21 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 balance sheet date relate to agreements with banks. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty.

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 balance sheet date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

2.22 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.

2. Accounting Policies (continued)

2.23 Operating leases – The Group as lessee

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'.

2.24 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. Valuations are carried out periodically by independent qualified valuers on the basis of current market values. 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. Useful lives are in the range of 30 to 67 years. 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 balance sheet 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.

2.25 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 balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment properties'.

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.

2.26 Stock of property held for sale

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

2.27 Non-current assets held for sale

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. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This 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.

2. Accounting Policies (continued)

2.27 Non-current assets held for sale (continued)

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss after tax is reported separately in the consolidated income statement.

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

2.28 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.

Other intangible assets 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.

2.29 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.

2.30 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.

2.31 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 expires.

3. Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires the Group's management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the consolidated financial statements. The accounting policies that are deemed critical to the Group's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions, estimates and assumptions are set out below.

3.1 Going concern

The Group's business activities and financial position as well as its strategic priorities are discussed in the Directors' Report. The significant judgements, estimates and assumptions used in the preparation of these financial statements are set out in the remainder of this Note.

Specifically, the Group's risks as a result of its exposure to Greece, where the prolonged recession in conjunction with increased unemployment led to an increase in impairment losses on loans and investments, are described in Note 3.2 below and quantified in Note 48.

A description of the Group's policies for managing the financial risks to which it is exposed is set out as follows: credit risk in Note 44, market risk in Note 45, liquidity risk in Note 46, other risks in Note 47.

In 2011 the Group has suffered a significant loss due to the impairment of GGBs (Note 15) and as at 31 December 2011 it did not meet the minimum capital adequacy ratios. The Group's regulatory capital ratios are set out in Note 49.

In considering the basis of preparation of the consolidated financial statements as a going concern, the Directors have taken into account the following:

- the 3-year business plan prepared by Group management, which includes the plan for meeting the EBA's required capital buffer,
- the fact that the plan for meeting the EBA's required capital buffer has been submitted to the Central Bank of Cyprus,
- the completion of the restructuring of Greek Government Bonds,
- the partial completion of the Group's Capital Strengthening Plan (Note 53),
- the other actions that have been planned for enhancing capital adequacy such as the placement of unsubscribed shares and the active management of risk weighted assets, and
- the Group's ability to access, through the availability of adequate eligible collateral, the refinancing mechanisms provided by the Eurozone and the Central Bank of Cyprus.

In addition, they note they have also taken into account the existence of relevant legislation in Cyprus, which provides for the provision of support to banks which may face liquidity problems or require additional capital, as well as the agreement between the Eurozone heads of state in October 2011 for the European Financial Stability Facility's ability to provide financing to member-states for the purposes of bank recapitalisation if such a need arises.

On the basis of the above, the Directors expect that the Group will continue in operational existence for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3.2 Exposure to Greece

Since 2010, Greece has experienced severe recession and unprecedented pressure on its public finances. As a result it has entered the European Support Mechanism and agreed to successive financial aid and stability packages financed jointly by the European Union member states, the European Central Bank and the International Monetary Fund (jointly the 'Troika').

At 31 December 2011 and up to the date of approval of the financial statements, a number of uncertainties remain for a smooth resolution of the crisis in the Greek economy. Even after the write-off of part of Greek sovereign debt in March 2012, Greece's debt to GDP ratio remains at high levels. In addition, there is uncertainty on the economic policies which will be followed by the new Greek government following the upcoming elections in May 2012. The persisting economic crisis in Greece could lead to further deterioration in the quality of loan portfolio, reduction in deposits and therefore decreased profitability.

3. Significant accounting judgements, estimates and assumptions (continued)

3.2 Exposure to Greece (continued)

The current situation in Greece requires a number of significant judgements and assumptions by management in order to assess the appropriate carrying values of the Group's assets exposed to Greece. Management's judgement is that Greece will adhere to the austerity plan agreed between the Greek government and the Troika and will honour all payments related to its public debt. Hence, the financial statements have been prepared on this basis. In making the above judgements and determining the carrying values of its assets exposed to Greek risk, the management of the Group has considered all information available up to the date of preparation of the consolidated financial statements.

Note 48 of the consolidated financial statements sets out the Group's exposure to Greece as well as other European countries that have entered the European Support Mechanism or have a Moody's credit rating lower than Aa1 and the Group's exposure exceeds €100 million.

As described above, to a large extent developments in Greece and the rest of the Eurozone are beyond the control of the Group's management and it is probable that actual events within the next financial year are different from the assumptions used by management, resulting in a significant adjustment to the carrying value of the Group's assets.

3.3 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. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

A very important factor is the value of collaterals which mainly comprise land and buildings. Any decreases in the fair value of these collaterals will translate to further increases of the required provisions for impairment of loans and advances.

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. Loss rates are based on historical experience. 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 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 balance sheet 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.

Different factors are applied in each country to reflect the local economic conditions, laws and regulations. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly.

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. 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.

3. Significant accounting judgements, estimates and assumptions (continued)

3.4 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 below.

Firstly, significant management judgement is required in estimating the future cash flows of the Cash Generating Units (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. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

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. These variables are established on the basis of significant management judgement and are subject to uncertainty.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated fair value. 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, thereby reducing the Group's profit for the year by a corresponding amount.

Note 26 on the consolidated financial statements lists the entities on which goodwill arises. Goodwill impairment testing performed in 2011 indicated that there was no impairment of goodwill as the recoverable amount based on expected cash flows continued to exceed the carrying amount including goodwill of these entities. It is possible that the outcomes within the next financial year in the event of further significant deterioration in the economic and credit conditions beyond the levels already reflected by management in the cash flow forecasts for each CGU, could be different from the assumptions used, resulting in a material adjustment to the carrying amount of goodwill.

3.5 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 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 private equity investments which are not significant for the Group. 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.

3.6 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.

3. Significant accounting judgements, estimates and assumptions (continued)

3.6 Impairment of available-for-sale investments (continued)

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 balance sheet 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.

3.7 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 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 19 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 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 Asset 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.

3.8 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 balance sheet 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. 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.

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

3. Significant accounting judgements, estimates and assumptions (continued)

3.9 General insurance business (continued)

The principal assumptions underlying the estimates for each claim are based on past experience and market trends, and take into consideration claims handling costs, inflation and claim numbers for each accident year. 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 balance sheet date. Past experience as to the number and amount of claims reported after the balance sheet 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 balance sheet date.

3.10 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 assured or the value of units is payable on death within the contract term.

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 balance sheet date, an actuarial valuation is performed which assesses whether liabilities are adequate according to the most recent estimates.

The assumptions with the greatest influence on the valuation of liabilities are shown 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, which for 2011 was estimated at 5%. An increase in the level of expenses would reduce profits for shareholders.

3. Significant accounting judgements, estimates and assumptions (continued)

3.10 Life insurance business

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.

3.11 Taxation

The Group operates and is therefore subject to taxation in various countries. Estimates are required in determining the provision for taxes at the balance sheet 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 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.

3.12 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. The Group's involvement with SPEs is detailed in Note 51.

3.13 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 it to measure it 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 fair value whereas in the case of investment properties the valuation is performed on an annual basis. Valuations are carried out by independent qualified valuers on the basis of current market values, using current prices and recent market transactions.

Depending on the nature of the underlying asset and available market information, the determination of 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. In particular, in Greece and Cyprus which are the main markets in which the Group operates, in 2010 and 2011 there was a significant reduction in real estate transaction volumes. Therefore, in arriving at their estimates of market values as at and 31 December 2011, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty than which exists in a more active market in estimating the market values of property.

4. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit and has the following reportable operating segments: (a) Cyprus, (b) Greece and (c) Russia. The Group's activities in the United Kingdom, Australia (until its disposal – Note 51), 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 and property and hotel business. The Group's activities in Greece include the provision of banking, financial and insurance services. The Group's activities in other countries include the provision of 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 Group's Senior Executive Management. Each segment's capital and its corresponding 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 Central Bank of Cyprus. The results of each segment are also adjusted to reflect the liquidity surplus/shortfall of each segment. The Group's total profit 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 included in the segment where the business is originated, instead of the segment where the transaction is recorded.

4. Segmental analysis (continued)

| | Cyprus | Greece | Russia | Other countries | Total |
|---|----------------|-----------------|----------------|-----------------|--------------------|
| 2011 | €000 | €000 | €000 | €000 | €000 |
| Net interest income | 608.526 | 331.817 | 130.139 | 97.191 | 1.167.673 |
| Net fee and commission income | 134.825 | 52.060 | 34.270 | 11.210 | 232.365 |
| Foreign exchange gains | 31.449 | 2.838 | 8.063 | 2.828 | 45.178 |
| Net gains/(losses) on financial instrument transactions and disposal of subsidiaries | 7.128 | (1.846) | - | (1.711) | 3.571 |
| Net insurance income | 50.765 | 10.425 | - | - | 61.190 |
| Other income | 15.252 | 5.961 | 7.285 | 2.831 | 31.329 |
| | 847.945 | 401.255 | 179.757 | 112.349 | 1.541.306 |
| Staff costs | (227.302) | (120.697) | (62.320) | (32.886) | (443.205) |
| Depreciation, amortisation and impairment | (20.288) | (13.505) | (6.308) | (4.530) | (44.631) |
| Other operating expenses | (100.246) | (69.645) | (52.113) | (26.362) | (248.366) |
| Profit before provisions for impairment of loans and advances and the impairment of GGBs | 500.109 | 197.408 | 59.016 | 48.571 | 805.104 |
| Provisions for impairment of loans and advances | (131.409) | (217.304) | (54.472) | (23.102) | (426.287) |
| Share of loss of associates | (1.441) | - | - | - | (1.441) |
| Profit/(loss) before tax | 367.259 | (19.896) | 4.544 | 25.469 | 377.376 |
| Taxation | (56.929) | (5.919) | (4.341) | (5.728) | (72.917) |
| Profit/(loss) after tax | 310.330 | (25.815) | 203 | 19.741 | 304.459 |
| Non-controlling interests (loss) | 4.255 | - | 2.815 | 3 | 7.073 |
| Profit/(loss) after tax and non-controlling interests, before impairment of GGBs | 314.585 | (25.815) | 3.018 | 19.744 | 311.532 |
| Impairment of GGBs and change in fair value of related hedging derivatives, after tax | | | | | (1.682.303) |
| Loss after tax attributable to the owners of the Company | | | | | (1.370.771) |

The Group Senior Executive Management does not consider the impairment of GGBs and change in fair value of related hedging derivatives, to be part of each segment's operating results, and is therefore not included in the segmental analysis.

4. Segmental analysis (continued)

| | Cyprus | Greece | Russia | Other countries | Total |
|--|----------------|----------------|----------------|-----------------|------------------|
| 2010 | €000 | €000 | €000 | €000 | €000 |
| Net interest income | 523.207 | 309.472 | 119.356 | 88.384 | 1.040.419 |
| Net fee and commission income | 127.324 | 50.969 | 40.738 | 12.148 | 231.179 |
| Foreign exchange gains | 22.774 | 3.490 | 9.859 | 2.511 | 38.634 |
| Net gains/(losses) on financial instrument transactions and disposal of subsidiaries | 52.884 | 18.778 | (434) | 152 | 71.380 |
| Net insurance income | 47.944 | 11.417 | - | - | 59.361 |
| Other income | 5.264 | 994 | 1.530 | 1.128 | 8.916 |
| | 779.397 | 395.120 | 171.049 | 104.323 | 1.449.889 |
| Staff costs | (225.461) | (113.446) | (62.740) | (28.561) | (430.208) |
| Depreciation and amortisation | (19.411) | (15.340) | (6.754) | (3.975) | (45.480) |
| Other operating expenses | (97.794) | (72.011) | (55.895) | (23.537) | (249.237) |
| Profit before provisions | 436.731 | 194.323 | 45.660 | 48.250 | 724.964 |
| Provisions for impairment of loans and advances | (144.966) | (184.597) | (24.461) | (20.473) | (374.497) |
| Share of loss of associates | (1.953) | - | - | - | (1.953) |
| Profit before tax | 289.812 | 9.726 | 21.199 | 27.777 | 348.514 |
| Taxation | (39.239) | 1.529 | (3.914) | (4.365) | (45.989) |
| Profit after tax | 250.573 | 11.255 | 17.285 | 23.412 | 302.525 |
| Non-controlling interests (loss/(profit)) | 5.434 | - | (1.768) | (2) | 3.664 |
| Profit after tax and non-controlling interests | 256.007 | 11.255 | 15.517 | 23.410 | 306.189 |

4. Segmental analysis (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, foreign exchange gains, net gains on financial instruments transactions and disposal of subsidiaries, insurance income and expense and other income.

| | Cyprus | Greece | Russia | Other countries | Total |
|----------------------------------|----------------|----------------|----------------|-----------------|------------------|
| <i>Total revenue</i> | €000 | €000 | €000 | €000 | €000 |
| 2011 | | | | | |
| Banking and financial services | 785.170 | 367.380 | 191.338 | 129.493 | 1.473.381 |
| Insurance services | 53.327 | 8.795 | - | - | 62.122 |
| Property and hotel business | 5.796 | 7 | - | - | 5.803 |
| Total revenue from third parties | 844.293 | 376.182 | 191.338 | 129.493 | 1.541.306 |
| Inter-segment revenue /(expense) | 3.652 | 25.073 | (11.581) | (17.144) | - |
| Total revenue | 847.945 | 401.255 | 179.757 | 112.349 | 1.541.306 |
| 2010 | | | | | |
| Banking and financial services | 729.690 | 350.319 | 189.845 | 117.356 | 1.387.210 |
| Insurance services | 50.896 | 9.887 | - | - | 60.783 |
| Property and hotel business | 1.881 | 15 | - | - | 1.896 |
| Total revenue from third parties | 782.467 | 360.221 | 189.845 | 117.356 | 1.449.889 |
| Inter-segment (expense)/revenue | (3.070) | 34.899 | (18.796) | (13.033) | - |
| Total revenue | 779.397 | 395.120 | 171.049 | 104.323 | 1.449.889 |

Analysis of assets

| | Cyprus | Greece | Russia | Other countries | Total |
|----------------------|------------|------------|-----------|-----------------|-------------------|
| 2011 | €000 | €000 | €000 | €000 | €000 |
| Assets | 27.347.232 | 12.751.042 | 2.155.831 | 2.336.139 | 44.590.244 |
| Inter-segment assets | | | | | (7.115.145) |
| Total assets | | | | | 37.475.099 |
| 2010 | | | | | |
| Assets | 31.042.592 | 14.690.567 | 2.110.613 | 3.506.399 | 51.350.171 |
| Inter-segment assets | | | | | (8.712.431) |
| Total assets | | | | | 42.637.740 |

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 29 and 44, respectively.

5. Interest income

| | 2011 | 2010 |
|--|------------------|-------------|
| | €000 | €000 |
| Loans and advances to customers | 1.917.773 | 1.716.693 |
| Placements with banks and central banks | 57.252 | 41.063 |
| Reverse repurchase agreements | 529 | 2.723 |
| Investments available-for-sale | 78.822 | 118.436 |
| Investments held-to-maturity | 52.909 | 32.411 |
| Investments classified as loans and receivables | 64.038 | 46.620 |
| | 2.171.323 | 1.957.946 |
| Trading investments | 231 | 1.359 |
| Derivative financial instruments | 119.356 | 124.821 |
| Other investments at fair value through profit or loss | 4.206 | 7.668 |
| | 2.295.116 | 2.091.794 |

Interest income from loans and advances to customers includes interest from impaired loans and advances amounting to €51.433 thousand (2010: €36.756 thousand).

6. Interest expense

| | 2011 | 2010 |
|---|------------------|-------------|
| | €000 | €000 |
| Customer deposits | 818.767 | 742.430 |
| Obligations to central banks and amounts due to banks | 99.217 | 80.490 |
| Repurchase agreements | 20.850 | 7.499 |
| Debt securities in issue | 3.110 | 5.092 |
| Subordinated loan stock | 20.458 | 43.669 |
| | 962.402 | 879.180 |
| Derivative financial instruments | 165.041 | 172.195 |
| | 1.127.443 | 1.051.375 |

7. Fee and commission income and expense

Fee and commission income

| | 2011 | 2010 |
|--|----------------|----------------|
| | €000 | €000 |
| Credit-related fees and commissions | 97.565 | 92.802 |
| Other banking commissions | 138.633 | 139.985 |
| Mutual funds and asset management fees | 5.998 | 4.276 |
| Brokerage commissions | 3.352 | 5.788 |
| Other commissions | 1.496 | 1.738 |
| | 247.044 | 244.589 |

Mutual funds and asset management fees include income of €3.765 thousand (2010: €3.763 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

| | 2011 | 2010 |
|--|---------------|---------------|
| | €000 | €000 |
| Banking commissions | 14.256 | 13.179 |
| Mutual funds and asset management fees | 247 | 60 |
| Brokerage commissions | 176 | 171 |
| | 14.679 | 13.410 |

8. Foreign exchange gains

Foreign exchange gains comprise the conversion of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

9. Net gains on financial instrument transactions and disposal of subsidiaries

| | 2011 | 2010 |
|---|------------------|-------------|
| | €000 | €000 |
| Trading portfolio: | | |
| - equity securities | (9.150) | (12.554) |
| - debt securities | (315) | (246) |
| - derivative financial instruments | 5.129 | 78.086 |
| Other investments at fair value through profit or loss: | | |
| - equity securities | - | (105) |
| - debt securities | (1.004) | (954) |
| Gains/(losses) on disposal of available-for-sale investments: | | |
| - equity securities | 1.688 | (34) |
| - debt securities | 1.612 | 34.223 |
| Gains on repurchase of own debt securities in issue and subordinated loan stock | 6.764 | 2.061 |
| Reversal of impairment/(impairment) of debt securities excluding GGBs | 9.841 | (7.636) |
| Impairment of available-for-sale equity securities | (13.978) | (23.770) |
| Revaluation of financial instruments designated as fair value hedges: | | |
| - hedging instruments | (332.700) | (96.711) |
| - hedged items | 327.137 | 97.076 |
| Profit on disposal of subsidiary (Note 51) | 8.547 | 1.944 |
| | 3.571 | 71.380 |

10. Insurance income and expense

| | 2011 | | 2010 | |
|----------------------------|---------|----------|---------|-----------|
| | Income | Expense | Income | Expense |
| | €000 | €000 | €000 | €000 |
| Life insurance business | 65.196 | (34.177) | 125.611 | (90.249) |
| General insurance business | 51.780 | (21.609) | 49.824 | (25.825) |
| | 116.976 | (55.786) | 175.435 | (116.074) |

| | 2011 | | 2010 | |
|--|----------------|-------------------|----------------|-------------------|
| | Life insurance | General insurance | Life insurance | General insurance |
| Income | €000 | €000 | €000 | €000 |
| Gross premiums | 113.072 | 78.719 | 112.586 | 77.470 |
| Reinsurance premiums | (17.422) | (40.015) | (16.652) | (40.523) |
| Net premiums | 95.650 | 38.704 | 95.934 | 36.947 |
| Change in the provision for unearned premiums | - | (609) | - | (693) |
| Total net earned premiums | 95.650 | 38.095 | 95.934 | 36.254 |
| Investment (expense)/income and revaluation and other income | (40.361) | 45 | 15.737 | 43 |
| Commissions from reinsurers and other income | 4.543 | 13.640 | 3.869 | 13.527 |
| | 59.832 | 51.780 | 115.540 | 49.824 |
| Change in value of in-force business before tax (Note 26) | 5.364 | - | 10.071 | - |
| | 65.196 | 51.780 | 125.611 | 49.824 |

| | 2011 | | 2010 | |
|---|----------------|-------------------|----------------|-------------------|
| | Life insurance | General insurance | Life insurance | General insurance |
| Expense | €000 | €000 | €000 | €000 |
| Gross payments to policyholders | (74.167) | (32.260) | (59.847) | (25.862) |
| Reinsurers' share of payments to policyholders | 8.541 | 14.052 | 6.835 | 8.392 |
| Gross change in insurance contract liabilities | 41.266 | 6.157 | (28.701) | (9.099) |
| Reinsurers' share of gross change in insurance contract liabilities | 1.933 | (4.656) | 4.076 | 4.241 |
| Commissions paid to agents and other direct selling costs | (11.750) | (4.884) | (12.612) | (3.497) |
| Changes in equalisation reserve | - | (18) | - | - |
| | (34.177) | (21.609) | (90.249) | (25.825) |

10. Insurance income and expense (continued)

Other insurance income and expense items

The following insurance income and expense have been recognised in the relevant captions of the consolidated income statement:

| | 2011 | | 2010 | |
|---|----------------|-------------------|----------------|-------------------|
| | Life insurance | General insurance | Life insurance | General insurance |
| | €000 | €000 | €000 | €000 |
| Net (expense)/income from non-linked insurance business assets | (236) | 746 | (303) | 963 |
| Net (losses)/gains on financial instruments transactions and other non-linked insurance business income | (165) | (8.910) | 518 | 244 |
| Staff costs | (7.473) | (8.940) | (7.706) | (8.820) |
| Other operating expenses | (4.178) | (3.431) | (4.237) | (4.060) |

11. Other income

| | 2011 | 2010 |
|--|---------------|--------------|
| | €000 | €000 |
| Dividend income | 666 | 2.859 |
| Profit on sale of stock of property held for sale | 2.410 | 36 |
| Profit on sale of property and equipment | 281 | 236 |
| Rental income from investment properties | 2.408 | 646 |
| Gains/(losses) from revaluation of investment properties | 3.120 | (822) |
| Income from hotel activities | 9.738 | 1.652 |
| Other income | 12.706 | 4.309 |
| | 31.329 | 8.916 |

12. Staff costs

| | 2011 | 2010 |
|---|---------|---------|
| | €000 | €000 |
| Salaries | 327.053 | 328.317 |
| Employer's contributions | 67.446 | 60.188 |
| Retirement benefit plan costs | 45.933 | 38.331 |
| Early retirement plans | 162 | 293 |
| Cost of equity-settled share-based payments | 2.611 | 3.079 |
| | 443.205 | 430.208 |

The cost of equity settled share-based payments for the year comprises the cost of the share options 2008/2010 granted to Group employees (Note 34). It also includes the cost or the reversal of the bonus for the Group's Executive Directors, senior Group executive management and Group general managers.

The number of persons employed by the Group as at 31 December 2011 was 11.326 (2010: 12.009).

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.

| | 2011 | 2010 |
|----------------------------|--------|--------|
| | €000 | €000 |
| Defined benefit plans | 42.099 | 34.826 |
| Defined contribution plans | 3.834 | 3.505 |
| | 45.933 | 38.331 |

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus covers 29% of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. 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. The plans are managed by Administrative Committees composed of representatives of both the members/retirees and the employer.

The present value of the defined benefit obligations of the main retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation of the main retirement plan in Cyprus were as follows:

| | 2011 | 2010 |
|--|---|-------|
| Discount rate | 4,49% | 5,02% |
| Expected rate of return on plan assets | 3,73% | 3,62% |
| Future salary increases | 0% for 2012 - 2013 and 5,00% onwards | 5,50% |

The collective agreement between employers and employees in Cyprus was renewed in January 2012 and provides for the termination of the defined benefit plan for the Group employees in Cyprus and its replacement with a defined contribution plan with effect from 1 January 2012 (Note 53).

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Greece

The Group's employees in Greece (27% of total Group employees) are covered by two defined benefit plans and one defined contribution plan.

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

In addition, a number of employees recruited up to 31 December 2002 (8% of total Group employees) participate 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 provides for a lump sum payment on retirement up to approximately 50 monthly salaries depending on the length of service and is still in place.

The present value of the defined benefit obligations under the two defined benefit plans in Greece is 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:

| | 2011 | 2010 |
|--|---|-------|
| Discount rate | 5,06% | 5,33% |
| Expected rate of return on plan assets | 4,88% | 4,61% |
| Future salary increases | 0% for 2012 - 2013 and 3,00% onwards | 4,50% |

The third plan applies to employees recruited after 31 December 2002 and is a defined contribution plan.

United Kingdom

The Group's employees in the United Kingdom (1% of total Group employees) are covered by a defined contribution plan for all employees and a defined benefit plan which was closed to future accrual of benefits for active members

The present value of the obligations for the defined benefit plan in the United Kingdom 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:

| | 2011 | 2010 |
|--|-------|-------|
| Discount rate | 4,70% | 5,35% |
| Expected rate of return on plan assets | 5,57% | 6,54% |

The second plan applies to all employees and is a defined contribution plan.

Other countries

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

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans

The amounts recognised in the consolidated balance sheet are shown below:

| | 2011 | 2010 |
|--|-----------|-----------|
| | €000 | €000 |
| Net present value of funded obligations | 553.199 | 562.347 |
| Fair value of plan assets | (494.344) | (495.835) |
| | 58.855 | 66.512 |
| Net present value of unfunded obligations | 6.908 | 8.065 |
| Unrecognised past service cost | (563) | (945) |
| Unrecognised net actuarial losses | (76.164) | (75.419) |
| Amount not recognised as an asset because of the asset restriction requirement | 15.839 | 5.644 |
| Net liability of retirement benefit plans recognised in the consolidated balance sheet | 4.875 | 3.857 |
| Amounts recognised in the consolidated balance sheet | | |
| Liabilities (Note 32) | 9.406 | 8.155 |
| Assets (Note 27) | (4.531) | (4.298) |
| | 4.875 | 3.857 |

The net deficit of the retirement benefit plans not recognised on the consolidated balance sheet amounts to €65.763 thousand (2010: €74.577 thousand).

The movement in the net present value of obligations is set out below:

| | 2011 | 2010 |
|--|----------------|----------------|
| | €000 | €000 |
| 1 January | 570.412 | 551.934 |
| Current service cost | 25.981 | 27.086 |
| Interest expense on obligations | 28.463 | 28.284 |
| Actuarial gains | (27.808) | (21.848) |
| Benefits paid from the plans | (33.450) | (16.456) |
| Benefits paid directly by the Group | (231) | (360) |
| Contributions by plan participants | 284 | 272 |
| Terminations, curtailments and settlements | (4.836) | 183 |
| Exchange differences from overseas plans | 1.292 | 1.317 |
| 31 December | 560.107 | 570.412 |

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The changes in the fair value of plan assets are set out below:

| | 2011 | 2010 |
|--|----------------|----------------|
| | €000 | €000 |
| 1 January | 495.835 | 443.964 |
| Expected rate of return on plan assets | 19.318 | 28.458 |
| Actuarial (losses)/gains | (29.565) | 6.833 |
| Employer's contributions | 40.775 | 31.700 |
| Contributions by plan participants | 284 | 272 |
| Benefits paid from the plans | (33.450) | (16.456) |
| Exchange differences from overseas plans | 1.147 | 1.064 |
| 31 December | 494.344 | 495.835 |

The actual return on plan assets for 2011 was a loss of €10.249 thousand (2010: gain of €35.291 thousand).

The major categories of plan assets as a percentage of total plan assets are as follows:

| | 2011 | 2010 |
|-----------------------|-------------|-------------|
| Equity securities | 6% | 8% |
| Debt securities | 45% | 25% |
| Placements with banks | 49% | 66% |
| Other plan assets | - | 1% |
| | 100% | 100% |

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

| | 2011 | 2010 |
|-------------------|---------------|---------------|
| | €000 | €000 |
| Equity securities | 3.563 | 14.938 |
| Debt securities | 32.520 | 51.004 |
| | 36.083 | 65.942 |

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

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

| | 2011 | 2010 |
|--|----------|----------|
| | €000 | €000 |
| Current service cost | 25.981 | 27.086 |
| Interest expense on plan obligations | 28.463 | 28.284 |
| Expected return on plan assets | (19.318) | (28.458) |
| Amortisation of actuarial losses | 137 | 2.430 |
| Amortisation of past service cost | 82 | 97 |
| Effect of terminations, curtailments and settlements | (3.440) | 183 |
| Effect of change of asset restriction limit | 10.196 | 5.204 |
| | 42.101 | 34.826 |

Experience adjustments and their effect on the net present value of obligations and the fair value of plan assets are as follows:

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|-----------|-----------|-----------|-----------|-----------|
| | €000 | €000 | €000 | €000 | €000 |
| Net present value of plan obligations | (560.107) | (570.412) | (551.934) | (484.950) | (501.311) |
| Fair value of plan assets | 494.344 | 495.835 | 443.964 | 302.132 | 702.505 |
| (Deficit)/surplus | (65.763) | (74.577) | (107.970) | (182.818) | 201.194 |
| Experience adjustments to plan obligations | (3.956) | (8.630) | 181 | (16.358) | (3.545) |
| Experience adjustments to plan assets | (29.565) | 6.833 | 99.547 | (432.072) | 73.378 |

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 balance sheet date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 91% 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. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing. For the United Kingdom a yield curve approach was used based on high quality sterling corporate bonds.

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 balance sheet 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.

13. Other operating expenses

| | 2011 | 2010 |
|--|----------------|----------------|
| | €000 | €000 |
| Operating lease rentals for property and equipment | 45.469 | 46.766 |
| Advertising and marketing | 36.468 | 40.442 |
| Repairs and maintenance of property and equipment | 24.245 | 23.653 |
| Other property-related costs | 21.161 | 19.053 |
| Communication expenses | 21.549 | 20.451 |
| Depreciation of property and equipment | 27.127 | 29.840 |
| Impairment of property | 2.974 | - |
| Amortisation of intangible assets | 14.530 | 15.640 |
| Contribution to depositor protection schemes | 11.201 | 12.251 |
| Other operating expenses | 88.273 | 86.621 |
| | 292.997 | 294.717 |

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

| | 2011 | 2010 |
|--|--------------|--------------|
| | €000 | €000 |
| Fees for the audit of the financial statements of the Group and its subsidiaries | 1.788 | 1.701 |
| Fees for other audit-related services including review of the interim financial statements | 915 | 590 |
| Fees for tax services | 563 | 331 |
| Fees for other services | 292 | 146 |
| | 3.558 | 2.768 |

14. Share of loss of associates

| | 2011 | 2010 |
|----------------------------|-------|-------|
| | €000 | €000 |
| Interfund Investments Plc: | | |
| - share of loss | 1.441 | 1.953 |

15. Impairment of Greek Government Bonds

On 21 July 2011 the leaders of the Eurozone member-states announced a support plan for Greece. In the third quarter of 2011, it was recognised that Greece was having difficulties in meeting the economic targets on which the 21 July plan was based and this led to a new agreement on 26 October 2011 which was finalised on 21 February 2012. The agreement provided for the voluntary write-off by private sector investors in Greek Government Bonds (GGBs) of 53,5% of the amounts owed to them.

The Company's Board of Directors has decided to accept the offer made by the Hellenic Republic and the Group's participation in the voluntary debt exchange of GGBs on the basis of the offer described below:

- New Greek Government Bonds with nominal value of 31,5% of the amount owed, 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% in 2021 and 4.30% thereafter (2022-2042).
- Immediate repayment of 15% of the amount owed with short term securities issued by the European Financial Stability Facility (EFSF) with a 1-2 year maturity and paying market interest rates.
- The payment of accrued interest through EFSF securities with a maturity of six months and paying market interest rates.
- Detachable GDP-linked securities with a nominal amount equal to the new GGBs of each holder. The securities provide for annual payments of up to 1% of their nominal amount, commencing from 2015, in the event that Greek GDP growth exceeds certain thresholds.

As a result, the Group has estimated the impairment of its GGBs held as at 31 December 2011 as follows:

- Available-for-sale: on the basis of market value.
- Loans and receivables and held-to-maturity: 26% of their nominal amount, which represents the present value of consideration to be received, using a discount rate of 11,5% on future cash flows.

The table below sets out information regarding the GGBs as at 31 December 2011.

| | Nominal value | Carrying value before impairment | Impairment recognised in the income statement | Carrying value after impairment | Transfer to the income statement from reserves |
|-----------------------|------------------|----------------------------------|---|---------------------------------|--|
| | €000 | €000 | €000 | €000 | €000 |
| Available-for-sale | 12.332 | 2.815 | 9.497 | 2.815 | 9.497 |
| Loans and receivables | 1.828.142 | 1.781.490 | 1.538.128 | 544.846 | 301.484 |
| Held-to-maturity | 247.350 | 249.729 | 181.636 | 68.000 | (93) |
| Total | 2.087.824 | 2.034.034 | 1.729.261 | 615.661 | 310.888 |

The pre-impairment carrying value of the GGBs of €2.034.034 thousand and the impairment charge recognised in the income statement of €1.729.261 thousand include an amount of €363.646 thousand relating to the cost of hedging the GGBs up to the date of their impairment as well as changes in the fair value of derivatives used to hedge their interest rate risk.

16. Taxation

| | 2011 | 2010 |
|---|----------|----------|
| | €000 | €000 |
| Current tax: | | |
| - Cyprus | 35.421 | 43.909 |
| - overseas | 13.685 | 20.900 |
| Special Tax Levy on Credit Institutions | 18.725 | - |
| Cyprus defence contribution | 273 | 272 |
| Deferred tax | (40.695) | (11.162) |
| Prior years' tax adjustments | (1.450) | (7.930) |
| | 25.959 | 45.989 |

The Group's share of the tax charge of associates was nil (2010: €1 thousand).

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

| | 2011 | 2010 |
|---|-------------|---------|
| | €000 | €000 |
| (Loss)/profit before tax | (1.351.885) | 348.514 |
| Tax at the normal tax rates in Cyprus | (134.916) | 35.123 |
| Tax effect of: | | |
| - expenses not deductible for tax purposes | 139.283 | 9.631 |
| - allowable expenses charged directly to equity | (3.463) | - |
| - income not subject to tax | (1.868) | (422) |
| - differences between overseas tax rates and Cyprus tax rates | 9.648 | 9.587 |
| | 8.684 | 53.919 |
| Special Tax Levy on Credit Institutions | 18.725 | - |
| Prior years' tax adjustments | (1.450) | (7.930) |
| | 25.959 | 45.989 |

Corporation tax in Cyprus is calculated at the rate of 10% on income. Expenses not deductible include the impairment of 53,5% of the nominal amount of GGBs (Note 15). 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% (the rate up to 31 August 2011 was 10%).

The Special Tax Levy on Credit Institutions became effective as from 1 January 2011 and is calculated at 0,095% on the customer deposits of the Group in Cyprus at 31 December 2010.

The Group's profits from overseas operations are taxed at the rates prevailing at the respective countries, which for 2011 were: Greece 20% (2010: 24%), Australia 30% (2010: 30%), Romania 16% (2010: 16%) and Russia 20% (2010: 20%). In the UK the tax rate which prevailed until 31 March 2011 was 28% and from 1 April 2011 it was reduced to 26% (2010: 28%). In Ukraine the tax rate which prevailed until 31 March 2011 was 25% and from 1 April 2011 it was reduced to 21% (2010: 25%).

16. Taxation (continued)

At 31 December 2011 the accumulated tax losses of subsidiaries and overseas branches amounted to €183.226 thousand (2010: €88.797 thousand), of which €5.746 thousand (2010: €5.187 thousand) can be carried forward indefinitely, €171.992 thousand (2010: €73.870 thousand) expire within four years and €5.488 thousand (2010: €9.740 thousand) expire within five to ten years. The tax losses of prior years which were utilised during 2011 amounted to €4.428 thousand (2010: €258 thousand). It is expected that the remaining tax losses will be utilised against future taxable profits in accordance with the business plans prepared by the Group's management.

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around €2,3 million (2010: €2,5 million) will arise, for which no deferred tax liability has been recognised.

Deferred taxation

The net deferred tax asset/liability arises from:

| | 2011 | 2010 |
|--|-----------------|---------------|
| | €000 | €000 |
| Difference between capital allowances and depreciation | 3.319 | (2.343) |
| Property revaluation | 27.701 | 19.183 |
| Investment revaluation | (52.551) | (4.917) |
| Different tax treatment of finance leases | 1.944 | 1.725 |
| Unutilised tax losses carried forward | (19.900) | (17.121) |
| Value of in-force life insurance policies | 10.192 | 9.828 |
| Other temporary differences | 9.132 | 4.913 |
| Net deferred tax (asset)/liability | (20.163) | 11.268 |
| Deferred tax asset (Note 27) | (94.816) | (40.575) |
| Deferred tax liability (Note 32) | 74.653 | 51.843 |
| Net deferred tax (asset)/liability | (20.163) | 11.268 |

The analysis of the net deferred tax asset/liability is set out below:

| | 2011 | 2010 |
|--|-----------------|---------------|
| | €000 | €000 |
| 1 January | 11.268 | 25.363 |
| Deferred tax recognised in the income statement | (40.695) | (11.162) |
| Deferred tax recognised in equity | 11.222 | (2.615) |
| Deferred tax related to assets held for sale (Note 32) | (3.621) | - |
| Disposal of subsidiary company | 1.542 | (27) |
| Exchange adjustments | 121 | (291) |
| 31 December | (20.163) | 11.268 |

16. Taxation (continued)

Deferred taxation (continued)

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

| | 2011 | 2010 |
|--|----------|----------|
| | €000 | €000 |
| Difference between capital allowances and depreciation | 5.207 | (1.656) |
| Investment revaluation | (47.237) | 4.713 |
| Different tax treatment of finance leases | 219 | 157 |
| Unutilised tax losses carried forward | (2.784) | (14.959) |
| Value of in-force-life insurance policies | 364 | 973 |
| Other temporary differences | 3.536 | (390) |
| | (40.695) | (11.162) |

17. Earnings per share

| | 2011 | 2010 |
|--|-------------|---------|
| Basic earnings per share | | |
| (Losses)/profit after tax attributable to the owners of the Company (€ thousand) | (1.370.771) | 306.189 |
| Interest on CECS (€ thousand) | (34.631) | - |
| Basic earnings/(losses) after tax attributable to the owners of the Company | (1.405.402) | 306.189 |
| Weighted average number of shares in issue during the year, excluding shares of the Company held by subsidiaries and associates (thousand) | 896.006 | 757.149 |
| Basic earnings/(losses) per share (cent) | (156,9) | 40,4 |
| Diluted earnings per share | | |
| Basic earnings/(losses) after tax attributable to the owners of the Company (€ thousand) | (1.405.402) | 306.189 |
| Interest on Convertible Bonds and Convertible Capital Securities (€ thousand) | - | 35.315 |
| Diluted earnings/(losses) after tax attributable to the owners of the Company (€ thousand) | (1.405.402) | 341.504 |
| Weighted average number of shares used for basic earnings per share (thousand) | 896.006 | 757.149 |
| Adjustment for the conversion of Convertible Bonds and Convertible Capital Securities (thousand) | - | 157.861 |
| Diluted weighted average number of shares (thousand) | 896.006 | 915.010 |
| Diluted earnings/(losses) per share (cent) | (156,9) | 37,3 |

17. Earnings per share (continued)

The diluted earnings per share are calculated by adjusting the weighted average number of shares in issue during the period, under the assumption that all potentially dilutive ordinary shares are converted into shares by their holders. The impact from the Convertible Bonds 2013/2018, the Convertible Capital Securities, the Convertible Enhanced Capital Securities and the Share Options 2008/2010 has been ignored for the purposes of calculating the diluted earnings per share as their conversion into ordinary shares would have reduced the losses per share for 2011.

The weighted average number of shares for the year ended 31 December 2010 has been adjusted to reflect the bonus element of the shares issued under the Dividend Reinvestment Plan arising from the final dividend payment in 2010 which took place in June 2011.

On 19 March 2012 the share capital of the Company was increased by 319.366 thousand shares, as a result of the exercise of the rights and the bonus issue and by 576.247 thousand shares, as a result of the exchange of CECS (Note 53).

Basic and diluted earnings per share excluding the impairment of GGBs and change in fair value of related hedging derivatives are presented in the table below:

| | 2011 | 2010 |
|---|-------------|---------|
| Basic earnings per share excluding the impairment of GGBs | | |
| (Loss)/profit after tax attributable to the owners of the Company (€ thousand) | (1.370.771) | 306.189 |
| Interest on CECS (€ thousands) | (34.631) | - |
| Impairment of GGBs and change in fair value of related hedging derivatives (€ thousand) | 1.682.303 | - |
| Profit after tax attributable to the owners of the Company excluding the impairment of GGBs (€ thousand) | 276.901 | 306.189 |
| Weighted average number of shares used for basic earnings per share (thousand) | 896.006 | 757.149 |
| Basic earnings per share excluding the impairment of GGBs (cent) | 30,9 | 40,4 |
| Diluted earnings per share excluding the impairment of GGBs | | |
| Basic earnings after tax attributable to the owners of the Company excluding the impairment of GGBs (€ thousand) | 276.901 | 306.189 |
| Interest on Convertible Bonds and Convertible Capital Securities (€ thousand) | 45.600 | 35.315 |
| Diluted earnings after tax attributable to the owners of the Company excluding the impairment of GGBs (€ thousand) | 322.501 | 341.504 |
| Weighted average number of shares used for basic earnings per share (thousand) | 896.006 | 757.149 |
| Adjustment for the conversion of Convertible Bonds, Convertible Capital Securities and Convertible Enhanced Capital Securities (thousand) | 882.530 | 157.861 |
| Diluted weighted average number of shares (thousand) | 1.778.536 | 915.010 |
| Diluted earnings per share excluding the impairment of GGBs (cent) | 18,1 | 37,3 |

17. Earnings per share (continued)

The Convertible Bonds 2013/2018, the Convertible Capital Securities and the Convertible Enhanced Capital Securities constitute potentially dilutive ordinary shares for the purposes of calculating the diluted earnings per share excluding the impairment of GGBs.

The Share Options 2008/2010 do not constitute potentially dilutive ordinary shares for the purposes of calculating the diluted earnings per share excluding the impairment of GGBs, as their conversion into ordinary shares would not reduce earnings per share.

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

| | 2011 | 2010 |
|-----------------------------|------------------|------------------|
| | €000 | €000 |
| Cash | 216.179 | 194.574 |
| Balances with central banks | 1.158.868 | 2.047.251 |
| | 1.375.047 | 2.241.825 |
| Placements with banks | 2.627.831 | 5.264.628 |

Balances with central banks include obligatory deposits for liquidity purposes which amount to €781.114 thousand (2010: €742.313 thousand).

The analysis of balances with central banks and placements with banks by independent credit rating is set out in Note 44.

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

19. Investments

| | 2011 | 2010 |
|--|------------------|------------------|
| | €000 | €000 |
| Investments at fair value through profit or loss | 26.345 | 174.043 |
| Investments available-for-sale | 534.803 | 1.549.345 |
| Investments held-to-maturity | 1.055.406 | 811.970 |
| Investments classified as loans and receivables | 1.012.570 | 1.772.200 |
| | 2.629.124 | 4.307.558 |

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

| | 2011 | 2010 |
|--|----------------|------------------|
| | €000 | €000 |
| Investments at fair value through profit or loss | 26.544 | 26.812 |
| Investments available-for-sale | 718.719 | 770.894 |
| Investments held-to-maturity | 148.698 | 210.880 |
| Investments classified as loans and receivables | 44.109 | 29.450 |
| | 938.070 | 1.038.036 |

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

19. Investments (continued)

Investments at fair value through profit or loss

| | Trading investments | | Other investments at fair value through profit or loss | | Total | |
|-------------------|---------------------|--------|--|---------|--------|---------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Debt securities | 1.935 | 2.353 | 44.227 | 182.377 | 46.162 | 184.730 |
| Equity securities | 6.434 | 16.040 | 85 | 85 | 6.519 | 16.125 |
| Mutual funds | 208 | - | - | - | 208 | - |
| | 8.577 | 18.393 | 44.312 | 182.462 | 52.889 | 200.855 |

| | | | | | | |
|--|-------|-------|--------|---------|--------|---------|
| Debt securities | | | | | | |
| Cyprus government | - | - | 17.662 | 154.177 | 17.662 | 154.177 |
| Other governments | - | - | 481 | 1.388 | 481 | 1.388 |
| Banks and other corporations | 1.935 | 2.353 | 26.084 | 26.812 | 28.019 | 29.165 |
| | 1.935 | 2.353 | 44.227 | 182.377 | 46.162 | 184.730 |
| Listed on the Cyprus Stock Exchange | 1.445 | 875 | 17.662 | 149.498 | 19.107 | 150.373 |
| Listed on other stock exchanges | 490 | 1.099 | 26.565 | 32.879 | 27.055 | 33.978 |
| Unlisted certificates of deposit, bank and local authority bonds | - | 379 | - | - | - | 379 |
| | 1.935 | 2.353 | 44.227 | 182.377 | 46.162 | 184.730 |

| | | | | | | |
|-------------------------------------|-------|--------|----|----|-------|--------|
| Equity securities | | | | | | |
| Listed on the Cyprus Stock Exchange | 2.798 | 5.835 | - | - | 2.798 | 5.835 |
| Listed on other stock exchanges | 3.636 | 10.205 | - | - | 3.636 | 10.205 |
| Unlisted | - | - | 85 | 85 | 85 | 85 |
| | 6.434 | 16.040 | 85 | 85 | 6.519 | 16.125 |

The equity securities classified as other investments at fair value through profit or loss represent venture capital investments which are managed on a fair value basis. The debt securities in this category were originally classified as such to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

19. Investments (continued)

Investments available-for-sale

| | 2011 | 2010 |
|-------------------|------------------|-------------|
| | €000 | €000 |
| Debt securities | 1.207.548 | 2.257.442 |
| Equity securities | 45.974 | 62.797 |
| | 1.253.522 | 2.320.239 |

| | | |
|--|------------------|-----------|
| Debt securities | | |
| Cyprus government | 109 | 314.219 |
| Other governments | 630.835 | 488.194 |
| Banks and other corporations | 576.259 | 1.454.707 |
| Local authorities | 345 | 322 |
| | 1.207.548 | 2.257.442 |
| Listed on the Cyprus Stock Exchange | 1.466 | 195.287 |
| Listed on other stock exchanges | 1.201.471 | 2.044.841 |
| Unlisted certificates of deposit, bank and local authority bonds | 4.611 | 17.314 |
| | 1.207.548 | 2.257.442 |
| <i>Geographic dispersion by country of issuer</i> | | |
| Cyprus | 2.662 | 335.519 |
| Greece | 2.815 | 356.064 |
| United Kingdom | 155.055 | 236.364 |
| France | 513.542 | 136.063 |
| Germany | 99.883 | 84.310 |
| Ukraine | 3.857 | 17.314 |
| Italy | 21.294 | 59.908 |
| Other European countries | 284.202 | 498.470 |
| U.S.A. and Canada | 49.062 | 416.793 |
| Australia | 26.433 | 59.172 |
| Other countries | - | 15.149 |
| Supranational organisations | 48.743 | 42.316 |
| | 1.207.548 | 2.257.442 |

| | | |
|-------------------------------------|---------------|--------|
| Equity securities | | |
| Listed on the Cyprus Stock Exchange | 7.033 | 14.856 |
| Listed on other stock exchanges | 38.379 | 47.368 |
| Unlisted | 562 | 573 |
| | 45.974 | 62.797 |

Available-for-sale investments include €3.569 thousand (2010: €1.420 thousand) of debt securities which have been determined to be individually impaired.

19. Investments (continued)

Investments held-to-maturity and loans and receivables

| | Held-to-maturity | | Loans and receivables | |
|--|------------------|-----------|-----------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| | €000 | €000 | €000 | €000 |
| Debt securities | 1.204.104 | 1.022.850 | 1.056.679 | 1.801.650 |
| Cyprus government | 1.323 | 1.349 | 511.833 | 301.264 |
| Other governments | 552.574 | 686.271 | 544.846 | 1.490.462 |
| Banks and other corporations | 649.969 | 335.014 | - | 9.924 |
| Local authorities | 238 | 216 | - | - |
| | 1.204.104 | 1.022.850 | 1.056.679 | 1.801.650 |
| Listed on the Cyprus Stock Exchange | 25.138 | 1.349 | 511.833 | 301.264 |
| Listed on other stock exchanges | 1.147.564 | 1.009.580 | 544.846 | 1.500.386 |
| Unlisted certificates of deposit, bank and local authority bonds | 31.402 | 11.921 | - | - |
| | 1.204.104 | 1.022.850 | 1.056.679 | 1.801.650 |
| <i>Geographic dispersion by country of issuer</i> | | | | |
| Cyprus | 42.820 | 1.565 | 511.833 | 301.264 |
| Greece | 215.696 | 588.080 | 544.846 | 1.450.470 |
| United kingdom | 22.302 | - | - | - |
| France | 56.950 | - | - | - |
| Ireland | 363.493 | 374.756 | - | - |
| Other European countries | 146.356 | 7.182 | - | 49.916 |
| USA and Canada | 140.298 | - | - | - |
| Russia | 4.776 | 6.103 | - | - |
| Romania | 11.527 | 11.705 | - | - |
| Italy | 135.741 | - | - | - |
| Other countries | 31.402 | - | - | - |
| Supranational organisations | 32.743 | 33.459 | - | - |
| | 1.204.104 | 1.022.850 | 1.056.679 | 1.801.650 |

Held-to-maturity investments and loans and receivables at 31 December 2011 include €68.000 thousand (2010: €14.987) and €544.846 thousand (2010: nil) respectively of debt securities which have been determined to be individually impaired.

The fair value of held-to-maturity investments and loans and receivables at 31 December 2011 was €1.066.468 thousand (2010: €912.048 thousand) and €926.258 thousand (2010: €1.377.595 thousand) respectively.

Investments classified as loans and receivables at 31 December 2010 included €705.046 thousand debt securities pledged as collateral for funding from central banks.

19. Investments (continued)

Reclassification of investments

Reclassification of trading investments

On 1 July 2008 and 1 April 2010, in light of the rare circumstances arising as a result 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 available-for-sale investments.

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

On 1 October 2008, 1 April 2010, 30 June 2011 and 1 October 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 available-for-sale investments to investments held-to-maturity

On 1 April 2010, 1 October 2010, 1 July 2011 and 1 October 2011, the Group reclassified certain available-for-sale debt securities to investments held-to-maturity, in view of the fact that the Group had the intention and ability to hold these securities until their maturity.

19. 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 December 2011 | | 31 December 2010 | | Year 2011 | | 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 | |
| Reclassification of trading investments to: | | €000 | €000 | €000 | €000 | €000 | €000 | €000 | |
| - available-for-sale investments | 1 July 2008 | 17.385 | 22.257 | 19.357 | 19.939 | 19.939 | (582) | - | 5,3%-7,4% |
| - loans and receivables | 1 April 2010 | 34.810 | 36.125 | 33.546 | 35.183 | 34.100 | (554) | - | 1,2%-4,4% |
| Reclassification of available-for-sale investments to: | | | | | | | | | |
| - loans and receivables | 1 October 2008 | 169.196 | 172.579 | 159.045 | 169.038 | 165.072 | - | (13.534) | 4,6%-4,7% |
| - loans and receivables | 1 April 2010 | 1.328.231 | 418.974 | 390.259 | 1.316.801 | 970.033 | (31.274) | - | 3,4%-6,1% |
| - loans and receivables | 30 June 2011 | 299.784 | 303.129 | 264.291 | - | - | - | (38.838) | 2,8%-6,3% |
| - loans and receivables | 1 October 2011 | 157.390 | 104.477 | 89.506 | - | - | (14.971) | - | 22,7%-151,8% |
| - investments held-to-maturity | 1 April 2010 | 378.571 | 207.453 | 158.982 | 314.158 | 314.158 | (9.613) | (38.858) | 4,0%-6,3% |
| - investments held-to-maturity | 1 October 2010 | 353.730 | 363.493 | 331.665 | 325.224 | 325.224 | - | (31.828) | 1,4%-5,0% |
| - investments held-to-maturity | 1 July 2011 | 265.223 | 272.154 | 250.533 | - | - | - | (21.621) | 1,4%-14,3% |
| - investments held-to-maturity | 1 October 2011 | 257.338 | 243.158 | 234.105 | - | - | - | (9.053) | 1,1%-19,8% |

The investments classified as available-for-sale on 1 July 2008 were reclassified to investments held-to-maturity on 1 July 2011.

20. Derivative financial instruments

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

| | 2011 | | | 2010 | | |
|---|--------------------|----------------|----------------|--------------------|---------------|----------------|
| | Contract amount | Fair value | | Contract amount | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| <i>Trading derivatives</i> | | | | | | |
| Forward exchange rate contracts | 487.708 | 2.618 | 3.136 | 294.161 | 3.083 | 4.889 |
| Currency swaps | 2.923.012 | 81.648 | 8.913 | 3.583.079 | 26.331 | 65.194 |
| Interest rate swaps | 2.113.671 | 97.569 | 62.558 | 3.558.282 | 33.092 | 74.257 |
| Currency options | 42.194 | 511 | 150 | 55.355 | 1.747 | 1.202 |
| Equity options | 459.717 | 8.364 | 9.237 | 186.358 | 5.487 | 6.164 |
| Interest rate caps/floors | 69.238 | 25 | 422 | 88.032 | 70 | 400 |
| | 6.095.540 | 190.735 | 84.416 | 7.765.267 | 69.810 | 152.106 |
| <i>Derivatives qualifying for hedge accounting</i> | | | | | | |
| Fair value hedges - interest rate swaps | 2.427.596 | 2.416 | 395.694 | 1.272.463 | 4.654 | 84.481 |
| Cash flow hedges - interest rate swaps | - | - | - | 238.260 | 1.814 | 67 |
| Fair value of net investments – forward exchange rate contracts | 248.084 | 583 | 8.001 | 85.287 | - | 3.758 |
| | 2.675.680 | 2.999 | 403.695 | 1.596.010 | 6.468 | 88.306 |
| Total | 8.771.220 | 193.734 | 488.111 | 9.361.277 | 76.278 | 240.412 |

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.

Inflation-linked swaps are a special form of interest rate swaps under which two parties agree to exchange fixed or floating rate of interest and floating rate linked to the level of inflation by means of periodic payments based upon a notional principal amount at specified time periods.

20. 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.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the balance sheet 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 either fair value or cash flow 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, are recognised in the consolidated income statement.

The effective portion of the gains or losses from the revaluation of derivatives designated as cash flow hedges, is recognised in equity and the ineffective portion is 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.

Cash flow hedges

The Group uses interest rate swaps to hedge the future cash flows of floating rate debt securities. The amount included in equity in relation to cash flow hedges is expected to impact the consolidated income statement over the term of the hedging relationship in order to match the cash flows from the hedged items.

The hedged cash flows are expected to affect profit or loss as set out below:

| | 2011 | | 2010 | |
|------------------|---------------|-----------------------|---------------|-----------------------|
| | Within 1 year | Between 1 and 5 years | Within 1 year | Between 1 and 5 years |
| | €000 | €000 | €000 | €000 |
| Interest income | - | - | 1,279 | 1,779 |
| Interest expense | - | - | (524) | (1,022) |
| | - | - | 755 | 757 |

20. 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. As at 31 December 2011, deposits and derivatives amounting to €419.065 thousand (2010: €394.998 thousand) have been designated as hedging instruments and have given rise to a loss of €5.673 thousand (2010: €18.705 thousand) which was recognised in the 'Foreign currency translation reserve' in equity, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

21. Fair value of financial instruments

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 financial instruments which are recorded at fair value using valuation techniques. 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.

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

The non-observable inputs to the models for the valuation of unquoted equity and debt securities include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

21. Fair value of financial instruments (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 |
|---|------------------|----------------|--------------|------------------|
| 2011 | €000 | €000 | €000 | €000 |
| Financial assets | | | | |
| <i>Trading derivatives</i> | | | | |
| Forward exchange rate contracts | - | 2.618 | - | 2.618 |
| Currency swaps | - | 81.648 | - | 81.648 |
| Interest rate swaps | - | 97.457 | 112 | 97.569 |
| Currency options | - | 511 | - | 511 |
| Equity options | - | 8.320 | 44 | 8.364 |
| Interest rate caps/floors | - | 25 | - | 25 |
| <i>Derivatives designated as fair value hedges</i> | | | | |
| Interest rate swaps | - | 2.416 | - | 2.416 |
| <i>Derivatives for fair value of net investment</i> | | | | |
| Forward exchange rate contracts | - | 583 | - | 583 |
| <i>Investments at fair value through profit or loss</i> | | | | |
| Trading investments | 8.577 | - | - | 8.577 |
| Other investments at fair value through profit or loss | 26.565 | 17.662 | 85 | 44.312 |
| <i>Investments available-for-sale</i> | 1.213.407 | 39.619 | 496 | 1.253.522 |
| | 1.248.549 | 250.859 | 737 | 1.500.145 |
| Financial liabilities | | | | |
| <i>Trading derivatives</i> | | | | |
| Forward exchange rate contracts | - | 3.136 | - | 3.136 |
| Currency swaps | - | 8.913 | - | 8.913 |
| Interest rate swaps | - | 62.558 | - | 62.558 |
| Currency options | - | 150 | - | 150 |
| Equity options | - | 7.805 | 1.432 | 9.237 |
| Interest rate caps/floors | - | 422 | - | 422 |
| <i>Derivatives designated as fair value hedges</i> | | | | |
| Interest rate swaps | - | 395.694 | - | 395.694 |
| <i>Derivatives for fair value of net investment</i> | | | | |
| Forward exchange rate contracts | - | 8.001 | - | 8.001 |
| | - | 486.679 | 1.432 | 488.111 |

21. Fair value of financial instruments (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|----------------|--------------|------------------|
| 2010 | €000 | €000 | €000 | €000 |
| Financial assets | | | | |
| <i>Trading derivatives</i> | | | | |
| Forward exchange rate contracts | - | 3.083 | - | 3.083 |
| Currency swaps | - | 26.331 | - | 26.331 |
| Interest rate swaps | - | 32.513 | 579 | 33.092 |
| Currency options | - | 1.747 | - | 1.747 |
| Equity options | - | 5.147 | 340 | 5.487 |
| Interest rate caps/floors | - | 70 | - | 70 |
| <i>Derivatives designated as fair value hedges</i> | | | | |
| Interest rate swaps | - | 4.654 | - | 4.654 |
| <i>Derivatives designated as cash flow hedges</i> | | | | |
| Interest rate swaps | - | 1.814 | - | 1.814 |
| <i>Investments at fair value through profit or loss</i> | | | | |
| Trading investments | 18.014 | - | 379 | 18.393 |
| Other investments at fair value through profit or loss | 32.879 | 149.498 | 85 | 182.462 |
| <i>Investments available-for-sale</i> | 2.031.347 | 288.385 | 507 | 2.320.239 |
| | 2.082.240 | 513.242 | 1.890 | 2.597.372 |

| | | | | |
|---|----------|----------------|------------|----------------|
| Financial liabilities | | | | |
| <i>Trading derivatives</i> | | | | |
| Forward exchange rate contracts | - | 4.889 | - | 4.889 |
| Currency swaps | - | 65.194 | - | 65.194 |
| Interest rate swaps | - | 74.257 | - | 74.257 |
| Currency options | - | 1.202 | - | 1.202 |
| Equity options | - | 5.637 | 527 | 6.164 |
| Interest rate caps/floors | - | 392 | 8 | 400 |
| <i>Derivatives designated as fair value hedges</i> | | | | |
| Interest rate swaps | - | 84.481 | - | 84.481 |
| <i>Derivatives for fair value of net investment</i> | | | | |
| Forward exchange rate contracts | - | 3.758 | - | 3.758 |
| <i>Derivatives designated as cash flow hedges</i> | | | | |
| Interest rate swaps | - | 67 | - | 67 |
| | - | 239.877 | 535 | 240.412 |

21. Fair value of financial instruments (continued)

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

| | Other investments at fair value through profit or loss | Trading investments | Available-for-sale investments | Trading derivatives | |
|---|--|---------------------|--------------------------------|---------------------|----------------|
| | | | | Assets | Liabilities |
| 2011 | €000 | €000 | €000 | €000 | €000 |
| 1 January | 85 | 379 | 507 | 919 | (535) |
| Unrealised losses recognised in the consolidated income statement | - | - | - | (763) | (897) |
| Realised losses recognised in the consolidated income statement | - | - | (11) | - | - |
| Disposals | - | (379) | - | - | - |
| 31 December | 85 | - | 496 | 156 | (1.432) |

| 2010 | | | | | |
|---|-----------|------------|------------|------------|--------------|
| 1 January | 1.475 | - | 507 | 109 | (703) |
| Unrealised (losses)/gains recognised in the consolidated income statement | (100) | - | - | 810 | 163 |
| Realised gains recognised in the consolidated income statement | - | - | - | - | 5 |
| Transfers from Level 2 | - | 261 | - | - | - |
| Additions | - | 118 | - | - | - |
| Disposals | (1.290) | - | - | - | - |
| 31 December | 85 | 379 | 507 | 919 | (535) |

During 2011 and 2010 there were no significant transfers from Level 1 to Level 2.

22. Loans and advances to customers

| | 2011 | 2010 |
|--|--------------------|-------------|
| | €000 | €000 |
| Loans and advances to customers | 27.168.261 | 27.104.251 |
| Hire purchase and finance lease debtors (Note 23) | 1.704.168 | 1.781.599 |
| Gross loans and advances to customers | 28.872.429 | 28.885.850 |
| Provisions for impairment of loans and advances to customers (Note 44) | (1.505.512) | (1.160.399) |
| | 27.366.917 | 27.725.451 |

Loans and advances to customers include finance lease debtors of €504 million (2010: €585 million) which were securitised through special purpose entities (Note 51) as well as loans amounting to €68 million (2010: €65 million) which were pledged as collateral in accordance with the terms of a Russian government programme to provide loans to support small and medium-sized enterprises. Loans and advances to customers in 2010 included housing loans of €812 million which were securitised.

Loans and advances to customers also include loans of €1.439 million (2010: €1.357 million) which have been pledged as collateral to the Republic of Cyprus for the issue of €1.052 million (2010: €1.052 million) special government bonds, which were used as collateral for obtaining financing within the monetary policy framework of the Eurosystem. These funds were used for providing housing loans and loans to small and medium-sized enterprises.

Loans and advances include mortgage loans of €1.045 million in Cyprus and €762 million in Greece which were pledged as collateral for the issue of covered bonds by the Company in 2011 under its €5 billion Covered Bonds Programme (Note 31).

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 44.

23. Hire purchase and finance lease debtors

| | 2011 | 2010 |
|--|------------------|------------------|
| | €000 | €000 |
| Gross investment in hire purchase and finance lease contracts | 2.102.321 | 2.193.278 |
| Unearned finance income | (398.153) | (411.679) |
| Present value of hire purchase and finance lease payments | 1.704.168 | 1.781.599 |
| <i>Repayable</i> | | |
| - within one year | 28.833 | 138.095 |
| - between one and five years | 628.925 | 748.464 |
| - after five years | 1.046.410 | 895.040 |
| Present value of hire purchase and finance lease payments | 1.704.168 | 1.781.599 |
| <i>Analysis by geographical area</i> | | |
| - Cyprus | 406.514 | 418.944 |
| - Greece | 1.647.511 | 1.724.878 |
| - Romania | 31.146 | 27.671 |
| - Russia | 17.150 | 21.785 |
| Gross investment in hire purchase and finance lease contracts | 2.102.321 | 2.193.278 |
| <i>Repayable</i> | | |
| - within one year | 31.542 | 144.052 |
| - between one and five years | 759.119 | 895.621 |
| - after five years | 1.311.660 | 1.153.605 |
| Gross investment in hire purchase and finance lease contracts | 2.102.321 | 2.193.278 |

Under hire purchase contracts, 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.

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.

24. Life insurance business assets attributable to policyholders

| | 2011 | 2010 |
|---------------------------|----------------|---------|
| | €000 | €000 |
| Equity securities | 22.560 | 49.575 |
| Debt securities | 209.726 | 219.745 |
| Mutual funds | 142.834 | 158.943 |
| Mortgages and other loans | 3.623 | 3.887 |
| Bank deposits | 114.496 | 119.295 |
| | 493.239 | 551.445 |
| Property | 11.340 | 10.250 |
| | 504.579 | 561.695 |

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

The method used to determine fair values of financial assets and the hierarchy used by the Group is presented in Note 21.

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 |
|---------------------------|---------|---------|---------|----------------|
| 2011 | €000 | €000 | €000 | €000 |
| Equity securities | 19.711 | - | 2.849 | 22.560 |
| Debt securities | 137.657 | 72.069 | - | 209.726 |
| Mutual funds | 142.834 | - | - | 142.834 |
| Mortgages and other loans | 3.623 | - | - | 3.623 |
| Bank deposits | 114.496 | - | - | 114.496 |
| | 418.321 | 72.069 | 2.849 | 493.239 |

| 2010 | | | | |
|---------------------------|---------|--------|-------|----------------|
| Equity securities | 47.619 | - | 4.086 | 51.705 |
| Debt securities | 141.368 | 78.377 | - | 219.745 |
| Mutual funds | 156.813 | - | - | 156.813 |
| Mortgages and other loans | 3.887 | - | - | 3.887 |
| Bank deposits | 119.295 | - | - | 119.295 |
| | 468.982 | 78.377 | 4.086 | 551.445 |

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

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

| | 2011 | 2010 |
|---|----------------|-------|
| | €000 | €000 |
| 1 January | 4.086 | 5.017 |
| Unrealised losses recognised in the consolidated income statement | (1.237) | (931) |
| 31 December | 2.849 | 4.086 |

During 2011 and 2010, there were no significant transfers from Level 1 to Level 2.

25. Property and equipment

| | Property | Equipment | Total |
|--|----------------|---------------|-----------------|
| 2011 | €000 | €000 | €000 |
| Net book value at 1 January | 376.988 | 41.793 | 418.781 |
| Additions | 30.976 | 13.115 | 44.091 |
| Revaluation | 73.648 | - | 73.648 |
| Impairment | (2.974) | - | (2.974) |
| Transfer to investment properties (Note 27) | (1.053) | - | (1.053) |
| Transfer to non-current assets held for sale (Note 27) | (26.500) | - | (26.500) |
| Disposals and write-offs | (731) | (152) | (883) |
| Depreciation charge for the year | (15.320) | (11.807) | (27.127) |
| Disposal of subsidiary | (2.363) | (1.846) | (4.209) |
| Exchange adjustments | (153) | (433) | (586) |
| Net book value at 31 December | 432.518 | 40.670 | 473.188 |

25. Property and equipment (continued)

| | Property | Equipment | Total |
|--------------------------|----------------|---------------|----------------|
| 1 January 2011 | €000 | €000 | €000 |
| Cost or valuation | 485.784 | 198.591 | 684.375 |
| Accumulated depreciation | (108.796) | (156.798) | (265.594) |
| Net book value | 376.988 | 41.793 | 418.781 |

| | | | |
|--------------------------|----------------|---------------|----------------|
| 31 December 2011 | | | |
| 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 |

| | | | |
|--------------------------------------|----------------|---------------|----------------|
| 2010 | | | |
| Net book value at 1 January | 365.486 | 40.786 | 406.272 |
| Additions | 24.638 | 15.960 | 40.598 |
| Acquisition of subsidiary | 8.700 | 447 | 9.147 |
| Transfer to investment properties | (2.953) | - | (2.953) |
| Transfer to other assets | (5.418) | - | (5.418) |
| Disposals and write-offs | (3.181) | (810) | (3.991) |
| Depreciation charge for the year | (14.551) | (15.289) | (29.840) |
| Disposal of subsidiary | - | (89) | (89) |
| Exchange adjustments | 4.267 | 788 | 5.055 |
| Net book value at 31 December | 376.988 | 41.793 | 418.781 |

| | | | |
|--------------------------|----------------|---------------|----------------|
| 1 January 2010 | | | |
| Cost or valuation | 460.387 | 190.819 | 651.206 |
| Accumulated depreciation | (94.901) | (150.033) | (244.934) |
| Net book value | 365.486 | 40.786 | 406.272 |

| | | | |
|--------------------------|----------------|---------------|----------------|
| 31 December 2010 | | | |
| Cost or valuation | 485.784 | 198.591 | 684.375 |
| Accumulated depreciation | (108.796) | (156.798) | (265.594) |
| Net book value | 376.988 | 41.793 | 418.781 |

25. Property and equipment (continued)

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

| | 2011 | 2010 |
|------------------------------------|---------|---------|
| | €000 | €000 |
| Freehold property | 401.399 | 342.231 |
| Improvements on leasehold property | 31.119 | 34.757 |
| | 432.518 | 376.988 |

Freehold property includes land amounting to €142.416 thousand (2010: €108.791 thousand) for which no depreciation is charged. The freehold property of the Group was revalued at 31 December 2011. The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and recent market transactions.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2011 would have amounted to €237.449 thousand (2010: €225.750 thousand).

26. Intangible assets

| | Computer software | Licence fees | In-force life insurance business | Customer relationships | Brands | Goodwill | Total |
|---|-------------------|--------------|----------------------------------|------------------------|---------------|----------------|----------------|
| 2011 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Net book value at 1 January | 18.307 | 1.079 | 93.526 | 15.263 | 17.786 | 333.097 | 479.058 |
| Disposal of subsidiary | (847) | - | - | - | - | - | (847) |
| Additions | 9.855 | - | - | - | - | - | 9.855 |
| Increase in value of in-force life insurance policies | - | - | 5.364 | - | - | - | 5.364 |
| Disposals and write-offs | (5) | - | - | - | - | - | (5) |
| Amortisation charge for the year | (7.993) | (617) | - | (2.967) | (2.953) | - | (14.530) |
| Exchange adjustments | 44 | - | - | (237) | (336) | (5.856) | (6.385) |
| Net book value at 31 December | 19.361 | 462 | 98.890 | 12.059 | 14.497 | 327.241 | 472.510 |

| | | | | | | | |
|--------------------------|---------------|--------------|---------------|---------------|---------------|----------------|----------------|
| 1 January 2011 | | | | | | | |
| Cost | 120.479 | 6.162 | 93.526 | 21.344 | 23.715 | 333.097 | 598.323 |
| Accumulated amortisation | (102.172) | (5.083) | - | (6.081) | (5.929) | - | (119.265) |
| Net book value | 18.307 | 1.079 | 93.526 | 15.263 | 17.786 | 333.097 | 479.058 |

| | | | | | | | |
|--------------------------|---------------|------------|---------------|---------------|---------------|----------------|----------------|
| 31 December 2011 | | | | | | | |
| 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 |

26. Intangible assets (continued)

| | Computer software | Licence fees | In-force life insurance business | Customer relationships | Brands | Goodwill | Total |
|---|-------------------|--------------|----------------------------------|------------------------|---------------|----------------|------------------|
| 2010 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Net book value at 1 January | 17.037 | 1.695 | 83.455 | 17.204 | 19.600 | 314.150 | 453.141 |
| Disposal of subsidiary | (100) | - | - | - | - | - | (100) |
| Additions | 10.152 | - | - | - | - | - | 10.152 |
| Increase in value of in-force life insurance policies | - | - | 10.071 | - | - | - | 10.071 |
| Amortisation charge for the year | (9.009) | (616) | - | (3.018) | (2.997) | - | (15.640) |
| Exchange adjustments | 227 | - | - | 1.077 | 1.183 | 18.947 | 21.434 |
| Net book value at 31 December | 18.307 | 1.079 | 93.526 | 15.263 | 17.786 | 333.097 | 479.058 |
| 1 January 2010 | | | | | | | |
| Cost | 109.700 | 6.162 | 83.455 | 20.120 | 22.401 | 314.150 | 555.988 |
| Accumulated amortisation | (92.663) | (4.467) | - | (2.916) | (2.801) | - | (102.847) |
| Net book value | 17.037 | 1.695 | 83.455 | 17.204 | 19.600 | 314.150 | 453.141 |
| 31 December 2010 | | | | | | | |
| Cost | 120.479 | 6.162 | 93.526 | 21.344 | 23.715 | 333.097 | 598.323 |
| Accumulated amortisation | (102.172) | (5.083) | - | (6.081) | (5.929) | - | (119.265) |
| Net book value | 18.307 | 1.079 | 93.526 | 15.263 | 17.786 | 333.097 | 479.058 |

Customer relationships and brands arose in 2008 as a result of the acquisitions of CB Uniastrum Bank LLC and PJSB Bank of Cyprus.

Goodwill

| | 2011 | 2010 |
|-----------------------|----------------|---------|
| | €000 | €000 |
| Kyprou Securities SA | 1.205 | 1.205 |
| PJSB Bank of Cyprus | 29.714 | 28.993 |
| CB Uniastrum Bank LLC | 296.322 | 302.899 |
| | 327.241 | 333.097 |

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.

26. Intangible assets (continued)

Goodwill (continued)

During 2011 there was no impairment of goodwill (2010: nil). Impairment testing in respect of goodwill is performed annually 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 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 terminal growth rate used in extrapolating cash flows in perpetuity for the Russian and Ukrainian entities at 31 December 2011 is 5% (2010: 5%).

The discount rate used is based on the cost of capital the Company allocates to investments in the countries within which each entity operates. The cost of capital assigned to an individual entity and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital is derived from an appropriate Capital Asset Pricing Model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. For the Russian and Ukrainian entities, a sovereign risk premium was also added, representing the difference between the risk-free interest rate (the US Dollar for the Russian entity and the Euro for the Ukrainian entity) and the interest rate of liquid long-term treasury bonds issued in Russia and Ukraine and denominated in US Dollar and in Euros respectively. These financial and economic variables are established on the basis of management judgement and current market assessment. The discount rate applied in 2011 to the cash flows of the Russian entity which were translated from Russian Rubbles into US Dollars using the projected foreign exchange rate is 10,7% (2010: 11,4%). The discount rate applied in 2011 to the cash flows of the Ukrainian entity which were translated from Ukrainian Hryvnia into Euro using the projected foreign exchange rate is 17,2% (2010: 13,7%).

Management judgement is required in estimating the future cash flows of the CGUs of the acquired companies. The valuations are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long term sustainable pattern of 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.

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance policies 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 policies are:

| | 2011 | 2010 |
|---------------------------|-------|-------|
| Discount rate (after tax) | 10,0% | 10,0% |
| Return on investments | 5,5% | 5,5% |
| Expense inflation | 5,0% | 5,0% |

27. Other assets

| | 2011 | 2010 |
|---|----------------|----------------|
| | €000 | €000 |
| Debtors | 27.396 | 24.644 |
| Stock of property held for sale | 8.762 | 11.923 |
| Non-current assets held for sale | 27.268 | - |
| Investment properties | 187.795 | 116.307 |
| Taxes refundable | 10.133 | 10.303 |
| Deferred tax asset (Note 16) | 94.816 | 40.575 |
| Retirement benefit plans assets (Note 12) | 4.531 | 4.298 |
| Reinsurers' share of insurance contract liabilities (Note 30) | 64.191 | 67.163 |
| Prepaid expenses | 5.634 | 7.122 |
| Receivable from disposal of subsidiary | 103.137 | - |
| Other assets | 141.680 | 118.124 |
| | 675.343 | 400.459 |

At 31 December 2011 the Group has transferred assets (mainly immovable property) in the category non-current assets held for sale. The deferred tax for liabilities relating to these assets held-for-sale are presented in Note 32.

Investment properties

The movement of investment properties is summarised below:

| | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| | €000 | €000 |
| 1 January | 116.307 | 53.007 |
| Exchange adjustments | (570) | (152) |
| Transfer from property and equipment | 1.053 | 2.953 |
| Additions | 70.552 | 63.456 |
| Disposals | (2.667) | (2.135) |
| Gains/(losses) from revaluation | 3.120 | (822) |
| 31 December | 187.795 | 116.307 |

28. Obligations to central banks and amounts due to banks

| | 2011 | 2010 |
|------------------------------|------------------|------------------|
| | €000 | €000 |
| Obligations to central banks | 2.100.556 | 2.199.450 |
| Amounts due to banks | 965.200 | 1.507.525 |
| | 3.065.756 | 3.706.975 |

28. Obligations to central banks and amounts due to banks (continued)

Obligations to central banks bear annual interest at 1,00% to 1,50% and represent financing obtained from the Central Bank of Cyprus, which the Group has secured through open market operations within the monetary policy framework of the Eurosystem. This financing is fully secured by eligible collateral. In addition to the collateral disclosed in Notes 19 and 22, at 31 December 2011 Covered Bonds amounting to €1.563.963 thousand (2010: nil) issued by the Group (Note 31) have been pledged as collateral. At 31 December 2010 an additional amount of €545.849 thousand of securities issued by the Group's securitisation special purpose entities have been pledged as collateral (Note 51).

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

29. Customer deposits

| | 2011 | 2010 |
|-----------------------------|------------|------------|
| | €000 | €000 |
| <i>By category</i> | | |
| Demand | 6.631.662 | 5.893.902 |
| Savings | 2.259.345 | 2.415.718 |
| Time or notice | 20.763.491 | 24.642.947 |
| | 29.654.498 | 32.952.567 |
| <i>By geographical area</i> | | |
| Cyprus | 19.165.805 | 19.695.404 |
| Greece | 7.698.752 | 9.790.616 |
| Russia | 1.294.591 | 1.115.532 |
| United Kingdom | 1.209.604 | 1.259.618 |
| Australia | - | 897.274 |
| Romania | 202.232 | 153.171 |
| Ukraine | 83.514 | 40.952 |
| | 29.654.498 | 32.952.567 |

Demand and savings deposits are payable on demand and their carrying amount represents their fair value.

The fair value of time or notice deposits that bear a floating rate of interest is equivalent to their carrying amount. The fair value of deposits that bear a fixed rate of interest is based on the present value of their future cash flows, estimated using interest rates on new deposits which have the same remaining period to maturity and is not materially different from their carrying amount. The majority of deposits (78%) mature within three months from the balance sheet date (Note 46).

30. Insurance liabilities

| | 2011 | | | 2010 | | |
|--|---------|-------------------|---------|---------|-------------------|---------|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Life insurance | €000 | €000 | €000 | €000 | €000 | €000 |
| Life insurance contract liabilities | 532.687 | (27.693) | 504.994 | 573.955 | (25.761) | 548.194 |
| General insurance | | | | | | |
| Provision for unearned premiums | 35.641 | (16.292) | 19.349 | 35.279 | (16.539) | 18.740 |
| <i>Other liabilities</i> | | | | | | |
| Claims outstanding | 42.786 | (20.206) | 22.580 | 47.475 | (24.863) | 22.612 |
| Unexpired risks reserve | 113 | - | 113 | 1.581 | - | 1.581 |
| Equalisation reserve | 37 | - | 37 | 19 | - | 19 |
| General insurance contract liabilities | 78.577 | (36.498) | 42.079 | 84.354 | (41.402) | 42.952 |
| | 611.264 | (64.191) | 547.073 | 658.309 | (67.163) | 591.146 |

Reinsurance balances receivable are included in 'Other assets' (Note 27).

Life insurance contract liabilities

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

| | 2011 | | | 2010 | | |
|-----------------------------|----------------|-------------------|----------------|----------------|-------------------|----------------|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 January | 573.955 | (25.761) | 548.194 | 545.254 | (21.685) | 523.569 |
| New business | 5.404 | (1.353) | 4.051 | 7.929 | (1.681) | 6.248 |
| Change in existing business | (46.672) | (579) | (47.251) | 20.772 | (2.395) | 18.377 |
| 31 December | 532.687 | (27.693) | 504.994 | 573.955 | (25.761) | 548.194 |

30. Insurance liabilities (continued)

General insurance liabilities

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

| | 2011 | | | 2010 | | |
|-----------------------------------|---------------|-------------------|---------------|---------------|-------------------|---------------|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Liabilities for unearned premiums | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 January | 35.279 | (16.539) | 18.740 | 32.867 | (14.820) | 18.047 |
| Premium income | 78.719 | (40.015) | 38.704 | 77.470 | (40.523) | 36.947 |
| Earned premiums | (78.357) | 40.262 | (38.095) | (75.058) | 38.804 | (36.254) |
| 31 December | 35.641 | (16.292) | 19.349 | 35.279 | (16.539) | 18.740 |

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

| | 2011 | | | 2010 | | |
|---|---------------|-------------------|---------------|---------------|-------------------|---------------|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Claims and adjustments for losses | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 January | 47.475 | (24.863) | 22.612 | 39.957 | (20.622) | 19.335 |
| Amount paid for claims settled in the year | (32.260) | 14.053 | (18.207) | (25.862) | 8.392 | (17.470) |
| Increase in liabilities arising from claims | 27.571 | (9.396) | 18.175 | 33.380 | (12.633) | 20.747 |
| 31 December | 42.786 | (20.206) | 22.580 | 47.475 | (24.863) | 22.612 |

| | | | | | | |
|---------------------------|---------------|-----------------|---------------|---------------|-----------------|---------------|
| Notified claims | 39.262 | (18.486) | 20.776 | 42.806 | (22.182) | 20.624 |
| Incurred but not notified | 3.524 | (1.720) | 1.804 | 4.669 | (2.681) | 1.988 |
| | 42.786 | (20.206) | 22.580 | 47.475 | (24.863) | 22.612 |

31. Debt securities in issue

| | Contractual interest rate | 2011 | 2010 |
|---|--------------------------------------|---------------|--------|
| Medium term senior debt | | €000 | €000 |
| SEK 50 million 2009/2012 | OMX Stockholm 30 index | 5.341 | 5.315 |
| SEK 100 million 2010/2014 | Return of specific shares | 11.484 | 11.371 |
| €2 million 2010/2016 | DJ EUROSTOXX 50 index | 1.897 | 2.000 |
| USD 2 million 2010/2016 | S&P 500 index | 1.597 | 1.545 |
| | | 20.319 | 20.231 |
| Short term commercial paper | | | |
| Euro | - | - | 4.997 |
| USD | - | - | 7.470 |
| | | - | 12.467 |
| Other debt securities in issue | | | |
| RUB Certificates of Deposit and Promissory Notes | 11% | 28.980 | 50.767 |
| Interest-free loan from the European Development Bank | - | 492 | 492 |
| | | 29.472 | 51.259 |
| | | 49.791 | 83.957 |

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.

The fair value of the Group's debt securities in issue at 31 December 2011 was €51.903 thousand (2010: €86.074 thousand).

In May 2009 the Group completed the securitisation of mortgage loans, as a result of which €1.000 million residential mortgage backed notes were issued which were repaid at par in March 2011. In September 2009, the Group completed the securitisation of finance lease receivables, as a result of which €689 million notes were issued. The liability arising from the issue of these notes is not included in the consolidated balance sheet of the Group as all notes issued are held by the Group.

31. Debt securities in issue (continued)

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2010: €4.000 million).

Under the EMTN Programme, the Company issued in March 2010, SEK 100 million 2010/2014 bonds, the redemption amount of which is linked to the return of specific shares listed on the Stockholm Stock Exchange.

Also, under the EMTN Programme, the Company issued in May 2009 the SEK 50 million 2009/2012 bonds, the redemption amount of which is linked to the OMX Stockholm 30 Index.

In May 2010, the Company issued the €2 million 2010/2016 and USD 2 million 2010/2016 bonds, the redemption amount of which is linked to the DJ EUROSTOXX 50 and S&P 500 indices, respectively.

The three-month Euribor fluctuated during 2011 between 1,0% and 1,6% (2010: 0,6%-1,1%) per annum.

Covered Bonds

During the year, 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 month Euribor plus 1,25% annually and are traded on the Luxemburg Bourse.

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 related to the Covered Bonds issued by the Company is available on the its website in section Investors Relations/Debt Securities.

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2010: €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.

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.

32. Other liabilities

| | 2011 | 2010 |
|---|----------------|----------------|
| | €000 | €000 |
| Income tax payable | 16.790 | 19.885 |
| Special defence contribution payable | 9.694 | 6.292 |
| Deferred tax liability (Note 16) | 74.653 | 51.843 |
| Liability of retirement benefit plans (Note 12) | 9.406 | 8.155 |
| Provision for pending litigation or claims | 3.837 | 3.287 |
| Financial guarantees | 4.518 | 5.699 |
| Liabilities for investment-linked contracts under administration | 7.724 | 20.281 |
| Accrued expenses and other provisions | 26.320 | 50.276 |
| Deferred income | 10.269 | 12.070 |
| Deferred tax relating to non-current assets held for sale (Note 27) | 3.621 | - |
| Items in the course of settlement | 43.159 | 50.553 |
| Other liabilities | 52.236 | 94.779 |
| | 262.227 | 323.120 |

Provision for pending litigation or claims

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

| | 2011 | 2010 |
|--|--------------|--------------|
| | €000 | €000 |
| 1 January | 3.287 | 9.156 |
| Increase/(decrease) of provision in the year | 562 | (6.284) |
| Exchange adjustments | (12) | 415 |
| 31 December | 3.837 | 3.287 |

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.

33. Subordinated loan stock

| | Contractual interest rate | 2011 | 2010 |
|---|--------------------------------|----------------|---------|
| | | €000 | €000 |
| Subordinated Bonds 2011/2016 (€200 million) | Three-month Euribor plus 0,60% | - | 127.315 |
| Subordinated Bonds in USD 2013/2014/2015 | 2,50% | 6.928 | 6.584 |
| Convertible Bonds 2013/2018 (€573 million) | Six-month Euribor plus 1,00% | 26.907 | 40.986 |
| Convertible Capital Securities (€645 million) | 5,50% | 72.380 | 634.034 |
| Capital Securities 12/2007 (€126 million) | Three-month Euribor plus 1,25% | 22.165 | 122.023 |
| | | 128.380 | 930.942 |

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

The fair value of the Group's total subordinated loan stock at 31 December 2011 was €86.562 thousand (2010: €852.234 thousand).

The Group holds subordinated loan stock, the nominal amount of which is as follows:

| | 2011 | 2010 |
|--------------------------------|------|--------|
| | €000 | €000 |
| Subordinated Bonds 2011/2016 | - | 73.000 |
| Convertible Bonds 2013/2018 | - | 3.939 |
| Convertible Capital Securities | - | 2.616 |
| Capital Securities 12/2007 | - | 4.465 |

Subordinated Bonds

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2010: €4.000 million).

Under the EMTN Programme, the Company issued in May 2006, €200 million 2011/2016 bonds maturing in May 2016. The interest rate of the bonds was set at the three-month Euribor plus 0,60% until May 2011, increasing to plus 1,60% thereafter. The Company had the option to call the bonds in whole during or after May 2011 which has been exercised by repaying the bonds on 4 May 2011. The bonds were listed on the Luxembourg Stock Exchange.

The Subordinated Bonds in USD 2013/2014/2015 were issued by CB Uniastrum Bank LLC and mature as follows: USD 2 million on 31 December 2013, USD 2,5 million on 31 December 2014 and USD 2 million on 31 December 2015. The interest rate can be changed unilaterally by the issuer at any time until maturity.

33. Subordinated loan stock (continued)

Convertible Bonds

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with nominal value of €573 million, maturing in June 2018. The Convertible Bonds carried a fixed interest rate of 7,50% per annum until 30 June 2009 and floating interest rate thereafter, set at the six-month Euribor plus 1,00% until June 2013 and plus 3,00% thereafter.

As a result of the rights issue to the Company's shareholders (Note 34) and the special distribution of interim dividend in the form of shares (Note 36) during 2010, the conversion price of the Convertible Bonds was adjusted in accordance with the relevant terms of issue from €10,50 to €8,11 per share. The conversion periods are between 15-30 September of years 2010-2012 and 15-31 March of years 2011-2013. The Convertible Bonds may be redeemed at the option of the Company on or after September 2013, subject to the prior consent of the Central Bank of Cyprus. The Convertible Bonds 2013/2018 are listed on the Cyprus Stock Exchange.

On 17 May 2011, Convertible Bonds 2013/2018 with nominal value of €19 million were exchanged for Convertible Enhanced Capital Securities (Note 35), with equal nominal value.

During 2010, 45.866 Convertible Bonds have been converted into 4.971 shares.

Convertible Capital Securities

On 6 June 2009, the Company issued €645 million Convertible Capital Securities.

The Convertible Capital Securities bear a fixed interest rate of 5,50% per annum for the first five years and a floating interest rate of the 6-month Euribor plus 3,00% per annum thereafter. The Convertible Capital Securities may be converted into ordinary shares of the Company at the option of the holders. As a result of the rights issue to the Company's shareholders (Note 34) and the special distribution of interim dividend in the form of shares (Note 36) during 2010, the conversion price of the Convertible Capital Securities was adjusted in accordance with the relevant terms of issue from €5,50 to €4,24 per share. The conversion periods are between 15-30 September of years 2010-2013 and 15-31 March of years 2011-2014. The Convertible Capital Securities are listed on the Cyprus Stock Exchange and the Athens Exchange.

The Convertible Capital Securities are perpetual, but may be redeemed at the option of the Company, at par together with any accrued interest, on 30 June 2014 or on any other interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus.

On 17 May 2011, Convertible Capital Securities with nominal value of €572 million were exchanged for Convertible Enhanced Capital Securities (Note 35) of equal nominal value.

During 2011, 5.798 Convertible Capital Securities have been converted into 1.366 shares (2010: 90.001 Convertible Capital Securities have been converted into 18.661 shares).

Capital Securities

The €126 million Capital Securities 12/2007 were issued in Cyprus Pounds in December 2007. The Capital Securities are perpetual, but may be redeemed in whole, at the option of the Company, at par together with any accrued interest, five years after their issue date or on any interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus.

The Capital Securities 12/2007 bear floating interest, set at the three-month Euribor plus 1,25% per annum and are listed on the Cyprus Stock Exchange.

On 17 May 2011 Capital Securities 12/2007 of nominal value €104 million were exchanged for Convertible Enhanced Capital Securities (Note 35).

The three-month Euribor during 2011 ranged between 1,0% and 1,6% (2010: 0,6% - 1,1%) per annum and the six-month Euribor ranged between 1,2% and 1,8% (2010: 0,9% - 1,3%) per annum.

34. Share capital

| | 2011 | | 2010 | |
|--|----------------------|----------------|----------------------|-----------|
| | Shares (thousand) | €000 | Shares (thousand) | €000 |
| <i>Authorised</i> | | | | |
| Ordinary shares of €1,00 each | 3.000.000 | 3.000.000 | 1.100.000 | 1.100.000 |
| <i>Issued and fully paid</i> | | | | |
| 1 January | 894.948 | 894.948 | 598.197 | 598.197 |
| Issue of shares | - | - | 172.630 | 172.630 |
| Conversion of Convertible Bonds and Convertible Capital Securities | 387 | 387 | 23 | 23 |
| Dividend in the form of shares | - | - | 113.199 | 113.199 |
| Dividend reinvestment | 4.193 | 4.193 | 10.899 | 10.899 |
| 31 December | 899.528 | 899.528 | 894.948 | 894.948 |

Authorised share capital

At the Extraordinary General Meetings of shareholders held on 23 March 2011, and 5 December 2011 the authorized share capital of the Company was increased by €400 million and €1.500 million respectively by creating new ordinary shares of nominal value of €1,00 each, which rank pari passu with the existing ordinary shares of the Company.

On 23 July 2010, the Extraordinary General Meeting of the shareholders approved the increase of the authorised share capital of the Company from €750 million to €1.100 million by creating 350 million new ordinary shares of nominal value €1,00 each, which rank pari passu with the existing ordinary shares of the Company.

Issued share capital

The Company has in force a Dividend Reinvestment Plan under which all shareholders have the option to reinvest all or part of their dividend in shares of the Company at a 10% discount on the market value of the shares. The reinvestment price for the dividend paid on 16 June 2011 was set at €2,00 per share, for the dividend paid on 11 November 2010 was set at €3,04 per share and for the dividend paid on 17 June 2010 was set at €2,91 per share.

As a result of the dividend reinvestment during 2011, 4.192.331 (2010: 10.899.362) shares were issued and the Company's share capital and share premium increased by €4.193 thousand and €4.192 thousand respectively (2010: €10.899 thousand and €21.454 thousand respectively).

As a result of the conversion of Convertible Bonds and Convertible Capital Securities during 2011, 387.109 shares were issued (2010: 23.632) and the Company's share capital and share premium increased by €387 thousand and €892 thousand, respectively (2010: €23 thousand and €112 thousand respectively).

34. Share capital (continued)

Issued share capital (continued)

On 22 October 2010, the Group issued €345 million nil-paid rights to existing shareholders. Each outstanding ordinary share received one nil paid pre-emptive subscription right. Every 7 pre-emptive subscription rights exercised were converted into 2 new ordinary shares at €2,00 per each new share. As a result, 172.630.273 new shares were issued and the Company's share capital and share premium increased by €172.630 thousand each.

On 11 November 2010 the Company paid a dividend in the form of shares (Note 36). As a result, 113.198.589 shares were issued and the share capital and share premium increased by €113.199 thousand and €254.697 thousand respectively. The share reinvestment price was set at €3,25 per share.

All issued ordinary shares carry the same rights.

The share premium is not available for distribution to equity holders in the form of a dividend.

Capital Strengthening Plan

In November 2011, the Group decided to increase its share capital through a pre-emptive rights offering amounting to €397 million and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600 million.

The Rights were issued and allocated to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of their current 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 could 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 period for the exercise of the Rights and the acceptance of the offers to exchange the CECS expired on 19 March 2012. As a result, approximately 896 million new shares were issued (Note 53).

Furthermore, the Group is proceeding with the completion of the Capital Strengthening Plan. The Group has the right to exercise, until 18 June 2012, all or part of the Rights that have not been subscribed to by their holders and have not been exercised by 19 March 2012. The allotment of unsubscribed shares will be at the discretion of the Board of Directors and can take place at the same or at a higher price than the subscription price of the new shares (Note 53).

Shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares. The number of these shares at 31 December 2011 was 2.266 thousand (2010: 1.336 thousand). The cost of acquisition of these shares was €6.679 thousand (2010: €8.277 thousand).

In addition, the life insurance subsidiary of the Group held, as at 31 December 2011, a total of 6.607 thousand (2010: 6.510 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders (Note 24). The cost of acquisition of these shares was €24.797 thousand (2010: €24.606 thousand).

Share-based payments – Share Options

On 14 May 2008, the Annual General Meeting of the Company's shareholders approved the granting of share options to Group employees, without these shares being first offered to existing shareholders. The Board of Directors was authorised to issue up to 15 million shares of the Company.

34. Share capital (continued)

Share-based payments – Share Options (continued)

In the context of the above decision, on 28 May 2008 the Board of Directors authorised the granting of 12,5 million share options to Group employees in Cyprus and Greece who were in service on 28 May 2008 ('Share Options 2008/2010'). The exercise price of Share Options 2008/2010 at their issue was set at €9,41 per share.

The Extraordinary General Meeting of the shareholders of the Company on 23 June 2009 approved the amendment of the terms of the Share Options 2008/2010, modifying their exercise price and exercise period. The exercise price was modified to €5,50 per share. As the result of the modification of their terms, the Share Options 2008/2010 were revalued using the same model as the initial valuation. The additional cost amounted to €0,42 per share.

On 9 July 2009, the Board of Directors, authorised the granting of up to 2,5 million additional Share Options 2008/2010 to Group employees who were in service on 30 June 2009.

As a result of the rights issue to the Company's shareholders during October 2010 and the special distribution of interim dividend in the form of shares during November 2010, the exercise price of the Share Options 2008/2010 has been adjusted in accordance with the relevant terms of issue from €5,50 to €4,24 per share.

At the Extraordinary General Meeting of shareholders held on 23 March 2011, the exercise price of the Share Options was adjusted to €3,30 per share. As a result of the amendment of the terms, the Share Options were revalued using the same revaluation method as the initial valuation. The additional cost amounted to €0,17 per option.

During March 2012, as a result of the rights and bonus issue to the shareholders of the Company (Note 53) the exercise price of the Share Options 2008/2010 has been readjusted according to the relevant issue terms from €3,30 to €3,08 per share.

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 can 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 are not transferable and are unlisted.

The movement in the number of Share Options 2008/2010 is summarised below:

| | 2011 | 2010 |
|-------------------------|--------|--------|
| | 000 | 000 |
| 1 January | 14.563 | 14.720 |
| Share options forfeited | (283) | (157) |
| 31 December | 14.280 | 14.563 |

35. Convertible Enhanced Capital Securities

| | 2011 | 2010 |
|---|----------------|------|
| | €000 | €000 |
| Convertible Enhanced Capital Securities (CECS) | 862.233 | - |

The Convertible Enhanced Capital Securities (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 qualify as tier 1 capital. The CECS were offered via a priority right to subscribe to the existing shareholders. Existing shareholders and other applicants could subscribe to the CECS issue by paying the corresponding consideration for the CECS either in cash or in the form of 'Eligible Securities' of the Company and specifically (i) Convertible Bonds 2013/2018, (ii) Convertible Capital Securities, and (iii) Capital Securities 12/2007, of an equal nominal value, which had priority after the existing holders and before any other applicants.

The issue of the CECS consists of €820 million in Euro and \$95 million in US Dollars, out of which €695 million originated from the exchange of Eligible Securities. The CECS issued in Euro bear 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 bear 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 may, 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 is no longer due and payable by the Company.

The Company will not proceed with the payment of any coupons payable on any coupon payment date and will effect a mandatory coupon cancellation if (i) it does not satisfy the minimum solvency requirements as defined by the Central Bank of Cyprus or if the coupon payment will result in the Company no longer satisfying the minimum solvency requirements, (ii) it has insufficient distributable items for such coupon payment, or (iii) the Central Bank of Cyprus, at its sole discretion, requires the cancellation of coupon payments on the basis of the assessment of the financial and solvency situation of the Company for the next three years. Any coupon not paid is no longer due and payable by the Company.

The CECS may be converted at the option of the holder during any conversion period. The conversion periods are: 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 is 31 May 2016.

The CECS are perpetual without a maturity date but the Company may 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 occurs, the CECS shall be mandatorily converted into ordinary shares of the Company. The conversion price is set at 80% of the weighted average market price of the shares during the previous five business days, with a ceiling price of €3,30 and a floor price equal to the nominal value of the ordinary shares (€1,00).

A Contingency Event occurs 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.

A Viability Event occurs if (i) the Central Bank of Cyprus determines that the conversion of the CECS is required to improve the capital adequacy and financial position of the Company to prevent insolvency, and/or (ii) the Central Bank of Cyprus determines that the Company requires 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.

The CECS are listed on the Cyprus Stock Exchange and the Athens Exchange.

As at 31 December 2011, the Group held CECS of nominal value €29.833 thousand (2010: nil).

35. Convertible Enhanced Capital Securities (continued)

During 2011, CECS amounting to €1.273 thousand were converted into 386 thousand shares. In addition, during March 2012 CECS amounting to €432 million were converted into shares based on the Group's Capital Strengthening Plan (Note 34).

36. Dividends

| | 2011 | 2010 |
|--|--------|---------|
| Declared and paid during the year: | €000 | €000 |
| Final dividend for 2010: €0,03 (2009: €0,08) per share | 26.848 | 47.856 |
| Interim dividend for 2010: €0,06 per share | - | 46.612 |
| Interim dividend for 2010 in the form of shares: €0,50 per share | - | 388.430 |
| | 26.848 | 482.898 |
| Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December) | | |
| Final dividend for 2010: €0,03 per share | - | 26.848 |

The final dividend for 2010 of €0,03 per share totalling €26.848 thousand was approved at the Annual General Meeting of the shareholders on 24 May 2011 and was paid on 16 June 2011.

The interim dividend in cash in 2010 was set at €0,06 per share. In addition, the Board of Directors, taking into consideration the level of reserves and the applicable legislation for dividend distribution, decided the payment of a special interim dividend payable in the form of shares amounting to €0,50 per share at the issue price of €3,25. This decision was approved at the Extraordinary General Meeting of the Company's shareholders on 20 September 2010. The total amount of the cash dividend was €46.612 thousand and the scrip dividend in the form of shares was €388.430 thousand. The interim cash and scrip dividends were paid to shareholders on 11 November 2010.

The final dividend for 2009 of €0,08 per share, amounting to €47.856 thousand, was approved at the Annual General Meeting of the shareholders on 26 May 2010 and was paid on 17 June 2010.

The total dividend paid during 2011 includes an amount of €26 thousand (2010: €599 thousand) which relates to shares of the Company held by subsidiaries and associates.

37. Retained earnings

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 17% (until 31 August 2011: 15%) is 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. 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.

38. Fiduciary transactions

The Group offers fund management 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 are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management at 31 December 2011 amounted to €3.233 million (2010: €1.781 million).

39. 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 balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group (Note 44).

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2011 amount to €31.266 thousand (2010: €30.883 thousand).

Litigation

The Group's provision for pending litigation or claims is set out in Note 32. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.

In September 2009, an action was filed against the Company in Cyprus by the Trustees of the AremisSoft Corporation Liquidating Trust, their main claim being that the Company, in breach of its obligations to AremisSoft, permitted the principal owner of AremisSoft to execute transactions leading to the appropriation by him of significant sums belonging to AremisSoft. This action is similar to an action filed in New York in 2006, which was dismissed. In the detailed statement of claim filed in October 2010 the Trustees, on behalf of the investors of AremisSoft, claim the amount of approximately USD 550 million (€425 million) plus interest and costs, in damages, which according to their allegations, have resulted from, inter alia, an alleged conspiracy between the Company and two of the major shareholders of AremisSoft, alleged fraudulent transactions through bank accounts held with the Company in Cyprus and the United Kingdom, alleged breach of contract and alleged negligence. The Group does not expect to have any material financial impact as a result of this action.

40. Net cash flow from operating activities

| | 2011 | 2010 |
|---|--------------------|-------------|
| | €000 | €000 |
| (Loss)/profit before tax | (1.351.885) | 348.514 |
| <i>Adjustments for:</i> | | |
| Provisions for impairment of loans and advances | 426.287 | 374.497 |
| Depreciation of property and equipment | 27.127 | 29.840 |
| Amortisation of intangible assets | 14.530 | 15.640 |
| Impairment of property and equipment | 2.974 | - |
| Cost of share-based payments | 2.611 | 3.079 |
| Amortisation of (premiums)/discounts of debt securities and subordinated loan stock | (52.784) | (49.472) |
| Profit on disposal of property and equipment | (281) | (236) |
| Interest on debt securities | (200.206) | (206.494) |
| Dividend income | (666) | (2.859) |
| Profit on exchange of CECS | (6.733) | - |
| (Profit)/loss on sale of investments in equity securities | (1.688) | 34 |
| Profit on sale of investments in debt securities excluding GGBs | (1.612) | (34.223) |
| Share of loss of associates | 1.441 | 1.953 |
| Profit on disposal of subsidiary including transfer of foreign exchange loss to the income statement following reduction of capital in a subsidiary | (8.547) | (1.582) |
| Profit from revaluation of debt securities designated as fair value hedges | (327.137) | (97.076) |
| Impairment of GGBs and change in fair value of related hedging derivatives | 1.729.261 | - |
| Impairment of investments | 4.137 | 31.406 |
| Interest on subordinated loan stock | 20.458 | 43.669 |
| Interest on senior debt | 3.110 | 5.092 |
| Change in present value of in-force life insurance business | (5.364) | (10.071) |
| | 275.033 | 451.711 |
| Change in: | | |
| Placements with banks | 272.997 | (178.554) |
| Obligations to central banks and amounts due to banks | (455.705) | (1.590.673) |
| Obligatory balances with central banks | (38.801) | (153.232) |
| Customer deposits | (2.225.307) | 4.368.006 |
| Value of in-force life insurance policies and liabilities | 10.071 | 20.091 |
| Loans and advances to customers | (1.119.769) | (2.477.972) |
| Other assets | (27.167) | (10.637) |
| Accrued income and prepaid expenses | 1.489 | 617 |
| Other liabilities | (52.819) | (72.876) |
| Accrued expenses and deferred income | (25.757) | 27.440 |
| Derivative financial instruments | 130.243 | 85.322 |
| Investments at fair value through profit or loss | 147.966 | 12.702 |
| Repurchase agreements | (127.116) | 418.303 |
| Reverse repurchase agreements | (95.770) | (29) |
| Subordinated loan stock | 1.017 | (17.837) |
| | (3.329.395) | 882.382 |
| Tax paid | (68.487) | (60.921) |
| Net cash flow (used in)/from operating activities | (3.397.882) | 821.461 |

40. Net cash flow from operating activities (continued)

Net cash flow from operating activities – interest and dividends

| | 2011 | 2010 |
|--------------------|----------------|----------------|
| | €000 | €000 |
| Interest paid | (1.086.456) | (1.038.962) |
| Interest received | 2.028.788 | 1.981.587 |
| Dividends received | 666 | 2.859 |
| | 942.998 | 945.484 |

41. Cash and cash equivalents

Cash and cash equivalents comprise of:

| | 2011 | 2010 |
|---|------------------|------------------|
| | €000 | €000 |
| Cash and non-obligatory balances with central banks | 593.933 | 1.499.512 |
| Placements with banks with original maturity less than three months | 2.595.285 | 4.840.255 |
| | 3.189.218 | 6.339.767 |

| | | |
|--|------------------|------------------|
| Cash and non-obligatory balances with central banks | 593.933 | 1.499.512 |
| Obligatory balances with central banks | 781.114 | 742.313 |
| Total cash and balances with central banks (Note 18) | 1.375.047 | 2.241.825 |

| | | |
|---|------------------|------------------|
| Placements with banks with original maturity less than three months | 2.595.285 | 4.840.255 |
| Other placements with banks | 32.546 | 424.373 |
| Total placements with banks (Note 18) | 2.627.831 | 5.264.628 |

42. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December are stated below:

| | 2011 | 2010 |
|----------------------------|---------------|---------------|
| | €000 | €000 |
| Within one year | 36.364 | 16.389 |
| Between one and five years | 21.021 | 42.956 |
| After five years | 2.000 | 17.318 |
| | 59.385 | 76.663 |

The above mainly relate to property leases for the Group's branches and offices.

43. Analysis of assets and liabilities by expected maturity

| | 2011 | | | 2010 | | |
|--|-----------------------|------------------|------------|-----------------------|------------------|------------|
| | 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 | 632.638 | 742.409 | 1.375.047 | 1.465.866 | 775.959 | 2.241.825 |
| Placements with banks | 2.581.834 | 45.997 | 2.627.831 | 5.264.376 | 252 | 5.264.628 |
| Reverse repurchase agreements | 215.936 | - | 215.936 | 120.166 | - | 120.166 |
| Investments | 444.809 | 3.122.385 | 3.567.194 | 930.997 | 4.414.597 | 5.345.594 |
| Derivative financial instruments | 186.673 | 7.061 | 193.734 | 60.974 | 15.304 | 76.278 |
| Life insurance business assets attributable to policyholders | 13.967 | 490.612 | 504.579 | 13.084 | 548.611 | 561.695 |
| Loans and advances to customers | 6.109.988 | 21.256.929 | 27.366.917 | 6.173.486 | 21.551.965 | 27.725.451 |
| Property, equipment and intangible assets | - | 945.698 | 945.698 | - | 897.839 | 897.839 |
| Other assets | 262.723 | 412.620 | 675.343 | 182.786 | 217.673 | 400.459 |
| Investments in associates | - | 2.820 | 2.820 | - | 3.805 | 3.805 |
| | 10.448.568 | 27.026.531 | 37.475.099 | 14.211.735 | 28.426.005 | 42.637.740 |
| Liabilities | | | | | | |
| Obligations to central banks and amounts due to banks | 1.696.944 | 1.368.812 | 3.065.756 | 3.012.972 | 694.003 | 3.706.975 |
| Repurchase agreements | 176.035 | 609.958 | 785.993 | 742.546 | 170.563 | 913.109 |
| Derivative financial instruments | 73.284 | 414.827 | 488.111 | 127.299 | 113.113 | 240.412 |
| Customer deposits | 9.923.074 | 19.731.424 | 29.654.498 | 16.703.808 | 16.248.759 | 32.952.567 |
| Insurance liabilities | 105.750 | 505.514 | 611.264 | 95.813 | 562.496 | 658.309 |
| Debt securities in issue | 34.813 | 14.978 | 49.791 | 61.548 | 22.409 | 83.957 |
| Other liabilities | 198.647 | 63.580 | 262.227 | 223.514 | 99.606 | 323.120 |
| Subordinated loan stock | 22.150 | 106.230 | 128.380 | 335 | 930.607 | 930.942 |
| | 12.230.697 | 22.815.323 | 35.046.020 | 20.967.835 | 18.841.556 | 39.809.391 |

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

Loans and advances to customers and customer deposits in Cyprus, Greece and Russia are classified based on historic behavioural data. In the United Kingdom and Australia they are classified on the same basis as that used for regulatory purposes and in Romania and Ukraine 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.

44. 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 to 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 2 '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.

44. Risk management – Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held and other credit enhancements.

| | 2011 | 2010 |
|--|-------------------|-------------------|
| | €000 | €000 |
| Balances with central banks (Note 18) | 1.158.868 | 2.047.251 |
| Placements with banks | 2.627.831 | 5.264.628 |
| Reverse repurchase agreements | 215.936 | 120.166 |
| Trading investments - debt securities | 1.935 | 2.353 |
| Debt securities at fair value through profit or loss | 44.227 | 182.377 |
| Debt securities classified as available-for-sale, held-to-maturity and loans and receivables | 3.468.331 | 5.081.942 |
| Derivative financial instruments | 193.734 | 76.278 |
| Loans and advances to customers | 27.366.917 | 27.725.451 |
| Debtors (Note 27) | 27.396 | 24.644 |
| Reinsurers' share of insurance contract liabilities (Note 27) | 64.191 | 67.163 |
| Receivable from disposal of subsidiary | 103.137 | - |
| Other financial assets | 141.680 | 118.124 |
| On-balance sheet total | 35.414.183 | 40.710.377 |
| <i>Contingent liabilities</i> | | |
| Acceptances and endorsements | 17.649 | 29.040 |
| Guarantees | 1.823.869 | 2.023.359 |
| <i>Commitments</i> | | |
| Documentary credits | 31.663 | 48.109 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 3.680.981 | 4.151.187 |
| Off-balance sheet total | 5.554.162 | 6.251.695 |
| Total credit risk exposure | 40.968.345 | 46.962.072 |

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 guarantees (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; these are monitored by the same policies and control processes.

44. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

| | 2011 | 2010 |
|--------------------------|-------------------|-------------------|
| | €000 | €000 |
| On-balance sheet | | |
| Cyprus | 21.234.335 | 24.898.799 |
| Greece | 10.013.866 | 10.402.813 |
| Russia | 1.999.386 | 1.989.176 |
| United Kingdom | 1.187.719 | 1.212.438 |
| Australia | - | 1.276.134 |
| Romania | 636.592 | 678.162 |
| Ukraine | 342.285 | 252.855 |
| | 35.414.183 | 40.710.377 |
| Off-balance sheet | | |
| Cyprus | 3.038.980 | 2.643.180 |
| Greece | 2.208.980 | 2.708.863 |
| Russia | 232.827 | 646.441 |
| United Kingdom | 35.163 | 54.811 |
| Australia | - | 135.688 |
| Romania | 38.114 | 28.666 |
| Ukraine | 98 | 34.046 |
| | 5.554.162 | 6.251.695 |

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.

The Group's exposure to credit risk arising from customers groups whose credit facilities amounted to more than 10% of the Group's capital base as at 31 December 2011 was €2.573.979 thousand (2010: €1.391.259 thousand).

44. Risk management – Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

The Group Credit Risk Management Unit determines the amount and type of collateral and other credit enhancements required.

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 some cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in cash or securities. 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.

44. Risk management – Credit risk (continued)

Analysis of loans and advances

| 2011 | Cyprus | Greece | Russia | United Kingdom | Romania | Ukraine | Total |
|---|-------------------|------------------|------------------|------------------|----------------|----------------|-------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| By economic activity | | | | | | | |
| Trade | 1.558.822 | 1.375.442 | 421.966 | 74.098 | 39.542 | 16.631 | 3.486.501 |
| Manufacturing | 604.011 | 1.038.986 | 204.444 | 18.508 | 27.771 | 10.524 | 1.904.244 |
| Hotels and catering | 898.978 | 1.157.777 | 107 | 142.100 | 111.926 | 9.289 | 2.320.177 |
| Construction | 2.524.320 | 909.461 | 83.209 | 23.350 | 52.862 | 24.664 | 3.617.866 |
| Real estate | 1.287.329 | 629.164 | 216.570 | 647.367 | 207.249 | 86.398 | 3.074.077 |
| Private individuals | 5.367.413 | 3.006.706 | 392.878 | 68.634 | 45.888 | 78.948 | 8.960.467 |
| Professional and other services | 1.848.680 | 828.702 | 638.096 | 59.781 | 91.346 | 97.608 | 3.564.213 |
| Other sectors | 841.845 | 1.036.803 | 47.280 | 1.496 | 9.143 | 8.317 | 1.944.884 |
| | 14.931.398 | 9.983.041 | 2.004.550 | 1.035.334 | 585.727 | 332.379 | 28.872.429 |
| By customer sector | | | | | | | |
| Corporate | 6.972.174 | 3.399.462 | 1.287.016 | 388.065 | 463.244 | 239.592 | 12.749.553 |
| Small and medium-sized enterprises (SMEs) | 2.523.277 | 3.591.895 | 326.498 | 600.079 | 75.866 | 34.154 | 7.151.769 |
| Retail | | | | | | | |
| - housing | 3.504.726 | 1.704.718 | 73.405 | 40.308 | 18.985 | 20.809 | 5.362.951 |
| - credit cards | 122.242 | 178.890 | 96.976 | - | - | 4 | 398.112 |
| - consumer and other | 1.808.979 | 1.108.076 | 220.655 | 6.882 | 27.632 | 37.820 | 3.210.044 |
| | 14.931.398 | 9.983.041 | 2.004.550 | 1.035.334 | 585.727 | 332.379 | 28.872.429 |

44. Risk management – Credit risk (continued)

Analysis of loans and advances (continued)

| 2010 | Cyprus | Greece | Russia | United Kingdom | Australia | Romania | Ukraine | Total |
|---|-------------------|-------------------|------------------|------------------|------------------|----------------|----------------|-------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| By economic activity | | | | | | | | |
| Trade | 1.653.267 | 1.407.379 | 374.366 | 79.493 | 34.936 | 42.304 | 26.201 | 3.617.946 |
| Manufacturing | 536.540 | 942.994 | 172.378 | 21.032 | 20.565 | 34.504 | 27.307 | 1.755.320 |
| Hotels and catering | 980.516 | 1.060.648 | 57 | 138.852 | - | 113.174 | 4.529 | 2.297.776 |
| Construction | 1.692.576 | 845.034 | 69.365 | 14.336 | 36.988 | 68.593 | 20.665 | 2.747.557 |
| Real estate | 1.873.988 | 549.373 | 184.635 | 694.056 | 320.217 | 226.780 | 16.973 | 3.866.022 |
| Private individuals | 4.362.992 | 3.226.046 | 406.452 | 74.376 | 426.993 | 39.384 | 55.066 | 8.591.309 |
| Professional and other services | 2.004.717 | 1.035.351 | 634.646 | 53.199 | 163.387 | 81.648 | 92.656 | 4.065.604 |
| Other sectors | 778.368 | 1.087.560 | 45.316 | 1.470 | 8.474 | 18.286 | 4.842 | 1.944.316 |
| | 13.882.964 | 10.154.385 | 1.887.215 | 1.076.814 | 1.011.560 | 624.673 | 248.239 | 28.885.850 |
| By customer sector | | | | | | | | |
| Corporate | 6.412.147 | 3.222.430 | 1.269.506 | 301.482 | - | 523.588 | 186.317 | 11.915.470 |
| Small and medium-sized enterprises (SMEs) | 2.345.788 | 3.722.583 | 213.013 | 726.275 | 589.647 | 61.736 | 25.812 | 7.684.854 |
| Retail | | | | | | | | |
| - housing | 3.472.034 | 1.752.901 | 86.642 | 43.615 | 198.325 | 15.078 | 4.583 | 5.573.178 |
| - credit cards | 124.292 | 190.051 | 85.395 | - | - | - | 4 | 399.742 |
| - consumer and other | 1.528.703 | 1.266.420 | 232.659 | 5.442 | 223.588 | 24.271 | 31.523 | 3.312.606 |
| | 13.882.964 | 10.154.385 | 1.887.215 | 1.076.814 | 1.011.560 | 624.673 | 248.239 | 28.885.850 |

In Greece, the 'corporate' sector and 'other sectors' include loans to government controlled businesses amounting to €306.901 thousand (2010: €305.563 thousand), which according to the European Bank Authority are classified as sovereign.

44. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

| | 2011 | 2010 |
|-------------------------------|-------------------|-------------------|
| | €000 | €000 |
| Neither past due nor impaired | 20.624.394 | 23.014.242 |
| Past due but not impaired | 5.936.534 | 4.252.789 |
| Impaired | 2.311.501 | 1.618.819 |
| | 28.872.429 | 28.885.850 |

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. In the table below, the credit risk quality of loans and advances to customers that were neither past due nor impaired is analysed.

| | Grade 1 | Grade 2 | Grade 3 | Total |
|----------------|-------------------|------------------|------------------|-------------------|
| 2011 | €000 | €000 | €000 | €000 |
| Cyprus | 8.492.384 | 894.601 | 1.133.449 | 10.520.434 |
| Greece | 5.390.708 | 124.715 | 1.465.422 | 6.980.845 |
| Russia | 1.036.792 | 569.926 | 2.875 | 1.609.593 |
| United Kingdom | 742.597 | 83.891 | 61.814 | 888.302 |
| Romania | 469.993 | 3.816 | 3.872 | 477.681 |
| Ukraine | 121.286 | 7.711 | 18.542 | 147.539 |
| | 16.253.760 | 1.684.660 | 2.685.974 | 20.624.394 |

| 2010 | | | | |
|----------------|-------------------|------------------|------------------|-------------------|
| Cyprus | 8.722.049 | 1.221.642 | 1.295.205 | 11.238.896 |
| Greece | 6.034.819 | 185.244 | 1.507.496 | 7.727.559 |
| Russia | 1.238.624 | 329.026 | 106.012 | 1.673.662 |
| United Kingdom | 756.672 | 97.638 | 58.138 | 912.448 |
| Australia | 202.885 | 637.440 | 21.704 | 862.029 |
| Romania | 465.920 | 4.112 | 3.035 | 473.067 |
| Ukraine | 67.672 | 7.926 | 50.983 | 126.581 |
| | 17.488.641 | 2.483.028 | 3.042.573 | 23.014.242 |

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.

44. 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

| | 2011 | 2010 |
|-------------------|------------------|------------------|
| <i>Past due:</i> | €000 | €000 |
| - up to 30 days | 1.128.952 | 1.170.924 |
| - 31 to 90 days | 2.151.204 | 1.131.471 |
| - 91 to 180 days | 966.408 | 551.238 |
| - 181 to 365 days | 633.467 | 784.035 |
| - over one year | 1.056.503 | 615.121 |
| | 5.936.534 | 4.252.789 |

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 2011 is €4.357.361 thousand (2010: €2.599.456 thousand).

Impaired loans and advances to customers on an individual basis

| | 2011 | | 2010 | |
|----------------|--------------------|--------------------------|--------------------|--------------------------|
| | Loans and advances | Fair value of collateral | Loans and advances | Fair value of collateral |
| | €000 | €000 | €000 | €000 |
| Cyprus | 1.081.610 | 666.930 | 771.336 | 410.386 |
| Greece | 908.566 | 217.366 | 620.646 | 139.141 |
| Russia | 176.190 | 70.435 | 116.404 | 90.316 |
| United Kingdom | 57.478 | 32.229 | 40.383 | 19.399 |
| Romania | 35.604 | 19.801 | 27.707 | 20.389 |
| Ukraine | 52.053 | 24.352 | 42.343 | 28.042 |
| | 2.311.501 | 1.031.113 | 1.618.819 | 707.673 |

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

44. 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 |
|---|----------------|----------------|----------------|-----------------|------------------|
| 2011 | €000 | €000 | €000 | €000 | €000 |
| 1 January | 551.884 | 450.544 | 98.516 | 59.455 | 1.160.399 |
| Exchange adjustments | 1.019 | (2.075) | (2.948) | 1.599 | (2.405) |
| Applied in writing off impaired loans and advances | (8.327) | (14.161) | (1.610) | (2.416) | (26.514) |
| Interest accrued on impaired loans and advances | (30.486) | (19.600) | - | (1.347) | (51.433) |
| Collection of loans and advances previously written off | 3.526 | - | - | - | 3.526 |
| Charge for the year | 131.409 | 217.304 | 54.472 | 23.102 | 426.287 |
| Disposal of subsidiary company | - | - | - | (4.348) | (4.348) |
| 31 December | 649.025 | 632.012 | 148.430 | 76.045 | 1.505.512 |
| Individual impairment | 490.309 | 564.117 | 74.436 | 65.346 | 1.194.208 |
| Collective impairment | 158.716 | 67.895 | 73.994 | 10.699 | 311.304 |

| 2010 | | | | | |
|---|----------------|----------------|---------------|---------------|------------------|
| 1 January | 452.499 | 306.450 | 72.390 | 40.929 | 872.268 |
| Exchange adjustments | 2.283 | - | 3.379 | 1.765 | 7.427 |
| Applied in writing off impaired loans and advances | (32.218) | (24.112) | (1.714) | (3.712) | (61.756) |
| Interest accrued on impaired loans and advances | (20.365) | (16.391) | - | - | (36.756) |
| Collection of loans and advances previously written off | 4.719 | - | - | - | 4.719 |
| Charge for the year | 144.966 | 184.597 | 24.461 | 20.473 | 374.497 |
| 31 December | 551.884 | 450.544 | 98.516 | 59.455 | 1.160.399 |
| Individual impairment | 393.168 | 390.254 | 43.657 | 46.033 | 873.112 |
| Collective impairment | 158.716 | 60.290 | 54.859 | 13.422 | 287.287 |

44. Risk management – Credit risk (continued)

Collateral and other credit enhancements obtained

The carrying amount of assets obtained during the year by taking possession of collateral held as security, was as follows:

| | 2011 | 2010 |
|-------------------------------|---------------|---------------|
| | €000 | €000 |
| Residential property | 7.813 | 6.434 |
| Commercial and other property | 63.989 | 87.927 |
| | 71.802 | 94.361 |

The carrying amount of the assets obtained by taking possession of collateral which was held as security which are held at 31 December 2011 amounted to €165.265 thousand (2010: €95.122 thousand).

The majority of the repossessed assets are subsequently disposed and the net proceeds are used to recover the original funds advanced to 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.

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:

| | 2011 | 2010 |
|------------------------------|------------------|------------------|
| | €000 | €000 |
| Aaa – Aa3 | 1.425.410 | 5.350.909 |
| A1 – A3 | 1.327.462 | 1.197.869 |
| Baa1 – Baa3 | 589.534 | 427.648 |
| Ba1 – Ba3 | 62.815 | 5.395 |
| B1 – B3 | 39.905 | - |
| Caa - C | 212.329 | 282.500 |
| Unrated | 81.911 | 41.919 |
| Other receivables from banks | 47.333 | 5.639 |
| | 3.786.699 | 7.311.879 |

Band Baa1-Baa3 above, includes an amount of €398.971 thousand which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus and band Caa-C includes respective amount of €210.638 thousand with the Bank of Greece.

44. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

Debt securities

Investments in debt securities are analysed by Moody's rating their issuer and classification as follows:

| | 2011 | 2010 |
|--|------------------|-----------|
| | €000 | €000 |
| Aaa – Aa3 | 1.346.439 | 2.132.201 |
| A1 – A3 | 347.393 | 291.391 |
| Baa1 – Baa3 | 599.941 | 471.050 |
| Ba1 – Ba3 | 368.581 | 2.370.701 |
| B1 – B3 | 45.591 | - |
| Caa – C | 756.030 | - |
| Unrated | 50.518 | 1.329 |
| | 3.514.493 | 5.266.672 |
| <i>Issued by:</i> | | |
| - Cyprus government | 530.927 | 771.009 |
| - other governments | 1.728.736 | 2.666.315 |
| - banks and other corporations | 1.254.247 | 1.828.810 |
| - local authorities | 583 | 538 |
| | 3.514.493 | 5.266.672 |
| <i>Classified as:</i> | | |
| - trading investments | 1.935 | 2.353 |
| - investments at fair value through profit or loss | 44.227 | 182.377 |
| - available-for-sale investments | 1.207.548 | 2.257.442 |
| - held-to-maturity investments | 1.204.104 | 1.022.850 |
| - investments classified as loans and receivables | 1.056.679 | 1.801.650 |
| | 3.514.493 | 5.266.672 |

45. 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 mis-matches 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 first three years. These limits are set as a percentage of Group capital (1,5%) and as a percentage of net interest income (5%) 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 |
|---|----------------|-------------------|-----------------------|-------------------------|----------------|
| <i>Change in interest rates</i> | €000 | €000 | €000 | €000 | €000 |
| 2011 | | | | | |
| +1% for all currencies | 8.050 | 24.775 | 2.712 | 1.520 | 22.438 |
| -0,25% for US Dollars, Japanese Yen, Swiss Franc and -0,5% for all other currencies | (1.617) | (3.715) | (1.430) | (1.554) | (4.427) |
| 2010 | | | | | |
| +1% for all currencies | 20.581 | 18.444 | 1.994 | 3.946 | 40.432 |
| -0,25% for US Dollars, Japanese Yen, Swiss Franc and -0,5% for all other currencies | (9.358) | (3.850) | (790) | (1.838) | (14.206) |

45. 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 profit before tax and equity (excluding the effect on equity from the impact on profit) as a result of reasonably possible changes in the interest rates of the major currencies.

| | Impact on profit before tax | Impact on equity |
|--|--------------------------------|------------------|
| <i>Change in interest rates</i> | €000 | €000 |
| 2011 | | |
| +1% for all currencies | 102.750 | (2.112) |
| -0,25% for US Dollars, Japanese Yen, Swiss Franc and -0,5% for all other currencies | (50.938) | 1.088 |
| 2010 | | |
| +1% for all currencies | 28.060 | (15.306) |
| -0,25% for US Dollars, Japanese Yen, Swiss Franc and -0,5% for all other currencies | (14.925) | 7.072 |

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 each currency or group of currencies and 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.

45. Risk management – Market risk (continued)

Currency risk (continued)

The table below sets out the Group's foreign exchange 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 profit after tax and on equity includes the change in net interest income that arise from the change of currency rate and also the impact in results from the open currency position.

| | Change in exchange rate | Impact on profit after tax and equity |
|------------------------------------|----------------------------|---|
| 2011 | % | €000 |
| US Dollar | +8 | 2.108 |
| Russian Rubble | +8 | 511 |
| Romanian Lei | +8 | 377 |
| Ukrainian Hryvnia | +5 | 187 |
| Swiss Franc | +8 | 3.033 |
| British Pound | +8 | (136) |
| Australian Dollar and Japanese Yen | +10 | 1.067 |
| Other currencies | +8 | 371 |

| | | |
|------------------------------------|-----|---------|
| US Dollar | -8 | (1.796) |
| Russian Rubble | -8 | (435) |
| Romanian Lei | -8 | (321) |
| Ukrainian Hryvnia | -20 | (594) |
| Swiss Franc | -8 | (2.584) |
| British Pound | -8 | 116 |
| Australian Dollar and Japanese Yen | -10 | (873) |
| Other currencies | -8 | (371) |

| 2010 | | |
|------------------------------------|-----|-------|
| US Dollar | +8 | 3.193 |
| Russian Rubble | +8 | 741 |
| Romanian Lei | +8 | (272) |
| Ukrainian Hryvnia | +5 | 34 |
| Swiss Franc | +8 | 2.717 |
| British Pound | +8 | 152 |
| Australian Dollar and Japanese Yen | +10 | 1.504 |
| Other currencies | +8 | 1.554 |

| | | |
|------------------------------------|-----|---------|
| US Dollar | -8 | (3.193) |
| Russian Rubble | -8 | (741) |
| Romanian Lei | -8 | (272) |
| Ukrainian Hryvnia | -20 | - |
| Swiss Franc | -8 | (2.717) |
| British Pound | -8 | (152) |
| Australian Dollar and Japanese Yen | -10 | (1.504) |
| Other currencies | -8 | (1.554) |

45. Risk management – Market risk (continued)

Price risk

Equity securities price risk

The risk of loss from changes in the price of equity shares, 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 shares in the trading book and other restrictions, like 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 profit 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 profit before tax and equity (excluding the effect on equity from the impact on profit) 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.

| | Change in index | Impact on profit before tax | Impact on equity |
|--|-----------------|-----------------------------|------------------|
| 2011 | % | €000 | €000 |
| Cyprus Stock Exchange | +30 | 1.467 | 2.131 |
| Athens Exchange | +25 | 301 | 348 |
| Moscow Interbank Currency Exchange (MICEX) | +20 | - | 205 |
| Bucharest Stock Exchange | +20 | - | 7.192 |

| | | | |
|--|-----|---------|-------|
| Cyprus Stock Exchange | -30 | (3.311) | (288) |
| Athens Exchange | -25 | (301) | (348) |
| Moscow Interbank Currency Exchange (MICEX) | -20 | - | (205) |
| Bucharest Stock Exchange | -20 | (7.192) | - |

| 2010 | | | |
|--|-----|-------|--------|
| Cyprus Stock Exchange | +25 | 1.966 | 4.403 |
| Athens Exchange | +25 | 1.146 | 301 |
| Moscow Interbank Currency Exchange (MICEX) | +20 | - | 219 |
| Bucharest Stock Exchange | +25 | - | 10.598 |

| | | | |
|--|-----|----------|---------|
| Cyprus Stock Exchange | -25 | (2.372) | (3.997) |
| Athens Exchange | -25 | (1.146) | (301) |
| Moscow Interbank Currency Exchange (MICEX) | -20 | - | (219) |
| Bucharest Stock Exchange | -25 | (10.598) | - |

45. Risk management – Market risk (continued)

Price risk (continued)

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 2011 was Ba2 (2010: Baa1).

Changes in the prices of debt securities classified as investments at fair value through profit or 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 (if not impaired). The table below indicates how the profit 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.

| | Impact on profit before tax | Impact on equity |
|--------------------------------|--------------------------------|---------------------|
| <i>Change in market prices</i> | €000 | €000 |
| 2011 | | |
| +9% | 3.818 | 106.980 |
| -9% | (3.818) | (106.980) |
| 2010 | | |
| +4% | 7.084 | 88.136 |
| -4% | (7.084) | (88.136) |

46. Risk management – Liquidity 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.

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.

Deposits are the main funding source of the Group. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the Group monitors the percentage of fixed deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels. In order to finance illiquid assets, the Group relies almost exclusively on stable funding sources.

Other sources of funding include the issuance of bonds and capital securities which enable the Group to attract long term liquidity by accessing the international and the local markets.

Local Treasury units at each location are responsible for liquidity management in their respective unit. Group Treasury is responsible for liquidity management both at the Group level and at the level of each individual unit. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Group's liquidity position, such as the issuance of covered bonds which can be used as collateral in the refinancing operations of the European Central Bank.

Liquidity is also monitored daily by Group Market Risk Management.

Group Market Risk Management is responsible to ensure compliance both 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.

46. Risk management – Liquidity risk (continued)

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis.

The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

Moreover, stress testing is carried out every six months for all banking units of the Group, based on four scenarios defined jointly by the Central Bank of Cyprus and the International Monetary Fund. These scenarios include assumptions about:

- significant withdrawal of Euro and/or foreign currency deposits
- significant withdrawal of undrawn and committed credit lines
- significant haircut on liquid assets
- unavailability of wholesale (interbank) funding
- significant reduction in assets eligible as collateral in the refinancing operations of the European Central Bank.

In addition, as part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan, which sets out a response in the event of liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to view a meeting of the Funding Crisis Committee. The members of this Committee have been determined together with a series of possible actions that are available. This plan, as well as the Group's Liquidity Policy, are reviewed at least annually and submitted to the Central Bank of Cyprus.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Moreover, the ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is monitored at Group level. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities.

The Group liquidity ratio was as follows:

| | 2011 | 2010 |
|---------------|-------|-------|
| | % | % |
| 31 December | 21,51 | 28,10 |
| Average ratio | 24,69 | 27,83 |
| Highest ratio | 28,82 | 30,60 |
| Lowest ratio | 18,91 | 26,31 |

The total Group borrowings from the European Central Banking System (Note 28) as at 31 December 2011 amounted to €2.100.556 thousand (2010: €2.199.450 thousand).

46. Risk management – Liquidity risk (continued)

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 presented in the table below. The analysis 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

Financial assets are presented on the same basis as that of the liquidity reports provided to Group ALCO as this presentation is considered to be the most appropriate presentation of the Group's liquidity. The analysis of financial information 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 and overdrafts 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.

Investments in debt securities and other financial assets which are considered by the Central Bank of Cyprus 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 were classified in the first maturity time band at their fair value less discounts (as determined by the Central Bank of Cyprus). The amounts of the discounts are presented in the time band of the maturity of the related asset. All other investments were 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.

The amounts presented in this table are not equal to the balance sheet amounts since the table below presents all cash flows (including interest) 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.

46. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

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.

| | 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 |
|---|-------------------------------------|------------------------------------|---|----------------------------------|--------------------|------------|
| 2011 | €000 | €000 | €000 | €000 | €000 | €000 |
| Financial assets | | | | | | |
| Cash and balances at central banks | 1.187.023 | 85.818 | 84.335 | 17.871 | - | 1.375.047 |
| Placements with banks | 2.553.811 | 11.053 | 16.980 | 45.370 | 617 | 2.627.831 |
| Reverse repurchase agreements | 100.134 | - | 115.802 | - | - | 215.936 |
| Investments at fair value through profit or loss | 29.412 | - | 20.304 | 1.707 | 1.466 | 52.889 |
| Loans and advances to customers | 6.754.739 | 816.798 | 3.663.852 | 7.128.256 | 9.003.272 | 27.366.917 |
| Fair value of net settled derivative assets | 182.665 | 9.517 | 106.887 | 7.670 | 2.512 | 309.251 |
| Non trading investments | 2.115.869 | 19.563 | 198.476 | 561.131 | 404.500 | 3.299.539 |
| Other assets | 51.664 | 2.678 | 2.025 | 1.121 | 4.418 | 61.906 |
| Total undiscounted financial assets | 12.975.317 | 945.427 | 4.208.661 | 7.763.126 | 9.416.785 | 35.309.316 |
| Financial liabilities | | | | | | |
| Obligations to central banks and amounts due to banks | 1.665.952 | 35.507 | 8.445 | 1.521.340 | 36.126 | 3.267.370 |
| Repurchase agreements | 3.900 | - | 175.204 | 491.962 | 214.319 | 885.385 |
| Customer deposits | 16.415.892 | 6.971.047 | 5.906.018 | 652.138 | 127.126 | 30.072.221 |
| Debt securities in issue | 4.342 | 15.786 | 15.702 | 14.978 | - | 50.808 |
| Fair value of net settled derivative liabilities | 1.535 | 479 | 5.118 | 56.267 | 383.250 | 446.649 |
| Subordinated loan stock | - | 172 | 22.952 | 92.690 | 28.503 | 144.317 |
| Other liabilities | 101.867 | 4.762 | 3.891 | 31.345 | 330 | 142.195 |
| Total undiscounted financial liabilities | 18.193.488 | 7.027.753 | 6.137.330 | 2.860.720 | 789.654 | 35.008.945 |

46. Risk management – Liquidity risk (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 |
|---|-------------------------------------|------------------------------------|--|----------------------------------|--------------------|-------------------|
| 2010 | €000 | €000 | €000 | €000 | €000 | €000 |
| Financial assets | | | | | | |
| Cash and balances at central banks | 2.045.480 | 93.014 | 93.847 | 9.484 | - | 2.241.825 |
| Placements with banks | 4.684.306 | 158.047 | 422.023 | 149 | 103 | 5.264.628 |
| Reverse repurchase agreements | - | - | 120.166 | - | - | 120.166 |
| Investments at fair value through profit or loss | 170.482 | - | - | 22.464 | 7.909 | 200.855 |
| Loans and advances to customers | 5.126.185 | 856.351 | 3.930.649 | 8.574.904 | 9.237.362 | 27.725.451 |
| Fair value of net settled derivative assets | 18.043 | 7.573 | 2.067 | 32.588 | 4.887 | 65.158 |
| Non trading investments | 2.705.580 | 834.685 | 524.533 | 403.839 | 162.935 | 4.631.572 |
| Other assets | 38.625 | 2.859 | 3.595 | 999 | 4.715 | 50.793 |
| Total undiscounted financial assets | 14.788.701 | 1.952.529 | 5.096.880 | 9.044.427 | 9.417.911 | 40.300.448 |
| Financial liabilities | | | | | | |
| Obligations to central banks and amounts due to banks | 428.041 | 2.233.690 | 367.256 | 600.327 | 160.318 | 3.789.632 |
| Repurchase agreements | - | 162.707 | 587.124 | 176.245 | - | 926.076 |
| Customer deposits | 19.297.233 | 7.373.669 | 5.852.595 | 631.205 | 82.326 | 33.237.028 |
| Debt securities in issue | 5.337 | 27.924 | 30.284 | 18.771 | 3.644 | 85.960 |
| Fair value of net settled derivative liabilities | 1.042 | 1.322 | 5.367 | 38.659 | 83.187 | 129.577 |
| Subordinated loan stock | - | 1.647 | 131.394 | 932.175 | 7.079 | 1.072.295 |
| Other liabilities | 109.841 | 1.937 | 1.214 | 1.038 | - | 114.030 |
| Total undiscounted financial liabilities | 19.841.494 | 9.802.896 | 6.975.234 | 2.398.420 | 336.554 | 39.354.598 |

46. Risk management – Liquidity risk (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 |
|--|-------------------------------------|------------------------------------|---|-------------------------------|--------------------|--------------------|
| 2011 | €000 | €000 | €000 | €000 | €000 | €000 |
| Gross settled derivatives | | | | | | |
| <i>Financial assets</i> | | | | | | |
| Contractual amounts receivable | 2.157.068 | 364.918 | 232.013 | 37.593 | - | 2.791.592 |
| Contractual amounts payable | (2.095.542) | (353.842) | (220.169) | (37.009) | - | (2.706.562) |
| | 61.526 | 11.076 | 11.844 | 584 | - | 85.030 |
| <i>Financial liabilities</i> | | | | | | |
| Contractual amounts receivable | 410.925 | 93.929 | 62.622 | 165.575 | - | 733.051 |
| Contractual amounts payable | (420.336) | (95.237) | (67.501) | (168.062) | - | (751.136) |
| | (9.411) | (1.308) | (4.879) | (2.487) | - | (18.085) |
| Contingent liabilities and commitments | | | | | | |
| <i>Contingent liabilities</i> | | | | | | |
| Acceptances and endorsements | 3.843 | 5.513 | 8.121 | 172 | - | 17.649 |
| Guarantees | 43.231 | 78.251 | 196.353 | 609.534 | 896.500 | 1.823.869 |
| <i>Commitments</i> | | | | | | |
| Documentary credits | 14 | 5.962 | 13.739 | 8.668 | 3.280 | 31.663 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 105.751 | 3.410.957 | 72.137 | 73.006 | 19.130 | 3.680.981 |
| | 152.839 | 3.500.683 | 290.350 | 691.380 | 918.910 | 5.554.162 |

46. Risk management – Liquidity risk (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 |
|--------------------------------------|-------------------------------------|------------------------------------|---|-------------------------------|-----------------|--------------------|
| 2010 | €000 | €000 | €000 | €000 | €000 | €000 |
| Gross settled derivatives | | | | | | |
| <i>Financial assets</i> | | | | | | |
| Contractual amounts receivable | 600.136 | 186.377 | 66.517 | 12.216 | - | 865.246 |
| Contractual amounts payable | (598.541) | (185.989) | (64.671) | (10.536) | - | (859.737) |
| | 1.595 | 388 | 1.846 | 1.680 | - | 5.509 |
| <i>Financial liabilities</i> | | | | | | |
| Contractual amounts receivable | 2.128.927 | 493.053 | 428.262 | 175.671 | - | 3.225.913 |
| Contractual amounts payable | (2.166.979) | (506.793) | (448.182) | (222.436) | - | (3.344.390) |
| | (38.052) | (13.740) | (19.920) | (46.765) | - | (118.477) |

| | | | | | | |
|--|---------------|------------------|----------------|----------------|----------------|------------------|
| Contingent liabilities and commitments | | | | | | |
| <i>Contingent liabilities</i> | | | | | | |
| Acceptances and endorsements | 53 | 11.865 | 16.856 | 266 | - | 29.040 |
| Guarantees | 57.248 | 82.554 | 226.389 | 864.823 | 792.345 | 2.023.359 |
| <i>Commitments</i> | | | | | | |
| Documentary credits | - | 19.745 | 18.535 | 6.564 | 3.265 | 48.109 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 1.084 | 3.748.146 | 288.549 | 81.413 | 31.995 | 4.151.187 |
| | 58.385 | 3.862.310 | 550.329 | 953.066 | 827.605 | 6.251.695 |

47. 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 under its insurance contracts 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 number and amount of claims and benefits will vary from year to year from 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 considered on an annual basis by reviewing 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 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 exclusions 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, for the understanding of earnings volatility and for planning its operations. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

| | 2011 | 2010 |
|---------------------------------|----------|----------|
| Change in embedded value | €000 | €000 |
| Change in interest rates +0,25% | 633 | 583 |
| Change in expenses +10% | (4.870) | (4.956) |
| Change in lapsation rates +10% | (777) | (871) |
| Change in mortality rates+10% | (10.710) | (10.237) |

47. Risk management – Other risks (continued)

Insurance risk (continued)

Life insurance contracts (continued)

The variables above are not linear. In each sensitivity calculation provided 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 arises from the uncertainty regarding the amount and timing of reporting of claims. Therefore the level of risk is determined by the frequency, the severity and the evolution of claims from one period to the next.

The major risks for the general insurance business arise from large catastrophic events like natural disasters. These risks vary depending on their location, type and nature. The variability of risks is mitigated by the diversification of the risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected across the board 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: appreciation of 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 is the inherent risk arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events.

The Group recognises that the control of operational risk is concerned fundamentally with good management practices. To that effect, the overall Group strategy is geared towards risk prevention rather than relying on the adequacy of capital charges. The Group's operational risk policy aims primarily at managing operational risk in an effective and proactive manner and secondly at assessing and quantifying this risk.

The main objectives of operational risk management within BOC 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 (iii) the avoidance of operational losses which will have a negative impact on the Group's profitability and corporate objectives

The operational risk management framework adopted by the Group is based on three lines of defence, 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.

47. Risk management – Other risks (continued)

Operational risk (continued)

Group Operational Risk Management is using various best practice methodologies and tools, which are steadily adopted by the Group to effectively identify, measure and assess operational risk.

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 2011, 412 (2010: 622) loss events with potential loss over €1.000 were recorded.

The Group uses risk self assessment methods to identify key operational risk drivers. Key risk indicators are utilised to monitor trends on operational risk exposures and to serve as warning signals to trigger action.

Escalation procedures are in place for the timely internal reporting of risks and incidents to appropriate level of management so as to facilitate decision making for the necessary risk control activities.

The internal audit and compliance functions of the Group also provide assurance in relation to Group-wide operational risk management and the effectiveness of the Group's internal control system through continuous monitoring of activities and reporting.

According to the Group's established procedures, the operational risk management unit is involved in the introduction of new products by rendering comments on arising risks and recommendations on their treatment.

The Group aims to increase awareness by 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 are being developed 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 Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus 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 subsidiaries and overseas branches of the Group are similarly supervised by the corresponding monetary authorities in the countries where they operate. The continuing and increasing regulatory obligations imposed on the Group may have both positive as well as adverse impact on its operations. In December 2010 the Basel Committee on Banking Supervision published the Basel III framework, which presents the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The focus of Basel III is on capital and funding. It specifies new capital target ratios, sets new standards for short-term funding and requirements for long term funding. Basel III is in the process of being adopted by the EU through the revised Directive for Capital Requirements (CRD IV). The adoption of the revised directive is scheduled to come into effect on 1 January 2013. The Directive provides for a 5-year transitional period, during which the new rules will be gradually applied.

The operations of the Cyprus insurance companies are supervised by the Registrar of Insurance Companies. Legal and regulatory changes may be introduced in the future by the European Union and/or by the Registrar of Insurance Companies which may have a significant effect on the operations and financial position of the Group's insurance companies. Solvency II the updated set of regulatory requirements for insurance firms that operate in the EU, is scheduled to come into effect on 1 January 2014 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.

47. Risk management – Other risks (continued)

Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The accession of Cyprus to the European Union and the introduction of the Euro in 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

In Greece, the Group mainly competes with Greek banks, which control the largest share of the Greek banking system. It also competes with branches of foreign (mainly European) banks and with co-operative banks.

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 39) 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 in Cyprus, Greece (Note 3.2) and other countries may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union, European Central Bank and Central Bank of Cyprus policies, political instability or military conflict which may affect Europe and/or other overseas areas and social developments in the countries in which the Group operates.

48. Sovereign exposure

The Group's sovereign exposure and non-sovereign exposure in countries which have entered the European Support Mechanism or their Moody's credit rating is below Aa1 and total Group exposure exceeds €100 million is presented below. Information is disclosed for: Greece, Ireland, Portugal, Cyprus, Italy, Russia, Romania and Ukraine. The Group has no exposure to Portugal.

The sovereign exposures to the above countries, excluding Greece, were not considered to be impaired because, despite financial difficulties in these countries, the situation is not severe enough to impact the future cash flows of these countries' sovereign securities.

Credit risks

The Group's sovereign exposure includes government bonds and other assets owned by governmental, semi-governmental and other organizations in which the state holds more than 50%.

48. Sovereign exposure (continued)

The Group's exposure to sovereign debt securities and other assets is analysed below by country:

| | Cyprus | Greece | Ireland | Italy | Russia | Romania | Ukraine |
|--|-------------------|-------------------|----------------|----------------|------------------|----------------|----------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Deposits with central banks | 398.971 | 210.638 | - | - | 62.752 | 39.555 | 4.553 |
| Placements with banks | 130 | 8.203 | - | 126.353 | 91.641 | 11.834 | 16.927 |
| Investments in sovereign debt securities | | | | | | | |
| - available-for-sale investments | 109 | 2.815 | - | 8.004 | - | - | 3.857 |
| - loans and receivables | 511.833 | 544.846 | - | - | - | - | - |
| - investments held-to-maturity | 1.323 | 68.000 | 322.918 | 97.457 | 2.283 | 11.527 | - |
| - fair value through profit or loss | 17.662 | 481 | - | - | - | - | - |
| Investments in debt securities in banks and other corporations | | | | | | | |
| - available-for-sale investments | 2.553 | - | - | 13.290 | - | - | - |
| - investments held-to-maturity | 41.497 | 147.696 | 40.575 | 38.284 | 2.493 | - | - |
| Loans and advances to customers | 14.931.398 | 9.983.041 | - | - | 2.004.550 | 585.727 | 332.379 |
| Derivative financial assets | - | - | - | 118 | - | - | - |
| Total on balance sheet | 15.905.476 | 10.965.720 | 363.493 | 283.506 | 2.163.719 | 648.643 | 357.716 |
| Contingent liabilities | 940.704 | 882.792 | - | - | 5.721 | 5.883 | 40 |
| Commitments | 2.098.276 | 1.326.188 | - | - | 227.106 | 32.231 | 58 |
| Total off balance sheet | 3.038.980 | 2.208.980 | - | - | 232.827 | 38.114 | 98 |
| Total exposure to credit risk | 18.944.456 | 13.174.700 | 363.493 | 283.506 | 2.396.546 | 686.757 | 357.814 |

The analysis of loans and advances to customers for the countries above is presented in Note 44.

The revaluation reserve of available-for-sale investments includes losses of €52.731 thousand related to investments in sovereign debt and €22.366 thousand related to debt securities in banks and other corporations.

48. Sovereign exposure (continued)

Liquidity risk

The table below presents the Group's sovereign exposure to countries which have entered the European Support Mechanism (Greece, Ireland and Portugal), based on the remaining contractual maturity of the financial assets. Specifically for the GGBs, the analysis is presented without taking into account the restructuring and exchange plan of Greek sovereign debt (Note 15).

| | 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 |
|--|-------------------------------|------------------------------|-----------------------------------|----------------------------|-----------------|------------------|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Greece | | | | | | |
| Greek Government Bonds (GGBs) | | | | | | |
| - available-for-sale | - | - | 203 | 1.205 | 1.407 | 2.815 |
| - loans and receivables | - | - | 7.186 | 154.522 | 383.138 | 544.846 |
| - held-to-maturity | - | - | - | 68.000 | - | 68.000 |
| - at fair value through profit or loss | - | - | - | 481 | - | 481 |
| Total exposure to GGBs | - | - | 7.389 | 224.208 | 384.545 | 616.142 |
| Other assets | | | | | | |
| Loans and advances to customers | - | - | - | 153.283 | 153.618 | 306.901 |
| Deposits with the Bank of Greece | 210.638 | - | - | - | - | 210.638 |
| Total exposure | 210.638 | - | 7.389 | 377.491 | 538.163 | 1.133.681 |

| | | | | | | |
|------------------------------|---|--------|---|--------|---------|---------|
| Ireland | | | | | | |
| Investments held-to-maturity | - | 55.592 | - | 78.504 | 188.822 | 322.918 |

The above tables do not include, in category fair value through profit or loss, GGBs amounting to €481 thousand, which are held by an insurance subsidiary of the Group as assets attributable to policyholders (Note 24).

The Group has no sovereign exposure to Portugal.

49. 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 Central Bank of Cyprus 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 will increase gradually based on the percentage of Group assets over the gross domestic product of the Republic of Cyprus.

The Directive also sets the minimum level of tier 1 capital as the minimum level of core tier 1 ratio plus 1,5%. In addition, it sets 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 2011 were 9,5% and 11,5%, respectively.

In addition, the Central Bank of Cyprus may also impose additional capital requirements for risks which are not covered by the provisions of Pillar I.

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.

49. Capital management (continued)

The capital adequacy ratios of the Group at 31 December are presented below:

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|---------------------|
| <i>Regulatory capital</i> | €000 | €000 |
| Core original own funds (core tier 1) | 891.910 | 2.204.195 |
| Original own funds (tier 1) | 1.848.688 | 2.955.847 |
| Additional own funds (tier 2) | 239.267 | 313.027 |
| Carrying value of insurance companies | (162.846) | (140.370) |
| Total regulatory capital | 1.925.109 | 3.128.504 |
| Risk weighted assets – credit risk | 22.391.062 | 23.854.855 |
| Risk weighted assets – market risk | 3.463 | 2.588 |
| Risk weighted assets – operational risk | 2.395.363 | 2.419.175 |
| Total risk weighted assets | 24.789.888 | 26.276.618 |
| | % | % |
| Core tier 1 ratio | 3,6 | 8,4 |
| Tier 1 ratio | 7,5 | 11,3 |
| Tier 2 ratio | 1,0 | 1,2 |
| Total capital ratio | 7,8 | 11,9 |
| Minimum ratios per the Central Bank of Cyprus Directive | | |
| Core tier 1 ratio | 8,0 | n/a |
| Tier 1 ratio | 9,5 | 4,0 |
| Total capital ratio | 11,5 | 8,0 |

The Group's capital adequacy ratios are lower than the minimum ratios required by the Central Bank of Cyprus.

The reduction of total regulatory capital in 2011 is mainly due to the impairment of GGBs (Note 15). The profit for the year (before impairment of GGBs), the issue of CECS and the issue of shares due to the reinvestment of the final dividend of 2010 had a positive impact on regulatory capital.

It is noted that the Group has submitted a plan to the Central Bank of Cyprus which sets out the various actions to be taken in order to comply with the minimum required capital ratios.

The pro-forma capital ratios presented in the table below have been calculated using the actual risk-weighted assets as at 31 December 2011 and adjusting capital as at 31 December 2011 to reflect the effect of the Company's share capital increase of €160 million through a Rights Issue and the exchange of Convertible Enhanced Capital Securities (CECS) of €432 million, completed in March 2012 (Note 53).

49. Capital management (continued)

| | 31 December 2011 |
|---------------------------------------|-----------------------------|
| Pro forma ratios | €000 |
| <i>Regulatory capital</i> | |
| Core original own funds (core tier 1) | 1.483.779 |
| Original own funds (tier 1) | 2.008.371 |
| Additional own funds (tier 2) | 239.267 |
| Carrying value of insurance companies | (162.846) |
| Total regulatory capital | 2.084.792 |
| Total risk weighted assets | 24.789.888 |
| | % |
| Core tier 1 ratio | 6,0 |
| Tier 1 ratio | 8,1 |
| Tier 2 ratio | 1,0 |
| Total capital ratio | 8,4 |

The Group has the right, at any time until 18 June 2012, to place all or part of the €237 million unsubscribed share capital (Note 53).

The Group expects that it will be in a position to cover the minimum required core tier 1 and tier 1 ratios within a reasonable period of time through the sale of all or part of the unsubscribed shares, future profitability, the effective management of risk weighted assets and the CECS which have not been converted into shares.

European Banking Authority Capital Exercise

The Group participated in a Capital Exercise conducted by the European Banking Authority (EBA) in cooperation with the Central Bank of Cyprus.

The Capital Exercise covered 71 banks across Europe and its objective was to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment. This buffer is not explicitly designed to cover losses in sovereigns but to provide a reassurance to markets about banks' ability to withstand a range of shocks and still maintain adequate capital.

The Capital Exercise has determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which must be covered by 30 June 2012.

It is noted that the Group has submitted a plan to the Central Bank of Cyprus which sets out the various measures which the Group will take to achieve the required capital enhancement target as set by the EBA.

The Group has already implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital impact of €80 million, (iii) profitability during the fourth quarter of 2011 and (iv) management of its risk weighted assets.

In addition, the Group is taking the necessary actions in order to satisfy the conditions set by EBA for it to accept the inclusion of the remaining CECS of €455 million as eligible in the capital buffer. It is noted that, for regulatory capital purposes, the CECS form part of the tier 1 ratio.

The Group is taking all necessary the actions in order to cover the remaining capital shortfall through the sale of all or part of the unsubscribed shares (Note 53), the profitability of the first quarter of 2012, as well as, other actions including the effective management of its risk weighted assets.

50. Related party transactions

| | 2011 | 2010 | 2011 | 2010 |
|---|---------------------|------|---------|---------|
| | 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 | 1 | 224.042 | 184.753 |
| - less than 1% of the Group's net assets per director | 17 | 16 | 58.680 | 57.821 |
| | 18 | 17 | 282.722 | 242.574 |
| Loans and advances to other key management personnel and connected persons | | | 1.690 | 1.769 |
| Total loans and advances | | | 284.412 | 244.343 |
| Loans and advances: | | | | |
| - members of the Board of Directors and other key management personnel | | | 7.970 | 7.330 |
| - connected persons | | | 276.442 | 237.013 |
| | | | 284.412 | 244.343 |
| Interest income | | | 14.186 | 10.641 |
| Deposits: | | | | |
| - members of the Board of Directors and other key management personnel | | | 64.866 | 71.069 |
| - connected persons | | | 47.683 | 25.568 |
| | | | 112.549 | 96.637 |
| Interest expense on deposits | | | 3.847 | 4.607 |
| Debt securities in issue, subordinated loan stock and CECS: | | | | |
| - members of the Board of Directors and other key management personnel | | | 23.246 | 17.133 |
| - connected persons | | | 3.045 | 2.401 |
| | | | 26.291 | 19.534 |
| Interest expense on debt securities in issue, subordinated loan stock and CECS | | | 1.469 | 1.086 |

50. 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 €117.542 thousand (2010: €113.102 thousand). Of these, €95.170 thousand (2010: €86.928 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €308 thousand (2010: €327 thousand). Using forced-sales values, 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 at 31 December 2011 amounted to €34.830 thousand (2010: €8.065 thousand).

During 2011 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €235 thousand (2010: €283 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 €235 thousand (2010: €541 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs Anna Diogenous holds an indirect interest; purchases of equipment amounting to €458 thousand (2010: €855 thousand) and equipment order amounting to €264 thousand from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs Anna Diogenous; and insurance commissions amounting to €128 thousand (2010: €149 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis.

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 directors 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 credit facilities 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.

Fees and emoluments of members of the Board of Directors and other key management personnel

| | 2011 | 2010 |
|---|--------------|--------------|
| Director emoluments | €000 | €000 |
| <i>Executives</i> | | |
| Salaries and other short term benefits | 1.617 | 1.421 |
| (Bonus waived)/ bonus | (328) | 328 |
| Employer's contributions | 55 | 58 |
| Retirement benefit plan costs | 207 | 381 |
| | 1.551 | 2.188 |
| Share options | 359 | 486 |
| <i>Non-executives</i> | | |
| Fees | 800 | 813 |
| Emoluments of a non-executive director who is also an employee of the Company | 143 | 154 |
| Total directors' emoluments | 2.853 | 3.641 |
| Other key management personnel emoluments | | |
| Salaries and other short term benefits | 744 | 726 |
| (Bonus waived)/ bonus | (175) | 175 |
| Employer's contributions | 43 | 51 |
| Retirement benefit plan costs | 83 | 123 |
| Share options | 134 | 182 |
| Total other key management personnel emoluments | 829 | 1.257 |
| Total | 3.682 | 4.898 |

50. 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

| | 2011 | 2010 |
|----------------------------|------------|------------|
| | €000 | €000 |
| Theodoros Aristodemou | 165 | 171 |
| Andreas Artemis | 82 | 85 |
| Vassilis G. Rologis | 49 | 58 |
| Costas Z. Severis | 52 | 57 |
| Christakis G. Christofides | 41 | 49 |
| Evdokimos Xenophontos | 38 | 39 |
| Anna Diogenous | 48 | 51 |
| George M. Georgiades | 60 | 63 |
| Andreas J. Jacovides | 49 | 49 |
| Christos Mouskis | 53 | 55 |
| Manthos Mavrommatis | 46 | 51 |
| Costas Hadjipapas | 34 | 35 |
| Nikolas P. Tsakos | 30 | 32 |
| Stavros J. Constantinides | 37 | 18 |
| Irene Karamanou | 16 | - |
| | 800 | 813 |

Mr Costas Hadjipapas, a non-executive director, had emoluments during 2011 amounting to €143 thousand (2010: €154 thousand), which include €2 thousand (2010: €3 thousand) relating to 12 thousand Share Options 2008/2011 which were granted to him in 2008 in his capacity as employee of the Company.

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. Although the fees of non-executive directors remain the same since May 2006, during 2011 the Board of Directors decided to reduce them by 15% for two years with effect from 1 October 2011.

Fees and emoluments of executive directors

During 2011 the number of executive directors was three (until April 2010: 2, thereafter: 3).

The salaries and other short term benefits of executive directors amounting to €1.617 thousand (2010: €1.421 thousand) relate to Mr Andreas Eliades €706 thousand (2010: €689 thousand), Mr Yiannis Pehlivanidis €504 thousand (2010: €334 thousand) and Mr Yiannis Kypri €407 thousand (2010: €398 thousand).

According to their contract of employment, the executive directors are entitled to a bonus which is determined by the Board of Directors based on the recommendation of the Remuneration Committee. The maximum bonus for each executive director is specified in his contract of employment with the Group. For 2010, the Board of Directors, having considered the performance of the Group as regards the achievement of its targets and profitability, had approved a total bonus of €341 thousand for Mr Andreas Eliades and €195 thousand for Mr Yiannis Kypri. The bonus would have been paid in the form of shares of the Company.

50. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees and emoluments of executive directors (continued)

One third of the bonus had vested immediately, while the remaining two thirds would have vested equally at the end of 2011 and 2012, provided the Group achieved the targets set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. During 2011, the executive directors, in view of the prevailing economic conditions, waived their entire bonus for year 2010. The cost recognized in the financial statements in relation to the 2010 bonus was reversed in 2011 and amounts to €209 thousand for Mr Andreas Eliades and €119 thousand for Mr Yiannis Kypri.

For the year 2011 no bonus has been recommended for the Executive Directors.

The retirement benefit plan costs amounting to €207 thousand (2010: €381 thousand) relate to Mr Andreas Eliades €134 thousand (2010: €133 thousand), Mr Yiannis Pehlivanides €nil (2010: €175 thousand) and Mr Yiannis Kypri €73 thousand (2010: €73 thousand).

Messrs Andreas Eliades and Yiannis Kypri participated until 31 December 2011 in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan. As from 1 January 2012, Messrs Andreas Eliades and Yiannis Kypri participate in the new defined contribution plan for the Group's employees in Cyprus (Note 53). Mr Yiannis Pehlivanides participates in the retirement benefit plans for the Group's employees in Greece, which are the defined contribution plan and the defined benefit plan for retirement benefits which are required by the law. The total retirement benefits of the executive directors increased during 2011 by €599 thousand (2010: €800 thousand).

In the context of the Share Options 2008/2010 granted on 28 May 2008 to the Group's employees (Note 34), 1,500 thousand share options were granted to Mr. Andreas Eliades and 500 thousand Options were granted to Mr. Yiannis Kypri, the cost of which amounted to €269 thousand (2010: €364 thousand) and €90 thousand (2010: €122 thousand) respectively.

Emoluments of other key management personnel

The emoluments of the three key management personnel (2010: three) comprise the fees and emoluments of the Group Chief General Manager and the two Senior Group General Managers. For the year 2010, the Board of Directors, taking into consideration the Group's performance towards its target achievements and the profitability, had approved a bonus to other key management personnel. The bonus would have been provided in the form of Company's shares. One third of the bonus has vested and was paid immediately, while the remaining two thirds would vest equally at the end of 2011 and 2012, provided the Group achieved the targets set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. During 2011, the Group key management personnel in view of the Group, due to the prevailing economic conditions, waived their entire bonus for the year 2010. The cost recognised in the financial statements in relation to the 2010 bonus, was reversed in 2011 and amounted to €175 thousand.

For the year 2011 no bonus has been recommended for other key management personnel.

In the context of the Share Options 2008/2010 granted on 28 May 2008 to the Group's employees (Note 34), 750 thousand share options were granted to the other key management personnel, the cost of which amounted to €134 thousand (2010: €182 thousand).

51. Group companies

The main companies and branches included in the consolidated financial statements of the Group, their activities, their country of incorporation 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 | 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 | 50 |
| Diners Club (Cyprus) Ltd | Cyprus | Diners 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 | - |
| 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 Asset Management (AEDAK) | Greece | Management of funds | 100 |
| Kyprou Properties SA | Greece | Property management | 100 |
| Kyprou Insurance Services Ltd | Greece | General insurance brokers | 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 United Kingdom (branch of the Company) | United Kingdom | Commercial bank | N/A |
| BOC Financial Services Ltd | United Kingdom | Financial advice on investment products and life insurance | 100 |
| BOC Advances Ltd | United Kingdom | Financing services | 100 |
| Katoikia I Mortgage Finance Plc | United Kingdom | Special purpose entity | - |
| Katoikia I Holdings Ltd | United Kingdom | Special purpose entity | - |
| Misthosis Funding Plc | United Kingdom | Special purpose entity | - |
| Misthosis Funding (Holding) Ltd | United Kingdom | Special purpose entity | - |

51. Group companies (continued)

| Company | Country | Activities | Percentage holding (%) |
|--|-----------------|------------------------|------------------------|
| 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 |
| S.C. ONT Carpati S.A. | Romania | Hotel business | 94 |
| 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, the Company holds 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, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd and Eurolife 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, Threerich Real Estates SRL, Rosequeens Properties 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, Rosequeens Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd and Gosman Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

All Group companies are accounted for as subsidiaries using the consolidation method.

Although the holding in the company Cytrustees Investment Public Company Ltd is 49,8% the Company considers that it exercises control over it, therefore it fully consolidates it.

51. Group companies (continued)

Disposal of subsidiary

Bank of Cyprus Australia Ltd

In line with the strategy of further strengthening its capital position and increasing liquid funds, the Company on 16 December 2011, sold 100% of its subsidiary Bank of Cyprus Australia Ltd. The sale consideration was €103.137 thousand (based on the foreign exchange rate as at 31 December 2011). The profit on sale was €8.547 thousand. As part of the disposal agreement, the Company has deposited the amount of €8.030 thousand in an escrow account to cover potential claims that may arise within a 12 month period post the disposal date and concerning periods prior to the disposal of the subsidiary.

The results of Bank of Cyprus Australia Ltd are presented below:

| | 1 January – 16 December 2011 | Year 2010 |
|---|---|----------------------|
| | €000 | €000 |
| Net interest income | 23.240 | 17.719 |
| Fee and commission income | 2.788 | 1.900 |
| Other income | 1.132 | 994 |
| | 27.160 | 20.613 |
| Staff costs | (8.443) | (6.926) |
| Other operating expenses | (8.957) | (7.030) |
| Profit before provisions | 9.760 | 6.657 |
| Provisions for impairment of loans and advances | (1.040) | (714) |
| Profit before tax | 8.720 | 5.943 |
| Taxation | (2.795) | (1.885) |
| Profit after tax | 5.925 | 4.058 |

51. Group companies (continued)

Disposal of subsidiary (continued)

Bank of Cyprus Australia Ltd (continued)

The balance sheet of Bank of Cyprus Australia Ltd at the date of its disposal is presented below:

| | 16 December 2011 | 31 December 2010 |
|---|---------------------|---------------------|
| | €000 | €000 |
| Cash and balances with central banks | 5.848 | 12.254 |
| Placements with banks | 291.150 | 276.495 |
| Loans and advances to customers | 1.054.421 | 1.008.061 |
| Other assets | 7.958 | 7.403 |
| Total assets | 1.359.377 | 1.304.213 |
| Obligations to central banks and amounts due to banks | 185.514 | 327.121 |
| Customer deposits | 1.072.762 | 897.274 |
| Other liabilities | 6.402 | 8.638 |
| Total liabilities | 1.264.678 | 1.233.033 |
| Share capital | 82.398 | 64.678 |
| Revaluation and other reserves | (739) | (69) |
| Retained earnings | 13.040 | 6.571 |
| Total equity | 94.699 | 71.180 |
| Total liabilities and equity | 1.359.377 | 1.304.213 |

The cash flows of Bank of Cyprus Australia Ltd are presented below:

| | 2011 |
|---|--------------|
| | €000 |
| Net cash flow used in operating activities | (3.312) |
| Net cash flow used in investing activities | (2.249) |
| Net cash flow from financing activities | 14.925 |
| Net increase in cash and cash equivalent | 9.364 |

Leadbank LLC

On 9 June 2010 the Group sold 100% of the share capital of Leadbank LLC. The profit on disposal amounted to €1.944 thousand. As part of the sale agreement, the Group has deposited the amount of 80 million rubles (€1.913 thousand) in an escrow account, to cover potential liabilities relating to a leasehold property of Leadbank LLC.

Change in the percentage holding of subsidiary

During July 2011, the Company sold 20% of its subsidiary Leasing Company Uniastrum Leasing to BOC Russia (Holdings) Ltd, resulting in a reduction of the Group's ownership percentage in the share capital of the company to 80%.

51. Group companies (continued)

Acquisition of subsidiary

On 1 April 2010, in the context of a debt satisfaction arrangement with a customer, the Company acquired control of Gosman Properties Ltd which owns 94% of the share capital of S.C. ONT Carpati S.A., which is incorporated in Romania. The cost of acquisition amounted to €8.213 thousand and represents the fair value of the identifiable assets and liabilities of the company as at the date of acquisition.

The fair value of the net assets acquired at the date of acquisition was:

| | €000 |
|--|--------------|
| Net assets | 8.754 |
| Non-controlling interest | (541) |
| Net assts acquired | 8.213 |
| Goodwill | - |
| Total cost of acquisition | 8.213 |
| Net cash and cash equivalents acquired with the subsidiary | 4.571 |

Dissolution of subsidiary

On 10 December 2010, the business and the assets and liabilities of the subsidiary company Mortgage Bank of Cyprus Ltd were transferred to the Company, with a parallel dissolution without liquidation of the subsidiary.

52. Investments in associates and joint ventures

(i) JCC Payment Systems Ltd

The Group owns 45% of the share capital of JCC Payment Systems Ltd, which provides cards processing transaction services and for which proportional consolidation is used.

The Group's share in the key financial figures of the Company, is:

| | 2011 | 2010 |
|-------------------|--------|--------|
| | €000 | €000 |
| Gross income | 8.695 | 9.401 |
| Profit before tax | 1.066 | 2.507 |
| Net assets | 15.164 | 12.039 |
| Total assets | 22.231 | 20.048 |

52. Investments in associates and joint ventures (continued)

(ii) 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 is presented as follows:

| | 2011 | 2010 |
|---|---------|---------|
| | €000 | €000 |
| Total assets | 2.892 | 3.883 |
| Liabilities | (72) | (78) |
| Net assets | 2.820 | 3.805 |
| Carrying amount of the investment | 2.820 | 3.805 |
| Market value of the investment on the Cyprus Stock Exchange | 1.281 | 2.353 |
| <i>Share of associate's income and profit</i> | | |
| Operating loss | (1.441) | (1.952) |
| Loss after tax | (1.441) | (1.954) |

During the year, there were no material transactions between the Group and the associate.

(iii) Grand Hotel Enterprises Society Ltd

As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010 (Note 51), the Group acquired 30% 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 2011 and 2010 had nil accounting value as the net assets of the associate had a negative balance.

The Group has granted a loan to GHES of €101.935 thousand (2010: €104.139 thousand) which is secured by a mortgage on the hotel owned by GHES. In addition, GHES owes an amount of €18.851 thousand (2010: €17.446 thousand) to the Group. The Group's income statement for 2011 includes interest income of €5.508 thousand (2010: €4.074 thousand) from GHES.

53. Events after the balance sheet date

(i) Capital Strengthening Plan

In November 2011, the Group decided to strengthen its capital base through a Capital Strengthening Plan. The Plan included a share capital increase through a pre-emptive rights offering to raise up to €397 million and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600 million.

The Rights were issued and allocated to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of the current 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. Additionally, for each New Share arising from the exercise of the Rights, the Company granted one fully paid Bonus Share.

The holders of CECS could exchange their CECS with Mandatory Convertible Notes (MCNs) of equal nominal value. The MCNs did not bear interest and matured eight days following their date of issue. On maturity of the MCNs, the Company would redeem each MCN with the issue of one fully paid New Share. Additionally, for every three New Shares arising from the conversion of the MCNs, the Company granted one Bonus Share.

Upon completion of the Rights Offering in its entirety, the Company would issue up to 794 million new ordinary shares (397 million shares from the exercise of the Rights and 397 million bonus shares). Upon the completion of the voluntary conversion of CECS in its entirety, the Company would issue up to 800 million shares (600 million shares from the conversion of CECS and 200 million bonus shares).

The exercise period for the Rights, the period for the submission of applications for pre-registration and the acceptance period of the CECS exchange offer ended on 19 March 2012. As a result, the Company's core tier 1 capital has increased by €592 million of which €160 million relate to the exercise of Rights and €432 million relate to the acceptance of the offer to exchange the CECS. As a result of the above, approximately 896 million new shares have been issued.

Furthermore, the Group is proceeding with the completion of the Capital Strengthening Plan. The Group has the right to exercise, until 18 June 2012, all or part of the Rights that have not been subscribed to by their holders and have not been exercised by 19 March 2012. Any distribution of unsubscribed shares will be at the discretion of the Board of Directors and can take place at the same or at a higher price than the subscription price of the new shares.

(ii) New collective agreement of employees in Cyprus

In January 2012, the General Meeting of the members of the union of bank employees in Cyprus approved the new collective agreement between employers and employees. The new agreement includes, among other things, no salary increases and cost of living allowance for years 2012 and 2013 and the change of the existing retirement plan from a defined benefit plan to a defined contribution plan with effect from 1 January 2012. The new defined contribution plan provides for employer contributions of 14% and employee contribution of 3%-10% of the employees' salaries.

As a result of the above change in the retirement benefit plans and a change in the accounting policy of the Group from 1 January 2012 with respect to the recognition of actuarial gains/losses, during the first quarter of 2012 the equity and the regulatory capital of the Group will be negatively affected by approximately €72 million.

**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 11 to 141, which comprise the consolidated balance sheet as at 31 December 2011, 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 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, 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

Without qualifying our opinion, we draw your attention to note 3.1 'Going concern' and note 49 'Capital management' to the consolidated financial statements which indicate the significant judgments, estimates and assumptions used in the preparation of the financial statements on a going concern basis while not complying with minimum capital adequacy ratios as at 31 December 2011.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, 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.
- 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 Directors' Report on pages 3 to 10 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 Law of 2009 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.

Andreas Demetriou
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
24 April 2012

Annual Corporate Governance Report 2011

Bank of Cyprus Group



Part A

The Bank of Cyprus Group (the 'Group') recognises the importance of implementing sound corporate governance policies, practices and procedures. In February 2011 the Cyprus Stock Exchange (CSE) issued the 3rd (Revised) Edition of the Corporate Governance Code (the 'Code'). As a company listed on the CSE, Bank of Cyprus Public Company Ltd ('the Bank', 'the Company') has adopted the Code and applies its principles.

The Group follows both local and international developments on the subject of corporate governance with the aim of ensuring compliance with the regulations that are adopted by the relevant supervisory authorities from time to time.

Part B

The Group complies with the provisions of the 3rd Revised Edition of the Corporate Governance Code. The new edition of the Code includes new provisions which are effective from 2011. The Group proceeded with the necessary actions to ensure compliance with the revised Code.

Application of the provisions of law L 3016/2002 of the Hellenic Republic

As a company listed on the Athens Exchange, Bank of Cyprus Public Company Ltd follows the provisions for the corporate governance of listed companies, as laid out in law L3016/2002 of the Hellenic Republic.

The following sections contain, among other, information and declarations as required by the Code.

1. Board of Directors

1.1 The role of the Board of Directors

The primary role of the Board of Directors is to provide entrepreneurial leadership of the 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.

1.2 Composition of the Board of Directors

As at 31 December 2011, the Board of Directors comprised 18 members, specifically the non-executive Chairman Mr Theodoros Aristodemou, the non-executive Vice-Chairman Mr Andreas Artemis, another 13 non-executive Directors and three executive Directors. There is a clear division between the roles of the Chairman and the Group Chief Executive Officer.

All Directors were members of the Board throughout the year 2011 and up to the date of this Report, except for Mrs Irene Karamanou and Mr Elias Neocleous who were appointed on 8 April 2011 and 9 February 2012 respectively. Messrs Andreas J. Jacovides and Christakis G. Christofides resigned from the Board of Directors on 1 January 2012 and 31 March 2012 respectively.

Provision A.2.3 of the Code requires that at least 50% of the Board of Directors, excluding the Chairman, be independent non-executive Directors. According to the Director independence criteria of the Code, as at 31 December 2011 nine Directors are considered independent, representing 53% of the Board of Directors excluding the Chairman. Provision A.2.3. of the Code allows the Board of Directors to categorise members as independent, even if some of the independence criteria are not satisfied, by providing a relevant explanation.

The Board of Directors considers the following Directors to be independent as at 31 December 2011:

Andreas Artemis (Vice-Chairman)
Evdokimos Xenophontos
George M. Georgiades
Andreas J. Jacovides
Christos Mouskis
Manthos Mavrommatis (Senior Independent Director)
Nikolas P. Tsakos
Stavros J. Constantinides
Irene Karamanou

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

All of the above Directors satisfy all the Director independence criteria of the Code except for Messrs Andreas Artemis, George M. Georgiades and Evdokimos Xenophontos, who do not satisfy the criterion of a maximum tenure of nine years and Messrs Christos Mouskis and Nikolas P. Tsakos who do not satisfy the lending criterion. It should be noted that for Messrs Christos Mouskis and Nikolas P. Tsakos there are total deposits that exceed the relevant lending and so there is no dependence of the Director from lending. In all five cases the Board of Directors considers that the independent and unbiased judgement of the aforementioned Directors has not been affected even though one of the independence criteria is not satisfied.

1.3 Senior Independent Director

On 12 January 2012 the Board of Directors appointed Mr Manthos Mavrommatis as Senior Independent Director. The Senior Independent Director is available to shareholders if they have concerns that are not resolved through normal communication channels.

1.4 Meetings of the Board of Directors

The Board of Directors convenes at least once every month and has a formal schedule of matters for consideration. During 2010 21 Board meetings were held, including a meeting for the discussion of the Group's strategic plans.

The attendance of the members of the Board of Directors for 2011 is presented in the following table.

| Name | Board of Directors | Audit Committee | Remuneration Committee | Nominations and Corporate Governance Committee | Risk Committee |
|--|--------------------|-----------------|------------------------|--|----------------|
| Theodoros Aristodemou | 21 | | | | |
| Andreas Artemis | 20 | | | 4 | 3 |
| Vassilis G Rologis | 21 | | 4 | 5 | |
| Costas Z Severis | 20 | 10 | | | 4 |
| Christakis G Christofides | 18 | | | 5 | |
| Evdokimos Xenophontos | 19 | 9 | | | |
| Anna Diogenous | 21 | | | 5 | |
| George M Georgiades | 19 | 9 | | | 4 |
| Andreas J Jacovides | 12 | 5 | 2 | | |
| Christos Mouskis | 17 | | 5 | | |
| Manthos Mavrommatis | 21 | | 5 | 5 | |
| Costas Hadjipapas | 21 | | | | 3 |
| Nikolas P Tsakos | 11 | | | | - |
| Stavros J Constantinides | 19 | 10 | 5 | | |
| Irene Karamanou (from 8/4/11) ¹ | 16 | 2 | | | 1 |
| Andreas Eliades | 21 | | | | 2 |
| Yiannis Kypri | 19 | | | | |
| Yiannis Pehlivanides | 19 | | | | |
| <i>Total meetings</i> | <i>21</i> | <i>10</i> | <i>5</i> | <i>5</i> | <i>4</i> |

All Directors have access to the advice and services of the Company Secretary. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

1.5 Rotation of Directors

The rules regarding the composition of the Board of Directors and the appointment and rotation of its members are defined in the Articles of Association of the Bank as follows:

- The number of Directors shall not be less than ten nor more than eighteen.
- At the first and every subsequent Annual General Meeting of the Company one-third of the Directors, or if their number is not three or a multiple of three, then the nearest number to one third, shall retire from office.
- The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall, unless they otherwise agree among themselves, be determined by lot.
- A retiring Director shall be eligible for re-election.

1. Board of Directors (continued)

¹ Appointed to Audit and Risk Committees on 10 November 2011

1.5 Rotation of Directors (continued)

- No person other than a Director retiring at the Meeting shall unless recommended by the Directors be eligible for election to the office of Director at any General Meeting unless not less than six nor more than twenty-one days before the date appointed for the Meeting there shall be left at the registered office of the Company notice in writing, signed by a member duly qualified to attend and vote at the Meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.
- The Directors shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

In accordance with the Company's Articles of Association, Messrs Theodoros Aristodemou, Andreas Artemis, Christos Mouskis, Andreas Eliades, George M. Georgiades, Yiannis Kypri and Elias Neocleous retire and being eligible, offer themselves for re-election at the Annual General Meeting which will take place on 19 June 2012.

2. Members of the Board of Directors and Group Senior Executive Management

The curriculum vitae of the members of the Board of Directors, including those that are retiring and offer themselves for re-election, and of the Group Senior Executive Management are presented below.

2.1 Non-executive Directors

Theodoros Aristodemou (Chairman)

He was born in 1951. He is a graduate of the Economics Science department of the University of Athens. He is the founder and Chairman of the Aristo Developers Ltd Group with activities in Cyprus and overseas. He is member of the Board of Directors of several companies. He served as Chairman of the Paphos Chamber of Commerce and Industry, Vice-Chairman of the Cyprus Chamber of Commerce and Industry, Chairman of other organisations, a member of the Tourism Advisory Committee, a member of the Board of Directors of the Cyprus Telecommunications Authority, Cyprus Airways and the Cyprus International Institute for the Environment and Public Health in association with the Harvard School of Public Health. He is a member of the Board of Directors of Bank of Cyprus since 1991 and he served as Chairman of the Divisional Board of Bank of Cyprus Greece from 2005 to 2008. In May 2008 he was elected Chairman of the Board of Directors of Bank of Cyprus.

Andreas Artemis (Vice-Chairman, Independent)

He was born in 1954. He studied Civil Engineering at the Queen Mary and Imperial Colleges of London University and holds a B.Sc. (Engineering) and an M.Sc. degree. He is Chairman of the Board of Directors of the Commercial General Insurance Group and member of the Board of Directors of a number of other companies. He is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation and of the Council of the Cyprus Red Cross Society. He has served for a number of years on the Board of Directors of the Cyprus Telecommunications Authority and since 1996 he is the Honorary Consul General of South Africa in Cyprus. He is a member of the Board of Directors of Bank of Cyprus since 2000 and Vice-Chairman since 2005.

Vassilis G. Rologis

He was born in 1942. He studied Law and Business Administration, with specialisation in Marketing, in the United Kingdom. He has worked in the United Kingdom and in Greece. He was Vice-Chairman of the Cyprus Chamber of Commerce and Industry (1990-1996) and Chairman from 1996 until 2005. From 1980 to 1994 he was a member of the Board of Directors and from 1994 to 2005 he was Chairman of General Insurance of Cyprus. He served as Chairman of Cyprus Airways and Eurocypria Airlines (1993-1997). During 2001-2002, he served as Chairman of the Association of Balkan Chambers. He is a member of the Board of Directors of the Eurochambers, based in Brussels. He is a member of the Finance Advisory Committee, the Commerce and Industry Advisory Committee and the Cyprus delegation at the International Labour Organisation. He is a member of the Board of Directors of Bank of Cyprus since 1988. In 2004, he was elected Vice-Chairman and in 2005 he was elected Chairman of the Board of Directors of the Bank. In 2006 he resigned from the Chairmanship. He remains a member of the Board of Directors of Bank of Cyprus and he is a member of the Nomination and Corporate Governance Board Committee. He is also the Chairman of the UK Divisional Board

2. Members of the Board of Directors and Group Senior Executive Management (continued)

2.1 Non-executive Directors (continued)

Vassilis G. Rologis (continued)

and of Bank of Cyprus Channel Islands. In 2007 he was elected Chairman of the International Chamber of Commerce Cyprus and in December 2008 he was elected Honorary Chairman by the Annual General Meeting of the Cyprus Chamber of Commerce and Industry. As honorary and past Chairman, he is also a member of the Executive Committee of the Cyprus Chamber of Commerce and Industry.

Costas Z. Severis

He was born in 1949. He studied Economics (MA Honours) at the University of Cambridge. He is Honorary Consul of Finland in Cyprus since 1989. His main business activities are paper import and insurance. He is a member of the Board of Directors of Bank of Cyprus since 1991. He is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation and of other public companies.

Christakis G. Christofides – Board member until 31 March 2012

He was born in 1948. He holds a B.Sc. Hons degree in Chemical Engineering from Birmingham University and an MBA from City University. He is a Chartered Engineer and a member of the Institution of Chemical Engineers of the United Kingdom. He is Honorary Consul General of Austria in Cyprus. He is a businessman, supplying raw materials to industries in Cyprus and Greece. He was a member of the Board of Directors of Bank of Cyprus from 1994 until his resignation on 31 March 2012.

Evdokimos Xenophontos (Independent)

He was born in 1938. He studied in London on a scholarship from the Republic of Cyprus and obtained the professional qualification of Chartered Accountant in 1962. During the period 1963-1967, he worked as an Audit Manager for the international audit firm Ernst & Young in Cyprus. In 1967 he was appointed Chief Accountant of Bank of Cyprus and in 1974 he became General Manager of Bank of Cyprus (Holdings), which, until August 1999, was the holding company of the Group. In 1993 he assumed the role of Group Chief General Manager, a position that he held until the end of 2004 when he retired from executive duties. He is a member of the Board of Directors of Bank of Cyprus since 1998. He is Chairman of JCC Payment Systems and of the Cyprus Branch of the UK Institute of Directors. He served as Chairman of the Institute of Certified Public Accountants of Cyprus and the Cyprus Anticancer Society and as a Board member of the Cyprus Institute of Genetics and Neurology and the Cyprus Electricity Authority for a number of years.

George M. Georgiades (Independent)

He was born in 1946. He is a businessman and a business consultant for the hotels and tourism sector. He is a graduate of the Lausanne University in Switzerland and holds a degree in Economics and Business Administration. He also studied hotel management at the Centre International de Glion in Switzerland and attended a post-graduate hotel management course at Cornell University in the USA. He is a member of the Board of Directors of Bank of Cyprus since 2002. He is Chairman of the Board of Directors of General Insurance of Cyprus, Vice-Chairman of the Cyprus Association of Directors and a member of the Board of Directors of various public and other companies in Cyprus. He is Honorary Chairman of the Cyprus Hotel Managers Association. He was Chairman of the Board of the Cyprus International Institute for the Environment and Public Health in association with the Harvard School of Public Health (2005-2008), Chairman of the Board of Governors of the Electricity Authority of Cyprus (1999-2005) and Chairman of the Board of Governors of the Cyprus Broadcasting Corporation (1994-1996).

Anna Diogenous

She was born in 1947. She holds a B.Sc. (Econ.) degree from the London School of Economics. She has completed the Executive Leadership Program of the CIIM. She is Executive Chairwoman of P.M. Tseriotis Ltd, the holding company of the Tseriotis Group. She is a member of the Board of Directors of Bank of Cyprus since 2002. She is also a member of the Board of Directors of various other companies. She has served as a Board member of the Junior School in Nicosia.

Andreas J. Jacovides – Board member until 31 December 2011 (Independent)

He was born in Nicosia in 1936. He studied Law at the University of Cambridge (MA, LL.B, LL.M with Double First Class Honours), the Inns of Court (Barrister-at-Law) and the Harvard Law School (Henry Fellow). He served for 14 years as Ambassador of Cyprus to the USA (including the World Bank and the International Monetary Fund / Signatory of the MIGA Convention), to Germany and the United Nations, and was accredited to a number of other countries (Canada, Brazil, Ecuador, Austria, Denmark) and organisations (IAEA, UNIDO,

2. Members of the Board of Directors and Group Senior Executive Management (continued)

2.1 Non-executive Directors (continued)

Andreas J. Jacovides – Board member until 31 December 2011 (Independent) (continued)

ICAO, OAS, etc), as well as Permanent Secretary of the Ministry of Foreign Affairs. He also served for 15 years as elected member of the UN International Law Commission, Commissioner of the UN Compensation Commission and Arbitrator/Senior Judge of the Claims Resolution Tribunal for Dormant Swiss Accounts, as a member of the Committee for the Protection of Minorities of the Council of Europe and of various bodies of the Commonwealth. He is currently an international lawyer and consultant, Patron and member of the Executive Committee of the American Society of International Law and an Arbitrator with the ICSID of the World Bank and other international bodies (Law of the Sea, OSCE). He is a member of the Board of Directors of other Cypriot and foreign organisations (including the A.G. Leventis Foundation and the Institute for the Study of Diplomacy, Georgetown University). He has written many studies on scientific subjects, most recently the book *International Law and Diplomacy*, and he is an honorary citizen of many American cities and honorary Doctor of American Universities. He has been decorated by the governments of Greece and Austria and he is an Honorary Fellow of St. John's College, Cambridge. He was a member of the Board of Directors of Bank of Cyprus from 2003 until his resignation on 1 January 2012.

Christos Mouskis (Independent)

He was born in 1964. He studied in the USA Business Administration and Marketing. He is Executive Chairman of Muskita Holdings, the holding company of the Muskita Group, a diversified group of companies employing more than one thousand one hundred people in Cyprus and overseas. The group's activities consist of aluminium manufacturing with factories in Cyprus and the UK, the hospitality industry with two hotels in Cyprus and one in Athens, Greece. The activities of the group extend also in real estate projects in Cyprus and in Europe. His activities are not limited to the businesses of the Group, but also extend to various other areas. He is a member of the Board of Directors of Bank of Cyprus since 2003. He is also an active member of professional associations and director of other public and private companies.

Manthos Mavrommatis (Senior Independent Director)

He was born in Nicosia in 1957. He holds a B.Sc. (Econ.) degree from the London School of Economics and an MBA from the Business School of the University of Chicago. He is the General Manager of the family business and a member of the Board of other private companies. He served as Chairman of the Cyprus Youth Organisation and as a member of the Board of the Cyprus State Fairs Authority. He served as Chairman of the Board of the Nicosia Chamber of Commerce and Industry. He was elected Chairman of the Cyprus Chamber of Commerce and Industry in 2005, a position that he held until November 2011. He is responsible for the co-ordination of the 27 bi-national business associations of the Cyprus Chamber of Commerce and Industry. After the accession of Cyprus to the European Union he represented the Cyprus Chamber of Commerce and Industry for two years in the European Economic and Social Committee (EESC) in Brussels, which is the institutional body at European level for social partners. He represents Cyprus in the Chamber of Commerce which is the advisory body to the Directorate General for Entrepreneurship of the European Council in Brussels. He is a member of the Board of Directors of Bank of Cyprus since 2005. He is a member of the Board of the University of Nicosia Research Promotion Foundation, of the Cyprus International Institute of Management and of the Board of Trustees of the Research and Educational Institute of Cyprus. He is the Honorary-Consul of Mexico in Cyprus. On 12 January 2012 he was appointed Senior Independent Director.

Costas Hadjipapas

He was born in 1958. He holds a degree (BSc) in Business Administration and Economics from the Graduate School of Industrial Studies of Thessaloniki. In 1981, he joined the Bank of Cyprus Group. He has worked in various departments and has comprehensive knowledge of banking operations. He has held a number of positions and is currently the Regional Manager of the Bank in Paphos. He is a member of the Board of Directors of Bank of Cyprus since 2007.

Nikolas P. Tsakos (Independent)

He was born in 1963 in Athens. He is a member of the well known family of ship-owners from Kardamyla, Chios island. From 1981 to 1987, he was employed at Tsakos Shipping and Trading Ltd in the USA with a focus on the energy sector. He studied Economics and Political Science at Columbia University New York and completed his studies at City University of London obtaining a Masters Degree in Shipping and Financial Services. He completed his military service in the Hellenic Navy and served for 25 months on various types of vessels. He is the Founder, President and CEO of Tsakos Energy Navigation (TEN) Limited, one of the first listed Greek shipping companies on the Oslo and New York exchanges. He has received various awards. In 2011, he was

2. Members of the Board of Directors and Group Senior Executive Management (continued)

2.1 Non-executive Directors (continued)

Nikolas P. Tsakos (Independent) (continued)

awarded an honorary doctorate from the City University Business School, for his pioneering work in the equity financial markets relating to shipping companies. Moreover, he received 'Lloyd's List award for the Best Tanker Operator in 2006' as well as the 'EUROPE's 500 award in 2005', 'Lloyd's List award for the Best Tanker Operator in 2006', as well as the 'EUROPE's 500 award to 2005', 'Lloyd's List award to HELMEPA for achievement for clean and safe seas in 2004' and 'Best Maritime Manager of the New Generation' award by the magazine 'Business Administration Bulletin' at the Academy of Athens. He is an active member of the Hellenic Marine Environment Protection Association (HELMEPA), the Union of Greek Ship-owners, the Greek Shipping Co-operation Committee, the Greek Committee of Det Norske Veritas, the American Bureau of Shipping, the Bureau Veritas and the UK P&I Club and he is a member of the Executive Committee of the Independent Tanker Owners Organisation (INTERTANKO). He is a member of the Board of Directors of Bank of Cyprus since 2008.

Stavros J. Constantinides (Independent)

He was born in 1956. He studied Business Administration and Management in London. From 1984 until 2009 he served as Chairman and Managing Director of Alpha Copy S.A. in Greece and for a number of years he served as Chairman and Managing Director of subsidiary companies of Alpha Copy S.A. in various Balkan countries. He has received numerous European and other awards. On 10 June 2010 he was appointed as a member of the Board of Directors of Bank of Cyprus.

Irene Karamanou (Independent)

She was born in 1968. Ms. Irene Karamanou is an Associate Professor in the Department of Public and Business Administration of the University of Cyprus since 2011. In the past, she worked at an audit firm as a Senior Auditor and for a banking organisation. She holds a PhD in Business Administration, an MBA in Marketing and Management, a BBA in Accounting and a Certified Public Accountant Certificate of America. On 8 April 2011 she was appointed as a member of the Board of Directors of Bank of Cyprus.

Elias Neocleous (Independent)

He was born in 1968. He is a partner at a major law firm and is the head of the corporate and commercial department and the specialized unit of Banking, Finance and Tax law. He is a law graduate from Oxford University and is a barrister of the Inner Temple. In 1993 he was admitted to the Cyprus Bar. On 9 February 2012 he was appointed as a member of the Board of Directors of Bank of Cyprus.

2.2 Executive Directors

Andreas Eliades (Group Chief Executive Officer)

He was born in 1955. He holds a degree in Economics from the Athens School of Economics and Commercial Sciences and an M.Sc. in Economics with distinction from the London School of Economics. He joined Bank of Cyprus in 1980. In 1991, upon the establishment of Bank of Cyprus Greece, he was appointed Country Manager. In 1998 he became Group General Manager of Bank of Cyprus Greece, having responsibility of the Group's growth in Greece. In 2005, he was appointed Group Chief Executive Officer and in 2006 he was also appointed as a member of the Bank of Cyprus Group Board of Directors.

Yiannis Pehlivanides (First Deputy Group Chief Executive Officer)

He was born in Athens in 1953. He holds a BA in economics from Wesleyan University and an MSc in Economics from the London School of Economics. He has served in executive positions at a number of financial institutions (General Manager of Xiosbank 1997-1999, Deputy Managing Director of Piraeus Bank during 1999, Managing Director of Millenium Bank 1999-2002, First Vice-President of Bank Post (subsidiary of Eurobank EFG in Romania) 2003-2004, Vice-Chairman and Deputy CEO of National Bank of Greece 2004-2009). On 15 April 2010 he was appointed as a member of the Bank of Cyprus Group Board of Directors and from 1 May 2010 he holds the position of First Deputy Chief Executive Officer with primary responsibility for the Group's operations in Greece and the Balkans.

Yiannis Kypri (Deputy Group Chief Executive Officer)

He was born in 1951. He studied Economics at the London School of Economics on a scholarship and obtained his degree with distinction in 1974. In 1978, he returned to Cyprus holding the professional qualification of Chartered Accountant and worked for two years at the international audit firm Ernst & Young. In 1980, he joined the Bank of Cyprus Group and in 1982, he was appointed Chief Accountant of the Bank. From 1993 until 2004 he held the position of Group General Manager Finance. On 1st January 2005 he was appointed Group

2. Members of the Board of Directors and Group Senior Executive Management (continued)

2.2 Executive Directors (continued)

Yiannis Kypri (Deputy Group Chief Executive Officer) (continued)

Chief General Manager. In 2006 he was appointed as a member of the Board of Directors of the Bank of Cyprus Group and in 2010 as Deputy Group Chief Executive Officer. He was a founding member and served as Chairman of the Cyprus Public Companies Association for six years. He is the Chairman of the Bank of Cyprus Cultural Foundation and a Trustee of the Bank of Cyprus Oncology Centre.

2.3 Other Group Senior Executive Management

Vassos Shiarly (Group Chief General Manager) – Member of Group Senior Executive management until 31 December 2011

He was born in 1948. In 1966 he graduated from high school in London. He studied accounting and worked for 19 years in various accounting firms in London. His last employment before his return to Cyprus in 1985 was with Coopers & Lybrand, where he held the position of Senior Manager. In 1985, he joined the Bank of Cyprus Group, and later took over the position of Senior Manager of the Customer Management Services Unit until 1998. During the period 1998-2007 he held the position of Group General Manager Branch Banking and during the period 2008-2009 held the position of Group General Manager Domestic Banking. He then held the position of Senior Group General Manager and from May 2010 to December 2011 he held the position of Group Chief General Manager. From January 2012 he held the position of advisor to the Group and in March 2012 he submitted his resignation from the Group due to his appointment as Minister of Finance of the Republic of Cyprus. He was elected Chairman of the Board of Directors of the Association of Cyprus Banks for the period 2009-2010. In December 2010 he was elected Chairman of the Board of Directors of the Cyprus Anti-Cancer Society. In November 2011 he was appointed by the Council of Ministers as Chairman of the National Health Insurance Organisation. In March 2012 he resigned from this position due to his appointment as Minister of Finance of the Republic of Cyprus.

Christis Hadjimitsis (Senior Group General Manager)

He was born in 1957. In 1976 he graduated from the English School in Nicosia. He studied economics at the London School of Economics and obtained his degree with distinction. He worked for the accounting firm Peat Marwick, Mitchell & Co London and in 1985 he returned to Cyprus having obtained the title of Chartered Accountant, with a specialisation in banking and financial services. From 1985 until 1988 he worked for Peat Marwick, Mitchell & Co in Cyprus. In 1988 he was recruited by the Bank of Cyprus Group and in 1992 he was appointed Financial Controller of the Bank. From 1995 until 2004 he held the position of Group Financial Controller. In 2005 he was appointed Group General Manager Finance with responsibility, among others, for the Group Finance and Group Strategic Planning Divisions. On 7 February 2008 he became Group General Manager Finance and Strategy and his duties were extended with the additional responsibility for the Mergers and Acquisitions Unit. In May 2010 he was appointed Senior Group General Manager. In January 2012 he also assumed the overall responsibility for the Group's Operations in the United Kingdom. He also served for a number of years as a member of the Board of Directors of the Cyprus Public Companies Association and of the Advisory Committee of the Cyprus Stock Exchange for the FTSE/CySE20.

Nicolas Karydas (Senior Group General Manager)

He was born in 1955. He has a degree in Business Administration from the Athens Graduate School of Economics and Business Science and an M.Soc.Sc. in Accounting from the University of Birmingham. From 1980 to 1982 he worked at the Central Bank of Cyprus. During the period 1982 to 1986 he worked for Deloitte Haskins & Sells in London and in 1985 he obtained the professional qualification of Chartered Accountant. From 1986 until 2004 he worked at the Central Bank of Cyprus where he held various positions including Manager of the Domestic Bank Supervision Department and Internal Auditor of the Central Bank. He joined the Bank of Cyprus Group in November 2004 and took up the position of Group General Manager Risk Management. In September 2009 he was appointed Group General Manager Risk Management & Markets and in May 2010 he was appointed Senior Group General Manager.

3. Board Committees

Specific responsibilities have been delegated to Committees of the Board of Directors. The Terms of Reference of the Committees are based on the relevant provisions of the CSE Code and the relevant Directive of the Central Bank of Cyprus.

3. Board Committees (continued)

3.1 Audit Committee

As at the date of this Report the members of the Audit Committee were:

Stavros J. Constantinides (Chairman)

Costas Z. Severis

George M. Georgiades

Manthos Mavrommatis

Irene Karamanou

The Audit Committee held 10 meetings during 2011. The Audit Committee reviews and assesses, inter-alia, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group Internal Audit Division. The Committee also examines compliance issues based on the reports prepared by the Group Compliance Unit.

The Audit Committee confirms that it is satisfied with the independence of the Group Internal Audit Division, which reports directly to the Board of Directors through the Audit Committee. The Group Internal Audit division is organisationally independent of units with executive functions and is not subordinated to any other unit of the Bank.

The Audit Committee also recommends the appointment or retirement and the remuneration of the Group's external auditors. The objectivity and independence of the external auditors is safeguarded through monitoring of their relationship with the Group by the Audit Committee, including the monitoring of the balance between audit and auxiliary non-audit services. The external auditors have confirmed their objectivity and independence in writing to the Group. In addition, the external auditors do not provide internal audit services to the Group.

3.2 Remuneration Committee

As at the date of this Report the members of the Remuneration Committee were:

Manthos Mavrommatis (Chairman)

Christos Mouskis

Stavros J. Constantinides

The Remuneration Committee held five meetings during 2011. The Committee considers and makes recommendations to the Board on matters relating to the remuneration of executive and non-executive Directors and Senior Executive Management, as well as the overall Group remuneration policy. In addition, in accordance with Appendix 1 of the Code, the Committee prepares the annual Board of Directors' Remuneration Report which is ratified by the Board of Directors and submitted to the Shareholders' Annual General Meeting for approval. The Board of Directors Remuneration Report for the year 2011 is included in section 5 of this report.

3.3 Nominations and Corporate Governance Committee

As at the date of this Report the members of the Nominations and Corporate Governance Committee were:

Anna Diogenous (Chairperson)

Vassilis G. Rologis

Andreas Artemis

Manthos Mavrommatis

During 2011, the Nominations and Corporate Governance Committee held five meetings. The Committee makes recommendations to the Board for the appointment of new Directors in order to fill vacant positions on the Board, taking into consideration the relevant factors and criteria. The Committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board. The Committee is responsible for the formulation of the succession plans of the Board. Additionally, the Committee has general responsibility for the application of corporate governance principles by the Group.

3.4 Risk Committee

As at the date of this Report the members of the Risk Committee were:

Costas Z. Severis (Chairman)

Andreas Artemis

George M. Georgiades

3. Board Committees (continued)

3.4 Risk Committee (continued)

Andreas Eliades (Group Chief Executive Officer)
Costas Hadjipapas
Nikolas P. Tsakos
Irene Karamanou

During 2011, the Risk Committee held four meetings. The Committee examines, inter-alia, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The Risk Committee ensures that there is a spherical perception and management of risks.

4. Regional Boards for International Operations

The Bank of Cyprus Board of Directors has set up Regional Boards which are responsible for the monitoring of the international operations in each market and which report to the Board of Directors. Specifically, the Group has set up Regional Boards for the monitoring of its operations in Romania, Russia, Ukraine and the United Kingdom. The aim is for the Regional Boards to assist the Bank of Cyprus Board of Directors to carry out its duties more effectively.

The operations of the Group in Cyprus and Greece are monitored directly by the Bank of Cyprus Board of Directors, whereas the monitoring of the operations of the Group in Australia (sold on 29 February 2012) and the Channel Islands is carried out by the Boards of Directors of the respective subsidiary companies, which also report to the Board of Directors of Bank of Cyprus.

As at the date of this Report the members of the Regional Boards for International Operations were as follows:

Regional Board United Kingdom

Vassilis G. Rologis (Chairman), Costas Z. Severis (Vice-Chairman), Andreas Artemis, John D. Buddle, Christakis G. Christofides, Christis Hadjimitsis, Demetris P. Ioannou, Andreas J. Jacovides, Iacovos Koumi, Spyros Neophytou, Philip H. Nunnerley.

Regional Board Ukraine

Christos Mouskis (Chairman), Manthos Mavrommatis (Vice-Chairman), Andreas Artemis, Anna Diogenous, Andreas Eliades, George M. Georgiades, Christis Hadjimitsis, Costas Hadjipapas, Nikolas Karydas, Yiannis Kypri, Yiannis Pehlivanides, Takis Taoushanis, Evdokimos Xenophontos.

Regional Board Romania

Christos Mouskis (Chairman), Anna Diogenous (Vice-Chairperson), Athanasios Andreadakis, Andreas Artemis, Andreas Eliades, George M. Georgiades, Christis Hadjimitsis, Costas Hadjipapas, Nikolas Karydas, Yiannis Kypri, Manthos Mavrommatis, Yiannis Pehlivanides, Evdokimos Xenophontos.

Regional Board Russia

Andreas Artemis (Chairman), George M. Georgiades (Vice-Chairman), Stavros J. Constantinides, Andreas Eliades, Christis Hadjimitsis, Andreas J. Jacovides, Nikolas Karydas, Yiannis Kypri, Manthos Mavrommatis, Christos Mouskis, Yiannis Pehlivanides, Vassilis G. Rologis, Takis Taoushanis, Nikolas P. Tsakos.

5. Board of Directors' Remuneration Report for the year 2011

The Group's aim is to align its Remuneration Policy with its long term objectives and the interests of its shareholders, ensuring that it is consistent with and promotes sound and effective management of risk and does not encourage excessive risk-taking.

In developing its Remuneration Policy the Group takes into account the provisions that are included in the Cyprus Stock Exchange Corporate Governance Code, the High-Level Guidelines for Remuneration Policies issued by the Central Bank of Cyprus (CBC) and the new requirements for Remuneration Policies included in the European Capital Requirements Directive (CRD3) which have been incorporated into the equivalent CBC Directive and came into effect from 1 January 2011.

5. Board of Directors' Remuneration Report for the year 2011 (continued)

It is acknowledged that the implementation of the relevant requirements by financial institutions and the policies and practices that will be adopted will evolve over time, as further experience and knowledge is gained and with the development of best practice in this area. Within this context the Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management.

The Group has applied the policies described in this Report in the sections below.

The Board of Director Remuneration Report will be submitted to the shareholders' Annual General Meeting for approval.

Details on Director (executive and non-executive) remuneration are provided in Note 50 of the Consolidated Financial Statements for the year 2011.

5.1 Governance of Group Remuneration Policy

The Remuneration Committee is responsible for the development and periodic review of the Group Remuneration Policy which it proposes to the Board of Directors for approval. In addition, the Board of Directors, through the Remuneration Committee, is ultimately responsible for monitoring the implementation of the Remuneration Policy.

The remuneration of Directors, in their capacity as members of the Board of Directors and Committees of the Board of Directors, is approved by the shareholders' General Meeting.

The Board of Directors sets the remuneration of executive Directors, following the recommendation of the Remuneration Committee. The employment contracts of executive Directors are reviewed by the Nominations Committee, and subsequently submitted to the Board of Directors for approval.

The Group does not grant guaranteed variable remuneration or discretionary pension payments.

5.2 Remuneration of non-executive Directors

The remuneration of the non-executive Directors is not linked to the profitability of the Group. The remuneration of the non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the Committees of the Board of Directors and the Boards of Group subsidiary companies. Although the remuneration of the non-executive Directors remains the same since May 2006, during 2011 the Board of Directors decided to reduce them by 15% for two years from 1 October 2011. The reduction also applies to remuneration for participation of non-executive Directors in Committees of the Board of Directors and in the Regional Boards for International Operations.

5.3 Remuneration and other Benefits of Executive Directors

Remuneration Policy

The remuneration of executive Directors comprises of a salary, adjusted annually, taking into account the prevailing economic and labour market conditions, and a variable element, the level of which depends on the Group's performance.

The variable remuneration is calculated based on the achievement of the Group's targets for profitability and key performance indicators as well as its performance relative to its peers. Other qualitative criteria as well as the individual performance of the executive Director are also taken into account.

The maximum variable remuneration that can be granted to is set at 50% of salary. As a result, the maximum variable remuneration that can be granted represents only one third of the executive Director's total remuneration.

At least 40% of variable remuneration is deferred over a period of three years. The variable remuneration will be paid and/or vests on a pro rata basis provided the Group achieves the targets set with respect to profitability and key performance indicators, taking into account the performance of other peer banks.

5. Board of Directors' Remuneration Report for the year 2011 (continued)

5.3 Remuneration and other Benefits of Executive Directors (continued)

Remuneration Policy (continued)

At least 50% of variable remuneration shall be in the form of shares and/or share options. Vesting of shares and/or share options shall be deferred for three years from the date they are awarded and shall apply even after retirement or the expiry of the executive Directors' employment contracts. On vesting, the shares and/or share options will be subject to a retention period of one year. In addition, 50% of the shares that vest must be retained until the retirement or the expiry of executive Directors' employment contracts.

Remuneration

In light of the negative economic conditions and the uncertain environment for 2012, the Board of Directors decided that no bonus would be awarded for 2011 and that no salary increases would be granted for 2012 to the executive Directors.

In addition, the Board of Directors accepted the following requests of the executive Directors. Messrs Andreas Eliades, Yiannis Pehlivanidis and Yiannis Kypri requested that their entitlement to a bonus as per their contracts of employment be waived until the expiry of their contracts. Messrs Andreas Eliades and Yiannis Kypri also requested that their entitlement to the automatic cost of living adjustment be waived from 1 January 2012 until the end of their contracts. In addition, Mr Andreas Eliades requested that 15% of his salary be withheld from 1 January 2012 until the expiry of his contract as a contribution to the Bank and Mr Yiannis Pehlivanidis requested that his salary be reduced by 10% from 1 March 2012 until the expiry of his contract.

It is noted that Messrs Andreas Eliades and Yiannis Kypri, in light of the prevailing economic conditions, had waived their entire bonus for 2010. The Board of Directors had approved variable remuneration for Messrs Andreas Eliades and Yiannis Kypri of 50% of their salary. All of the variable remuneration was to be paid in the form of shares of the Bank. One third of the variable remuneration vested upfront while the remaining two thirds would have vested on a pro rata basis at the end of 2011 and 2012 provided that the relevant conditions would be satisfied.

Retirement Benefit Schemes

Messrs Andreas Eliades and Yiannis Kypri participated in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan up to 31 December 2011. From 1 January 2012, Messrs Andreas Eliades and Yiannis Kypri participate in the new defined contribution plan for the Group's employees in Cyprus. Mr Yiannis Pehlivanidis participates in the retirement benefit plans for the Group's employees in Greece, which are a defined contribution plan and a defined benefit plan for retirement benefits which are required by the law. The main characteristics of the retirement benefit schemes for Cyprus and Greece are presented in Note 12 of the Consolidated Financial Statements.

Share Options

During 2011 no options were granted to executive Directors.

On 28 May 2008, within the context of the Group's Share Options 2008/2010 scheme granted to employees of the Group, 1,500,000 share options were granted Mr Andreas Eliades, 500,000 share options were granted to Mr Yiannis Kypri and 12,000 share options were granted to the non-executive Director, Mr Costas Hadjipapas, in his capacity as an employee of the Group.

The Options were issued under the scope of the special resolution approved at the Annual General Meeting of the shareholders of the Company on 14 May 2008.

The Share Options 2008/2010 have vested to the beneficiaries and can be exercised by their holders from 1 January to 31 March of 2011, 2012 and 2013 and from 1 November to 31 December of 2012 and 2013. On 23 March 2011 the Extraordinary General Meeting of the shareholders of the Company approved the amendment of the exercise price of the Share Options 2008/2010 to €3,30 per share. In March 2012, as a result of the Rights Issue and the issue of bonus shares of the Company, the exercise price of the Share Options 2008/2010 has been adjusted from €3,30 to €3,08 per share in accordance with the relevant terms of their issue. The Share Options 2008/2010 are not transferable and are unlisted.

5. Board of Directors' Remuneration Report for the year 2011 (continued)

5.3 Remuneration and other Benefits of Executive Directors (continued)

Share Options (continued)

As at 31 December 2011, the executive Directors did not hold any other share options nor did they exercise any share options during 2011.

Further details regarding share options can be found in Note 34 of the Consolidated Financial Statements.

Other Benefits

All other benefits provided to executive Directors are provided on the same terms as those that apply to the rest of the Group's employees.

Contracts of Employment

The remuneration (salary and bonus) of executive Directors is set out in their employment contracts which can have a maximum duration of five years.

The employment contracts include a clause for compensation in the event of a non-justified early termination. The maximum compensation payable is two annual salaries. The employment contracts include a provision that permits the Company to reclaim variable remuneration awarded on the basis of data which subsequently proved to be misstated.

The employment contracts of Mr Andreas Eliades, Group Chief Executive Officer, and Mr Yiannis Kypri, Deputy Group Chief Executive Officer have a five year duration (1 January 2009 – 31 December 2013). The compensation payable in the event of a non-justified early termination is two annual salaries. The employment contract of Mr Yiannis Pehlivanidis, Deputy Group Chief Executive Officer, has a three year duration (1 May 2010 – 31 April 2013) and provides for compensation payable in the event of a non-justified early termination of one annual salary.

6. Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 50 of the Consolidated Financial Statements.

All transactions with members of the Board of Directors and connected persons are performed in the ordinary course of business of the Group and in accordance with usual commercial terms. Any banking facilities to members of the Board of the Bank are approved by the Board of Directors. The interested party does not participate nor is present during the approval process.

7. Accountability and Audit

7.1 Going concern

The Group's business activities and financial position as well as its strategic priorities are discussed in the Directors' Report. The significant judgements, estimates and assumptions used in the preparation of these financial statements are set out in Note 3 of the Consolidated Financial Statements.

Specifically, the Group's risks as a result of its exposure to Greece, where the prolonged recession in conjunction with increased unemployment led to an increase in impairment losses on loans and investments, are described in Note 3.2 and quantified in Note 48.

A description of the Group's policies for managing the financial risks to which it is exposed is set out as follows: credit risk in Note 44, market risk in Note 45, liquidity risk in Note 46, other risks in Note 47.

In 2011 the Group has suffered a significant loss due to the impairment of GGBs (Note 15) and as at 31 December 2011 it did not meet the minimum capital adequacy ratios. The Group's regulatory capital ratios are set out in Note 49.

In considering the basis of preparation of the financial statements as a going concern, the Directors have taken into account the following:

7. Accountability and Audit (continued)

7.1 Going concern (continued)

- the 3-year business plan prepared by Group management, which includes the plan for meeting the EBA's required capital buffer,
- the fact that the plan for meeting the EBA's required capital buffer has been submitted to the Central Bank of Cyprus,
- the completion of the restructuring of Greek Government Bonds,
- the partial completion of the Group's Capital Strengthening Plan (Note 53),
- the other actions that have been planned for enhancing capital adequacy such as the placement of unsubscribed shares and the active management of risk weighted assets, and
- the Group's ability to access, through the availability of adequate eligible collateral, the refinancing mechanisms provided by the Eurozone and the Central Bank of Cyprus.

In addition, they note they have also taken into account the existence of relevant legislation in Cyprus, which provides for the provision of support to banks which may face liquidity problems or require additional capital, as well as the agreement between the Eurozone heads of state in October 2011 for the European Financial Stability Facility's ability to provide financing to member-states for the purposes of bank recapitalisation if such a need arises.

On the basis of the above, the Directors expect that the Group will continue in operational existence for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

7.2 System of Internal Control

The Directors are responsible for ensuring that the Bank's management maintains an effective system of internal control and for reviewing its effectiveness. Such a system is designed to manage and minimise risk, not necessarily to eliminate it, and can only provide reasonable, but not absolute assurance, against material misstatement or loss. The Directors review the effectiveness of the system of internal controls annually, including the procedures for verification of the correctness, completeness and validity of the information provided to investors.

Throughout 2011, and to date, the Group has operated an effective system of internal control, which includes Group Internal Audit, financial and operating controls as well as compliance systems for the management of risks that could jeopardise the achievement of the Bank's objectives.

The Board of Directors confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations.

7.3 Corporate Governance Compliance Officer

The Board of Directors has appointed the Deputy Group Chief Executive Officer, Mr Yiannis Kypri, as Corporate Governance Compliance Officer.

8. Shareholder Relations

All shareholders of Bank of Cyprus are treated on an equal basis. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, return, ownership and governance.

The Board of Directors provides to holders of at least 5% of the Company's share capital the opportunity to request the inclusion of items on the agenda of General Meetings. The Board of Directors is available at the Annual General Meeting to answer shareholders' questions.

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

The Board of Directors may issue share capital if there is sufficient authorised share capital and as long as the new shares to be issued are first offered to the existing shareholders, pro-rata to their percentage holding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares

8. Shareholder Relations (continued)

are not offered to existing shareholders, the approval of the shareholders in General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

The Board of Directors has appointed Mr Constantinos Pittalis as Investor Relations Officer, responsible for the communication between shareholders and the Bank. Information concerning the Bank is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner, free of charge.

The Senior Independent Director, Mr Manthos Mavrommatis, is available to shareholders if they have concerns that have not been resolved through the normal communication channels.

24 April 2012

Financial Information for the Period from 1 January 2011 to 31 December 2011

as stipulated by Decision 4/507/28.04.2009 of
the Board of Directors of the Greek Capital Markets Commission

The financial information presented below is aiming to provide a general awareness about the financial position and results of the Bank of Cyprus Group (the 'Group') and the holding company Bank of Cyprus Public Company Ltd (the 'Company'). We recommend to the reader, before any investment decision or transaction is performed with the Group, to visit the Group's website where the financial statements prepared in accordance with International Financial Reporting Standards are available, together with the independent auditors' report, and the detailed explanatory statement of results. These documents are also available at the Registered Office of the Company (51 Stassinou Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, CY-1398 Nicosia, Cyprus, Telephone: +357 22 122128, Fax: +357 22 378422).

Website: www.bankofcyprus.com - Investor Relations/Financial Information.

Members of the Board of Directors: Theodoros Aristodemou (Chairman), Andreas Artemis (Vice Chairman), Vassilis G. Rologis, Costas Z. Severis, Evdokimos Xenophontos, Anna Diogenous, George M. Georgiades, Christos Mouskis, Manthos Mavrommatis, Andreas Eliades, Yiannis Kypri, Costas Hadjipapas, Nikolas P. Tsakos, Yiannis Pehlivanidis, Stavros J. Constantinides, Irene Karamanou and Elias Neocleous.

Date of approval of the financial statements for year 2011 by the Board of Directors: 24 April 2012

Independent auditors: Ernst & Young Cyprus Ltd.

Type of auditors' report: Unqualified opinion – Emphasis of matter.

BANK OF CYPRUS GROUP
Extracts from the Consolidated Income Statement
and Statement of Comprehensive Income
for the year ended 31 December 2011

Annual Financial Report 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| Net interest income | 1.167.673 | 1.040.419 |
| Net fee and commission income | 232.365 | 231.179 |
| Foreign exchange gains | 45.178 | 38.634 |
| Net gains on financial instrument transactions and disposal of subsidiaries | 3.571 | 71.380 |
| Insurance income net of insurance claims | 61.190 | 59.361 |
| Other income | 31.329 | 8.916 |
| | 1.541.306 | 1.449.889 |
| Staff costs | (443.205) | (430.208) |
| Other operating expenses | (292.997) | (294.717) |
| Profit before provisions for impairment of loans and advances and the impairment of Greek Government Bonds (GGBs) | 805.104 | 724.964 |
| Provisions for impairment of loans and advances | (426.287) | (374.497) |
| Profit before impairment of GGBs | 378.817 | 350.467 |
| Impairment of GGBs and change in fair value of related hedging derivatives | (1.729.261) | - |
| (Loss)/profit before share of profit of associates | (1.350.444) | 350.467 |
| Share of loss of associates | (1.441) | (1.953) |
| (Loss)/profit before tax | (1.351.885) | 348.514 |
| Taxation | (25.959) | (45.989) |
| (Loss)/profit after tax | (1.377.844) | 302.525 |
| Attributable to: | | |
| Non-controlling interests (loss) | (7.073) | (3.664) |
| Owners of the Company ((loss)/profit) | (1.370.771) | 306.189 |
| Basic earnings /(losses) per share (€) | (1,5685) | 0,4044 |
| Basic earnings per share excluding the impairment of GGBs (€) | 0,3090 | 0,4044 |
| (Loss)/profit after tax | (1.377.844) | 302.525 |
| Other comprehensive income/(expense) after tax | 190.053 | (225.379) |
| Total comprehensive (expense)/income for the year | (1.187.791) | 77.146 |
| Attributable to: | | |
| Non-controlling interests (expense) | (7.180) | (1.456) |
| Owners of the Company ((expense)/income) | (1.180.611) | 78.602 |

| | | 2011 | 2010 |
|--|-------|-------------------|-------------------|
| | Notes | €000 | €000 |
| Assets | | | |
| Cash and balances with central banks | | 1.375.047 | 2.241.825 |
| Placements with banks | | 2.627.831 | 5.264.628 |
| Reverse repurchase agreements | | 215.936 | 120.166 |
| Investments | 3 | 2.629.124 | 4.307.558 |
| Investments pledged as collateral | 3 | 938.070 | 1.038.036 |
| Derivative financial assets | | 193.734 | 76.278 |
| Loans and advances to customers | | 27.366.917 | 27.725.451 |
| Life insurance business assets attributable to policyholders | | 504.579 | 561.695 |
| Property and equipment | | 473.188 | 418.781 |
| Intangible assets | | 472.510 | 479.058 |
| Other assets | | 675.343 | 400.459 |
| Investments in associates | | 2.820 | 3.805 |
| Total assets | | 37.475.099 | 42.637.740 |
| Liabilities | | | |
| Obligations to central banks and amounts due to banks | | 3.065.756 | 3.706.975 |
| Repurchase agreements | | 785.993 | 913.109 |
| Derivative financial liabilities | | 488.111 | 240.412 |
| Customer deposits | | 29.654.498 | 32.952.567 |
| Insurance liabilities | | 611.264 | 658.309 |
| Debt securities in issue | | 49.791 | 83.957 |
| Other liabilities | 4 | 262.227 | 323.120 |
| Subordinated loan stock | | 128.380 | 930.942 |
| Total liabilities | | 35.046.020 | 39.809.391 |
| Equity | | | |
| Share capital | | 899.528 | 894.948 |
| Share premium | | 1.164.903 | 1.159.819 |
| Convertible Enhanced Capital Securities | | 862.233 | - |
| Revaluation and other reserves | | 3.232 | (186.253) |
| (Accumulated losses)/retained earnings | | (585.261) | 868.531 |
| Equity attributable to owners of the Company | | 2.344.635 | 2.737.045 |
| Non-controlling interests | | 84.444 | 91.304 |
| Total equity | | 2.429.079 | 2.828.349 |
| Total liabilities and equity | | 37.475.099 | 42.637.740 |

Extracts from the Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| Total equity at 1 January | 2.828.349 | 2.485.498 |
| Total comprehensive (expense)/income for the year | (1.187.791) | 77.146 |
| Disposal of shares of the Company by subsidiaries and associates | 895 | 4.299 |
| Purchase of shares of the Company by subsidiaries and associates | (1.946) | (3.754) |
| Cost of share-based payments | 2.611 | 3.079 |
| Dividend paid and reinvested | (18.437) | (61.516) |
| Dividend in the form of shares | - | (20.534) |
| Defence contribution on deemed dividend distribution | (2.191) | (570) |
| Dividend paid by subsidiaries | (978) | (70) |
| Issue of Convertible Enhanced Capital Securities (CECS) less buybacks | 857.084 | - |
| Exchange of Convertible Bonds and Convertible Capital Securities with CECS | (13.902) | - |
| Issue costs of CECS | (1.458) | - |
| Interest on CECS | (34.631) | - |
| Change in ownership percentage of subsidiary | 581 | - |
| Increase in the share capital of subsidiary companies | 887 | 620 |
| Issue of shares | - | 345.260 |
| Costs relating to the issue of shares | - | (1.244) |
| Conversion of Convertible Bonds and Convertible Capital Securities | 6 | 135 |
| Total equity at 31 December | 2.429.079 | 2.828.349 |

BANK OF CYPRUS GROUP
Extracts from the Consolidated Statement of
Comprehensive Income
for the year ended 31 December 2011

Annual Financial Report 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| (Loss)/profit after tax | (1.377.844) | 302.525 |
| Foreign currency translation reserve | (8.330) | 35.587 |
| Available-for-sale investments | 137.796 | (262.417) |
| Cash flow hedges | (1.291) | 1.259 |
| Property revaluation | 61.878 | 192 |
| Total comprehensive (expense)/income for the year | (1.187.791) | 77.146 |

BANK OF CYPRUS GROUP
Extracts from the Consolidated Statement of Cash Flows
for the year ended 31 December 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| Net cash flow (used in)/from operating activities | (3.397.882) | 821.461 |
| Net cash flow from/(used in) investing activities | 293.969 | (488.949) |
| Net cash flow used in financing activities | (67.126) | (220.854) |
| Net (decrease)/increase in cash and cash equivalents for the year | (3.171.039) | 111.658 |
| Exchange adjustments | 20.490 | 71.453 |
| Total cash (outflow)/inflow of the year | (3.150.549) | 183.111 |
| Cash and cash equivalents at 1 January | 6.339.767 | 6.156.656 |
| Cash and cash equivalents at 31 December | 3.189.218 | 6.339.767 |

| | 2011 | 2010 |
|--|--------------------|----------------|
| | €000 | €000 |
| Net interest income | 988.635 | 876.381 |
| Net fee and commission income | 189.345 | 179.638 |
| Foreign exchange gains | 35.702 | 28.269 |
| Dividends from subsidiaries and joint ventures | 18.449 | 61.786 |
| Net gains on financial instrument transactions and disposal of subsidiaries | 24.637 | 88.723 |
| Other income | 7.715 | 3.560 |
| | 1.264.483 | 1.238.357 |
| Staff costs | (342.782) | (332.835) |
| Other operating expenses | (210.182) | (202.765) |
| Profit before provisions for impairment of loans and advances and the impairment of Greek Government Bonds (GGBs) | 711.519 | 702.757 |
| Provisions for impairment of loans and advances | (356.320) | (337.692) |
| Profit before impairment of GGBs | 355.199 | 365.065 |
| Impairment of GGBs and change in fair value of related hedging derivatives | (1.719.764) | - |
| (Loss)/profit before tax | (1.364.565) | 365.065 |
| Taxation | (15.785) | (33.453) |
| (Loss)/profit after tax | (1.380.350) | 331.612 |
| | | |
| Basic earnings/(losses) per share (€) | (1,5768) | 0,4373 |
| Basic earnings per share excluding the impairment of GGBs (€) | 0,2883 | 0,4373 |
| | | |
| (Loss)/profit after tax | (1.380.350) | 331.612 |
| Other comprehensive income/(expense) after tax | 202.317 | (248.164) |
| Total comprehensive (expense)/income for the year | (1.178.033) | 83.448 |

Extracts from the Balance Sheet

as at 31 December 2011

| | | 2011 | 2010 |
|---|-------|-------------------|-------------------|
| | Notes | €000 | €000 |
| Assets | | | |
| Cash and balances with central banks | | 1.242.705 | 2.018.869 |
| Placements with banks | | 2.425.778 | 4.762.425 |
| Reverse repurchase agreements | | 215.936 | 120.166 |
| Investments | 3 | 2.566.223 | 4.199.830 |
| Investments pledged as collateral | 3 | 938.070 | 1.038.036 |
| Derivative financial assets | | 193.734 | 75.214 |
| Loans and advances to customers | | 24.145.674 | 23.619.514 |
| Bank accounts of Group Companies | | 3.321.270 | 4.400.993 |
| Investments in Group Companies and joint ventures | | 938.567 | 972.000 |
| Investments in associates | | 7.722 | 9.189 |
| Property and equipment | | 322.226 | 277.361 |
| Intangible assets | | 18.266 | 17.141 |
| Other assets | | 315.834 | 110.405 |
| Total assets | | 36.652.005 | 41.621.143 |
| Liabilities | | | |
| Obligations to central banks and amounts due to banks | | 2.999.470 | 3.634.560 |
| Repurchase agreements | | 785.993 | 913.109 |
| Derivative financial liabilities | | 488.102 | 239.212 |
| Customer deposits | | 28.223.101 | 30.828.311 |
| Bank accounts of Group Companies | | 1.503.851 | 2.147.789 |
| Debt securities in issue | | 20.319 | 32.698 |
| Other liabilities | 4 | 166.259 | 167.699 |
| Subordinated loan stock | | 121.452 | 924.358 |
| Total liabilities | | 34.308.547 | 38.887.736 |
| Equity | | | |
| Share capital | | 899.528 | 894.948 |
| Share premium | | 1.164.903 | 1.159.819 |
| Convertible Enhanced Capital Securities | | 862.233 | - |
| Revaluation and other reserves | | 46.802 | (147.524) |
| (Accumulated losses)/retained earnings | | (630.008) | 826.164 |
| Total equity | | 2.343.458 | 2.733.407 |
| Total liabilities and equity | | 36.652.005 | 41.621.143 |

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| Total equity at 1 January | 2.733.407 | 2.386.134 |
| Total comprehensive (expense)/income for the year | (1.178.033) | 83.448 |
| Purchase of own shares | (822) | - |
| Cost of share-based payments | 2.461 | 2.893 |
| Dividend paid and reinvested | (18.463) | (62.115) |
| Dividend in the form of shares | - | (20.534) |
| Defence contribution on deemed dividend distribution | (2.191) | (570) |
| Issue of Convertible Enhanced Capital Securities (CECS) less buybacks | 857.084 | - |
| Exchange of Convertible Bonds and Convertible Capital Securities with CECS | (13.902) | - |
| Issue costs of CECS | (1.458) | - |
| Interest on CECS | (34.631) | - |
| Issue of shares | - | 345.260 |
| Costs relating to the issue of shares | - | (1.244) |
| Conversion of Convertible Bonds and Convertible Capital Securities | 6 | 135 |
| Total equity at 31 December | 2.343.458 | 2.733.407 |

BANK OF CYPRUS PUBLIC COMPANY LTD
 Extracts from the Statement of Comprehensive Income
 for the year ended 31 December 2011

Annual Financial Report 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| (Loss)/profit after tax | (1.380.350) | 331.612 |
| Foreign currency translation reserve | 489 | 1.583 |
| Available-for-sale investments | 134.578 | (259.808) |
| Investments in Group Companies | 28.130 | 8.556 |
| Cash flow hedges | (1.361) | 1.329 |
| Property revaluation | 40.481 | 176 |
| Total comprehensive (expense)/income for the year | (1.178.033) | 83.448 |

BANK OF CYPRUS PUBLIC COMPANY LTD
 Extracts from the Statement of Cash Flows
 for the year ended 31 December 2011

| | 2011 | 2010 |
|--|--------------------|-----------|
| | €000 | €000 |
| Net cash flow (used in)/from operating activities | (3.366.955) | 723.395 |
| Net cash flow from/(used in) investing activities | 525.989 | (368.218) |
| Net cash flow used in financing activities | (42.456) | (250.697) |
| Net (decrease)/increase in cash and cash equivalents for the year | (2.883.422) | 104.480 |
| Exchange adjustments | 24.304 | 44.546 |
| Total cash (outflow)/inflow for the year | (2.859.118) | 149.026 |
| Cash and cash equivalents at 1 January | 5.758.237 | 5.609.211 |
| Cash and cash equivalents at 31 December | 2.899.119 | 5.758.237 |

1. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.
2. The accounting policies adopted are consistent with those of the previous financial year except for the adoption by the Group of the following new and amended IFRSs and IFRIC Interpretations as from 1 January 2011:
 - IFRIC 14 'Prepayments of a Minimum Funding Requirement' (Amended)
 - IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
 - IAS 24 'Related Party Disclosures' (Amended)
 - IAS 32 'Classification on Rights Issues' (Amended)
 - Amendments resulting from annual improvements to IFRSs (May 2010) to:
 - IFRS 3 'Business Combinations'
 - IFRS 7 'Financial Instruments'
 - IAS 1 'Presentation of Financial Statements'
 - IAS 27 'Consolidated and Separate Financial Statements'
 - IAS 34 'Interim Financial Statements'
 - IFRIC 13 'Customer Loyalty Programmes'

Adoption of the above did not have any impact on the financial statements of the Group except for the adoption of the amendments to IFRS 7 as part of the May 2010 annual improvements which were intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information in order to present the quantitative information in context. The Group presents the revised disclosure requirements in Notes 44 to 47.

3. Investments of the Group and the Company are analysed as follows:

| | 2011 | 2010 |
|--|-----------|-----------|
| Group | €000 | €000 |
| Investments | | |
| Investments at fair value through profit or loss | 26.345 | 174.043 |
| Investments available-for-sale | 534.803 | 1.549.345 |
| Investments held-to-maturity | 1.055.406 | 811.970 |
| Investments classified as loans and receivables | 1.012.570 | 1.772.200 |
| | 2.629.124 | 4.307.558 |
| Investments pledged as collateral | | |
| Investments at fair value through profit or loss | 26.544 | 26.812 |
| Investments available-for-sale | 718.719 | 770.894 |
| Investments held-to-maturity | 148.698 | 210.880 |
| Investments classified as loans and receivables | 44.109 | 29.450 |
| | 938.070 | 1.038.036 |
| | 3.567.194 | 5.345.594 |

| | 2011 | 2010 |
|--|-----------|-----------|
| Company | €000 | €000 |
| Investments | | |
| Investments at fair value through profit or loss | 18.655 | 155.657 |
| Investments available-for-sale | 485.929 | 1.467.671 |
| Investments held-to-maturity | 1.049.069 | 804.302 |
| Investments classified as loans and receivables | 1.012.570 | 1.772.200 |
| | 2.566.223 | 4.199.830 |
| Investments pledged as collateral | | |
| Investments at fair value through profit or loss | 26.544 | 26.812 |
| Investments available-for-sale | 718.719 | 770.894 |
| Investments held-to-maturity | 148.698 | 210.880 |
| Investments classified as loans and receivables | 44.109 | 29.450 |
| | 938.070 | 1.038.036 |
| | 3.504.293 | 5.237.866 |

4. Other liabilities at 31 December 2011 include provisions for pending litigation or claims of €3.837 thousand for the Group and €3.228 thousand for the Company and other provisions of €16.542 thousand for the Group and €14.874 thousand for the Company. There are no other significant pending litigation, claims or assessments against the Group or the Company, the outcome of which would have a material effect on the Group's or Company's financial position or operations.
5. The number of persons employed by the Group at 31 December 2011 was 11.326 (2010: 12.009) and by the Company was 6.531 (2010: 6.615).
6. Shares of the Company held by entities controlled by the Group and by associates (including shares that are held by life insurance subsidiary which holds the shares as part of financial assets that are invested for the benefit of insurance policyholders) at 31 December 2011 was 8.874 thousand and their cost of acquisition was €31.476 thousand.
7. The Group subsidiaries, branches, associates and joint venture as at 31 December 2011 and the method of consolidation used are set out in Note 51 of Consolidated Financial Statements.
8. The Board of Directors does not propose the payment of dividend for 2011

The final dividend for 2010 of €0,03 per share totalling €26.848 thousand was approved at the Annual General Meeting of the shareholders on 24 May 2011 was paid on 16 June 2011.

The interim dividend in cash in 2010 was set at €0,06 per share. In addition, the Board of Directors, taking into consideration the level of reserves and the applicable legislation for dividend distribution, decided the payment of a special interim dividend payable in the form of shares amounting to €0,50 per share at the issue price of €3,25. This decision was approved at the Extraordinary General Meeting of the Company's shareholders on 20 September 2010. The total amount of the cash dividend was €46.612 thousand and the scrip dividend in the form of shares was €388.430 thousand. The interim cash and scrip dividends were paid to shareholders on 11 November 2010.

The final dividend for 2009 of €0,08 per share, amounting to €47.856 thousand, was approved at the Annual General Meeting of the shareholders on 26 May 2010 and was paid on 17 June 2010.

The total dividend paid during 2011 includes an amount of €26 thousand (2010: €599 thousand) which relates to shares of the Company held by subsidiaries and associates.

9. Related party transactions:

- (a) Loans and other advances to members of the Board of Directors and key management personnel: €7.970 thousand for the Group and the Company.
- (b) Loans and other advances to other connected persons: €276.442 thousand for the Group and €3.597.712 thousand for the Company.
- (c) Contingent liabilities and commitments (mainly documentary credits, guarantees and commitments to lend): €117.850 thousand for the Group and the Company.
- (d) Deposits by members of the Board of Directors and key management personnel: €64.866 thousand for the Group and the Company.
- (e) Deposits by other connected persons: €47.683 thousand for the Group and €1.551.534 thousand for the Company.
- (f) Income (mainly interest income): €14.186 thousand for the Group and €146.604 thousand for the Company.
- (g) Expense (mainly interest expense): €5.316 thousand for the Group and €49.629 thousand for the Company.
- (h) Remuneration and other transactions of members of the Board of Directors, key management personnel and connected persons: €5.002 thousand for the Group and €4.574 thousand for the Company.
- (i) Debt securities in issue, subordinated loan stock and CECS to members of the Board of Directors and key management personnel: €23.246 thousand for the Group and the Company.
- (j) Debt securities in issue, subordinated loan stock and CECS to other connected persons: €3.045 thousand for the Group and the Company.

10. (i) Capital strengthening plan

In November 2011, the Group decided to strengthen its capital base through a Capital Strengthening Plan. The Plan included a share capital increase through a pre-emptive rights offering to raise up to €397 million and a voluntary exchange of Convertible Enhanced Capital Securities (CECS) of up to €600 million.

The Rights were issued and allocated to shareholders and to holders of eligible securities of the Company as if they were shareholders on the basis of the current 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. Additionally, for each New Share arising from the exercise of the Rights, the Company granted one fully paid Bonus Share.

The holders of CECS could exchange their CECS with Mandatory Convertible Notes (MCNs) of equal nominal value. The MCNs did not bear interest and matured eight days following their date of issue. On maturity of the MCNs, the Company would redeem each MCN with the issue of one fully paid New Share. Additionally, for every three New Shares arising from the conversion of the MCNs, the Company granted one Bonus Share.

Upon completion of the Rights Offering in its entirety, the Company would issue up to 794 million new ordinary shares (397 million shares from the exercise of the Rights and 397 million bonus shares). Upon the completion of the voluntary conversion of CECS in its entirety, the Company would issue up to 800 million shares (600 million shares from the conversion of CECS and 200 million bonus shares).

The exercise period for the Rights, the period for the submission of applications for pre-registration and the acceptance period of the CECS exchange offer ended on 19 March 2012. As a result, the Company's core tier 1 capital has increased by €592 million of which €160 million relate to the exercise of Rights and €432 million relate to the acceptance of the offer to exchange the CECS. As a result of the above, approximately 896 million new shares have been issued.

Furthermore, the Group is proceeding with the completion of the Capital Strengthening Plan. The Group has the right to exercise, until 18 June 2012, all or part of the Rights that have not been subscribed to by their holders and have not been exercised by 19 March 2012. Any distribution of unsubscribed shares will be at the discretion of the Board of Directors and can take place at the same or at a higher price than the subscription price of the new shares.

(ii) New collective agreement of employees in Cyprus

In January 2012, the General Meeting of the members of the union of bank employees in Cyprus approved the new collective agreement between employers and employees. The new agreement includes, among other things, no salary increases and cost of living allowance for years 2012 and 2013 and the change of the existing retirement plan from a defined benefit plan to a defined contribution plan with effect from 1 January 2012. The new defined contribution plan provides for employer contributions of 14% and employee contribution of 3%-10% of the employees' salaries.

As a result of the above change in the retirement benefit plans and a change in the accounting policy of the Group from 1 January 2012 with respect to the recognition of actuarial gains/losses, during the first quarter of 2012 the equity and the regulatory capital of the Group will be negatively affected by approximately €72 million.

11. The emphasis of matter which is included in the audit report of the consolidated financial statements is as follows:

'Without qualifying our opinion, we draw your attention to note 3.1 'Going concern' and note 49 'Capital management' to the consolidated financial statements which indicate the significant judgments, estimates and assumptions used in the preparation of the financial statements on a going concern basis while not complying with minimum capital adequacy ratios as at 31 December 2011'.

Also the emphasis of matter which is included in the financial statements of the Company is the following:

'Without qualifying our opinion, we draw your attention to note 2.3.1 'Going concern' and note 45 'Capital management' to the Company financial statements which indicate the significant judgments, estimates and assumptions used in the preparation of the financial statements on a going concern basis while not complying with minimum capital adequacy ratios as at 31 December 2011'.

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