

Annual Financial Report 2012

Contents	Page
Board of Directors and Executives	1
Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements (in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)	2
Report of the Board of Directors of Bank of Cyprus Public Company Ltd	3
Consolidated Financial Statements of Bank of Cyprus Group	16
Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd on the Consolidated Financial Statements	173
Corporate Governance Report	175
Financial Information for Year 2012 (as stipulated by Decision 4/507/28.4.2009 of the Board of Directors of the Greek Capital Markets Commission)	196
Table with Corresponding References to the Information made Publicly Available by Bank of Cyprus Public Company Ltd during the period 1.1.2012 to 10.10.2013	211

Board of Directors and Executives on the date of approval of the Financial Statements

Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)	Christis Hassapis CHAIRMAN	
	Vladimir Strzhalkovskiy VICE CHAIRMAN	Igor Lojevsky Adonis Papaconstantinou Anton Smetanin Xanthos Vrachas Marios Yiannas Andreas Yiasemides Ioannis Zographakis
Executive Committee	Aristos Stylianou VICE CHAIRMAN	
	Christodoulos Patsalides Charis Pouangare George Christodoulides Phivos Stasopoulos Rodoula Hadjikyriakou	Nicolas Sparsis Louis Pochanis Phivos Zomenis Miltiades Michaelas Eliza Livadiotou
Group Internal Auditor	Constantinos Tsolakkis	
Company Secretary	Phivos Zomenis	
Legal Advisers	Chryssafinis & Polyviou	
Independent Auditors	Ernst & Young Cyprus Ltd	
Registered Office	51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY-1398 Nicosia, Cyprus Telephone: +357 22122100, Telefax: +357 22336258	

Statement by the Members of the Board of Directors
and the Company Officials Responsible for the Drafting
of the Consolidated Financial Statements

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

We, the members of the Board of Directors for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2012, the names of which are listed below confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 16 to 172.
- (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 Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis

Chairman

Vladimir Strzhalkovskiy

Vice Chairman

Anjelica Anshakova

Non-executive Director

Dmitry Chichikashvili

Non-executive Director

Marinos Gialelis

Non-executive Director

~~Costas Hadjipapas~~

~~Non-executive Director~~

Marios Kalochoritis

Non-executive Director

Konstantinos Katsaros

Non-executive Director

Eriskhan Kurazov

Non-executive Director

Igor Lojevsky

Non-executive Director

Adonis Papaconstantinou

Non-executive Director

Anton Smetanin

Non-executive Director

Xanthos Vrachas

Non-executive Director

Marios Yiannas

Non-executive Director

Andreas Yiasemides

Non-executive Director

Ioannis Zographakis

Non-executive Director

Aristos Stylianou

Vice-Chairman of Executive Committee

* He has not signed the accounts as he believes that the timing of publishing the accounts is wrong and the accounts should be published later.


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 2012

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

We, the members of the Board of Directors for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2012, the names of which are listed below confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 16 to 172.
 - (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 Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis	Chairman
Vladimir Strzhalkovskiy	Vice Chairman
Anjelica Anshakova	Non-executive Director
Dmitry Chichikashvili	Non-executive Director
Marinos Gialelis	Non-executive Director
Costas Hadjipapas	Non-executive Director
Marios Kalochoritis	Non-executive Director 
Konstantinos Katsaros	Non-executive Director
Eriskhan Kurazov	Non-executive Director
Igor Lojevsky	Non-executive Director
Adonis Papaconstantinou	Non-executive Director
Anton Smetanin	Non-executive Director
Xanthos Vrachas	Non-executive Director
Marios Yiannas	Non-executive Director
Andreas Yiasemides	Non-executive Director
Ioannis Zographakis	Non-executive Director
Aristos Stylianou	Vice-Chairman of Executive Committee

10 October 2013

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 2012

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

We, the members of the Board of Directors for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2012, the names of which are listed below confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 16 to 172.
 - (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 Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis	Chairman
Vladimir Strzhalkovskiy	Vice Chairman
Anjelica Anshakova	Non-executive Director
Dmitry Chichikashvili	Non-executive Director
Marinos Gialelis	Non-executive Director
Costas Hadjipapas	Non-executive Director
Marios Kalochoritis	Non-executive Director
Konstantinos Katsaros	Non-executive Director
Eriskhan Kurazov	Non-executive Director
Igor Lojevsky	Non-executive Director
Adonis Papaconstantinou	Non-executive Director
Anton Smetanin	Non-executive Director
Xanthos Vrachas	Non-executive Director
Marios Yiannas	Non-executive Director
Andreas Yiasemides	Non-executive Director
Ioannis Zographakis	Non-executive Director
Aristos Stylianos	Vice-Chairman of Executive Committee



10 October 2013

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 2012


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

We, the members of the Board of Directors for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2012, the names of which are listed below confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 16 to 172.
 - (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 Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Christis Hassapis	Chairman
Vladimir Strzhalkovskiy	Vice Chairman
Anjelica Anshakova	Non-executive Director
Dmitry Chichikashvili	Non-executive Director
Marinos Gialelis	Non-executive Director
Costas Hadjipapas	Non-executive Director
Marios Kalochoritis	Non-executive Director
Konstantinos Katsaros	Non-executive Director
Eriskhan Kurazov	Non-executive Director
Igor Lojevsky	Non-executive Director
Adonis Papaconstantinou	Non-executive Director
Anton Smetanin	Non-executive Director
Xanthos Vrachas	Non-executive Director
Marios Yiannas	Non-executive Director
Andreas Yiasemides	Non-executive Director
Ioannis Zographakis	Non-executive Director
Aristos Stylianou	Vice-Chairman of Executive Committee

10 October 2013

 ANSHAKOVA
ANSHAKOVA

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 2012.

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.

Operating environment

More than 80% of the Group's operations in 2012 were in Cyprus and Greece. Both countries were in severe recession during the year 2012.

The Cypriot economy has been adversely affected over the last couple of years by the Eurozone credit crisis, especially with respect to the economic conditions in Greece and the instability in the global financial markets. The recession that started in the third quarter of 2011 continued, with the economy contracting in 2012 by 2,4%. The financial sector was particularly hit by losses on investments in Greek government bonds, as well as loan losses on Greek and Cypriot operations.

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

On 25 March 2013, the Cypriot government and the Eurogroup reached an agreement on the key elements necessary for a future macroeconomic adjustment programme and a financial assistance facility of up to €10 billion. The stability support granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding has been agreed between Cyprus and the Troika which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. However, the bailout agreement between the Troika and Cyprus is expected to weigh heavily on the real and financial conditions of the Cypriot economy in the next 2-3 years.

Further information in respect of the programme, the restructuring of the financial sector and the impact on the Group is presented in Note 53.

In the last 5 years, Greece has experienced a protracted and severe recession and unprecedented pressure on its public finances. GDP shrank by 6,4% in 2012, driven by fiscal austerity and a collapse of consumption and investment expenditure. In this period, real GDP contracted by more than 20% cumulatively and unemployment surged to 24% in 2012.

In October 2011, the Eurozone agreed on a comprehensive set of measures for Greece including a voluntary bond exchange with a significant discount on Greek government bonds held by private investors ('PSI'). The bond exchange was completed in April 2012. The PSI, lower interest rates and a substantial extension of the average debt maturity, resulted in a significant decline of the Greek debt servicing needs as from 2012. The debt relief and stability packages are intended to provide more time for economic policy to implement fiscal adjustment and growth-enhancing structural reforms.

The persisting economic crisis both in Cyprus and Greece led to a very significant deterioration in the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and very significant losses on investments in Greek government bonds, all of which contributed to very significant losses in 2012 and 2011. The crisis also led to reduced levels of deposits.

Going concern

The Company's Board of Directors has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

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

The conditions that existed in 2012, as well as the developments up to the date of approval of the financial statements set out in Note 53, that have been considered in management's going concern assessment, including amongst others, the following:

Regulatory capital ratios

In 2012 and 2011, the Group has suffered significant losses due to the impairment of Greek Government Bonds and increased provisions for impairment of loans and advances.

The Group participated in a Capital Exercise conducted in 2011 by the European Banking Authority ('EBA') in co-operation with the Central Bank of Cyprus. The Capital Exercise which covered 71 European Banks, aimed 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 adverse market environment. This buffer was 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 had determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which should have been covered by 30 June 2012. In January 2012 the Group had submitted a plan to the Central Bank of Cyprus which set out the various measures which the Group would take so as to achieve the required capital enhancement target as determined by the EBA.

In this context, the Group has implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million and conversion of Convertible Enhanced Capital Securities into shares of €432 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital contribution of €80 million, and (iii) management of its risk weighted assets.

During the first half of 2012 the Group incurred additional losses due to increased provisions relating to the loan portfolios in Cyprus and Greece as well as the further impairment of Greek Government Bonds and bonds issued by financial institutions in Cyprus and Greece. As a result, the Group announced on 27 June 2012 that it was not able to fully cover the EBA capital shortfall and applied to the Republic of Cyprus for capital support.

As at 31 December 2012, the Group did not meet the minimum capital adequacy ratios (Note 49).

The Cyprus economy was also adversely affected over the last few years by the Eurozone credit crisis, especially with respect to the economic conditions in Greece and the instability in the global financial markets. In June 2012, the Cyprus government applied to the Troika for financial assistance that was intended to provide, inter alia, capital support to the Group. The Cyprus government's negotiations with the Troika were ongoing at the end of the year.

As part of the agreement reached between the Troika and the Cyprus government, the Group was recapitalised through a bail-in of unsecured depositors (a deposit-to-equity conversion) which was completed in July 2013 and the absorption of accumulated losses by the holders of ordinary shares and debt securities as of 29 March 2013. The Board considers that as at the date of approval of these financial statements, the Group's Core Tier 1 ratio exceeds 9%. The Group, as also confirmed by the Resolution Authority, has been capitalised to a level which can sustain expected losses on its loans portfolio.

Liquidity

The credit rating downgrades have limited the Group's access to liquidity from other financial institutions. During 2012, the Company relied on the liquidity facilities provided by the European Central Bank and the Central Bank of Cyprus (collectively referred to as the 'Eurosystem liquidity facilities'). As at 31 December 2012, the Group had no funding from the Eurosystem. As a result of further deterioration in the economic conditions and increased customer deposit outflows at the beginning of 2013, the Group obtained Eurosystem funding in March 2013 (prior to the Cyprus – Eurogroup agreement) which on 15 March 2013 amounted to approximately €1 billion.

Going concern (continued)

Liquidity (continued)

The transfer of certain operations of Cyprus Popular Bank Public Company Ltd ('Laiki Bank') to the Group resulted in an amount of approximately €9 billion of Eurosystem funding as at the date of acquisition to be transferred to the Group.

The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on Eurosystem funding.

The Eurosystem funding of the Group at the date of signing the financial statements amounts to €11 billion.

Although the Group has received no specific guarantees, the Board of Directors expects that the Group will continue to have access to the Eurosystem liquidity facilities in line with applicable rules.

On 1 August 2013 the Company was reinstated as an eligible counterparty by the European Central Bank ('ECB') for monetary policy operations. The combination of the restoration of counterparty status and the acceptance of bonds issued or guaranteed by the Republic of Cyprus as collateral has resulted in a reduction in funding from Emergency Liquidity Assistance, as the Company has access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is provided under improved terms, given that the rate for main refinancing operations currently stands at 0,5% per annum.

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

Exposure to Greece

The continuing severe recession in Greece led to significant impairment losses on loans and advances and on Greek government bonds. The sale of the Group's banking and leasing operations in Greece to Piraeus Bank was completed in March 2013, in line with the provisions of the Cyprus – Eurogroup agreement, thus largely eliminating the Group's exposure to the prevailing uncertainties of the Greek economy.

Litigation and claims

The Board and the management have also considered the impact of litigation and claims against the Group relating mainly to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Group has obtained legal advice in respect of these claims. Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the Board and the management consider that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

Profitability

The difficult operating environment (Note 1) is affecting the Group's profitability.

Cyprus is sliding deeper into recession. In addition to the increased taxes and other fiscal austerity measures, banks are deleveraging and this will continue to constrain growth. The restrictive measures and capital controls imposed in March 2013 are also constraining private sector activity. More borrowers are expected to default, while collateral values are expected to fall even further, leading to increased levels of non-performing loans and provisions for impairment. Such loan impairment losses from future events, no matter how likely those future events are, cannot be recognised in these financial statements under the 'incurred loss' model required by the applicable accounting standards.

In addition to loan impairment losses, there may be additional valuation adjustments to the carrying amount of other assets, like government and other bonds, investments in subsidiaries, and own and investment properties.

The Group expects that the Cyprus government will honour all payments related to its public debt.

Going concern (continued)

Restructuring plan

The Group is preparing a restructuring plan to be submitted to the Central Bank of Cyprus and the Troika, which will define its strategy, business model and risk appetite. The plan, which is in the process of being finalised, will be submitted to the Central Bank of Cyprus for approval by the end of October 2013. The plan will chart the future strategic direction of the Group and aims to create a healthy financial institution, able to best serve client needs and contribute to the recovery of the Cyprus economy by:

- Rebuilding trust and confidence of both depositors and investors in the Group and in the overall banking sector in Cyprus.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating ex-Laikei operations, maximising synergies (and bottom-line impact) of the combined entity through the realisation of synergies.

In March 2013, the Group took over the operations of Laikei Bank in Cyprus and has since proceeded with measures towards the restructuring of its Cyprus operations which include branch closures as well as salary reductions and a voluntary retirement scheme, which have led to staff cost savings of around 35% on an annualised basis for the combined operations of Bank of Cyprus and Laikei Bank.

Uncertainties

The Board of Directors believes that the Group is taking all the necessary measures to maintain its viability and the development of its business in the current business and economic environment. However, a number of uncertainties remain:

- The recession may be more severe than envisaged in the macroeconomic scenario which formed the basis for the estimation of future credit losses for the recapitalisation of the Group.
- The liquidity situation is impacted by the level of confidence in the banking system and the period over which the restrictive measures and capital controls are in place. The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on Eurosystem funding.
- The Group is exposed to litigation and claims mainly relating to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company.

Events after the reporting date

In March 2013, Cyprus and the Eurogroup reached an agreement on a package of measures which, inter alia, included the restructuring of the banking sector. The Group restructuring included the sale of the Greek operations and the acquisition of the Cyprus operations of Laikei Bank, thus significantly altering the profile of the Group.

Details of the events after the reporting date are disclosed in Note 53 of the consolidated financial statements.

Financial results

The year 2012 was characterised by the continuing economic recession and the deepening of the sovereign and financial crisis which led Cyprus to request the provision of financial assistance from other member states of the European Union and the International Monetary Fund.

Amidst these adverse conditions, the Group's profit before impairment charges and restructuring costs reached €620 million, noting a decline of 22% compared to 2011. Provisions for impairment of loans and advances have increased significantly (€2.306 million in 2012, compared with €426 million in 2011), reflecting the deterioration in the quality of the loan portfolio and the declining collateral values. Loss after tax for 2012, including the impairment of Greek Government Bonds (GGBs) (€188 million), the impairment of goodwill and other intangible assets (€360 million) and the restructuring costs (€21 million), reached €2.214 million compared to €1.359 million for 2011.

The events of March 2013 have adversely impacted the 2012 results with respect to conditions that existed at 31 December 2012, such as the recoverability of deferred tax assets in Greece, expectations about the realisable values from collaterals and the impact on the value of overseas subsidiaries from the funding and capital constraints of the Group.

Financial results (continued)

The non-performing loans ratio at 31 December 2012 reached 23,7%, compared to 10,2% at 31 December 2011. In addition, the events of March 2013 are expected to cause further declines in collateral values. These factors are reflected in the significantly higher levels of provisions for impairment of loans, with accumulated provisions for impairment of loans reaching €3,7 billion and the provision coverage ratio of non-performing loans amounting to 55%.

Provisions for impairment of loans are determined using the 'incurred loss' model as required by IFRS, which require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events ('expected losses'), no matter how likely those events be. It is noted that the stress testing and loan diagnostic exercise performed by PIMCO on behalf of the Cypriot Authorities and the Troika estimated both incurred and expected losses.

Despite the prevailing adverse economic conditions which affected the trust and confidence of depositors, the total deposits of the Group as at 31 December 2012 amounted to €28,4 billion, declining by 4% on an annual basis. As at 31 December 2012, the Group's loans to deposits ratio stood at 86%, while the Group had no Eurosystem funding. Eurosystem funding was obtained in 2013.

At 31 December 2012, the Group's equity amounted to €258 million. At 31 December 2012, the Group had Tier 1 capital ratio at 0,6% and negative Core Tier 1 capital ratio at -1,9%. Following the Eurogroup's decisions on Cyprus, the Company was placed under Resolution, from 25 March 2013 to 30 July 2013, and was recapitalised and restructured in accordance with the decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority in accordance with the Resolution of Credit Institutions and Other Institutions Law of 2013. The Company has been recapitalised via a bail-in of unsecured depositors and the absorption of losses by the holders of shares and debt securities. According to the Resolution Authority, the Group has been capitalised to a level which can sustain possible future losses on its loan portfolio.

The main financial highlights for 2012 are set out in the table below:

Group Financial Highlights		2012	2011
		€000	€000
Profit before impairment of loans and advances, Greek Government Bonds (GGBs), goodwill and intangible assets	-36%	599.314	797.810
(Loss)/profit after tax attributable to the owners of the Company before impairment of GGBs, goodwill and intangible assets	-	(1.665.963)	322.963
Impairment of goodwill and intangible assets	-	(359.746)	-
Impairment of GGBs and change in fair value of related hedging derivatives after tax	-89%	(188.079)	(1.682.303)
Loss after tax attributable to the owners of the Company	+63%	(2.213.788)	(1.359.340)
Basic and diluted losses per share	-8,2 cent	(143,5)	(151,7)
Advisory and restructuring costs	-	20.838	-
Cost to income ratio**	+6,1 p.p.*	54,3%	48,2%
Net interest margin	+1 b.p.*	2,99%	2,98%
Gross Loans	-3%	28.050.587	28.872.429
Deposits	-4%	28.442.152	29.654.498
Net loans to deposits ratio	-6 p.p.*	86%	92%
Non-performing loans ratio	+13,5 p.p.*	23,7%	10,2%

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

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

** Cost to income ratio was calculated without taking into account advisory and other restructuring costs

Financial results (continued)

- **Total income:** Total income for 2012 reached €1.357 million recording a 12% reduction compared to 2011. Total income was positively affected by profits from financial instruments and negatively affected by the reduced net interest income and the loss from revaluation of investment properties.

Net interest income for the year 2012 reached €1.011 million noting a reduction of 13% compared to the previous year. Profits from financial instruments for 2012 reached €83 million (€49 million for 2011) and include a realised gain of €97 million from the participation in the repurchase programme by the Greek Republic of the new GGBs. Other income amounted in total, to a net expense of €19 million compared to an income of €31 million for the year 2011, mainly due to loss on the revaluation of investment properties (primarily repossessed assets) of €25 million.

- **Total expenses:** Total expenses for 2012 reached €737 million recording a 1% decrease compared to 2011. Staff costs have been reduced by 8% year on year reaching €397 million, as a result of the lower employee retirement benefit costs in Cyprus (due to the change of the main retirement benefit plan from a defined benefit plan to a defined contribution plan). Other operating expenses reached €340 million in 2012 compared to €312 million in 2011, noting an increase of 9%, mainly due to higher legal claims costs.
- **Efficiency:** The cost to income ratio for 2012 increased to 54,3% from 48,2% in 2011, due to the decrease of total income.
- **Profit before impairments and restructuring costs:** Profit declined by 22% compared to 2011 and reached €620 million, mainly due to lower income compared to 2011.
- **Provisions for impairment of loans and advances:** The ongoing deterioration of the economic environment in Cyprus and Greece has significantly affected the quality of the loan portfolio, thus resulting in a significant increase in the provisions for impairment of loans which reached €2.306 million for 2012, compared to €426 million for 2011 noting an increase of 441%. Provisions have been significantly increased compared to 2011 reflecting the very significant increase in non-performing loans (increase of €3,7 billion during 2012) and the expectations for declining collateral values which have been further severely affected by the March 2013 events.
- **Impairment of GGBs, goodwill and other intangibles:** Impairment of GGBs and change in fair value of related hedging derivatives and tax for the year 2012 amounted to €188 million compared to €1.682 million for the year 2011. In addition, following a goodwill impairment testing the Company fully impaired goodwill and other intangibles which arose from the acquisition of Uniastum Bank in Russia and Bank of Cyprus Ukraine, totalling €360 million.
- **Restructuring costs:** Restructuring costs totalling €21 million, include a €11 million expense relating to the voluntary retirement scheme in Greece and costs of €10 million relating to the preparation of the restructuring plan and the stress test exercise carried out by the Central Bank of Cyprus.
- **Interest margin:** The Group's net interest margin was maintained at 2,99% for 2012 (2,98% for 2011).
- **Loans and deposits:** As at 31 December 2012, Group gross loans and deposits were €28,1 billion and €28,4 billion respectively.
- **Funding structure:** The Group's net loans to deposits ratio reached 86% at 31 December 2012. As at 31 December 2012, the Group had no funding from the Eurosystem.

Financial results (continued)

- **Loan portfolio quality:** The non-performing loans ratio reached 23,7% at 31 December 2012 compared to 10,2% at 31 December 2011. The non-performing loans provision coverage ratio (accumulated provisions as a percentage of non-performing loans) was 55% at 31 December 2012 compared to 51% at 31 December 2011. Impaired loans (loans with a specific provision) and loans past-due for more than 90 days accounted for 27,4% of gross loans as at 31 December 2012 compared to 17,2% at 31 December 2011.

Capital base

At 31 December 2012, the Group's equity amounted to €258 million. At 31 December 2012, the Group had a Tier 1 capital ratio of 0,6% and negative Core Tier 1 capital ratio of -1,9%.

The minimum capital adequacy ratios set by the Central Bank of Cyprus for 31 December 2012 are set at 8,7% for Core Tier 1, 10,2% for Tier 1 and 12,2% for the total adequacy ratios. The minimum capital adequacy ratios are currently calculated based on a Central Bank Directive issued July 2011. The MoU indicates that the Central Bank of Cyprus will increase the minimum Core Tier 1 capital ratio to 9% by 31 December 2013.

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

The recapitalisation was implemented via the bail-in of unsecured depositors, through the conversion of 47,5% of unsecured deposits into equity. In addition, the holders of ordinary shares and debt securities issued by the Company as of 29 March 2013 have contributed to the recapitalisation through the absorption of losses. According to the Resolution Authority, the Group has been capitalised to a level which can sustain possible future losses on its loan portfolio.

Share capital

Authorised share capital

There were no changes in the authorised share capital of the Company during 2012.

Issued share capital

As at 31 December 2012, the Company had in issue 1.795.141 thousand ordinary shares of nominal value €1,00 each. The Company's shares were listed on the Cyprus Stock Exchange and the Athens Exchange. Since 19 March 2013, the shares of the Company have been suspended from trading on both Exchanges.

During 2012, the issued share capital of the Company increased by €159.683 thousand new shares from the exercise of Rights, 432.187 thousand shares from the conversion of Convertible Enhanced Capital Securities (CECS) and 303.743 thousand bonus shares.

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

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

Share capital (continued)

Issued share capital (continued)

The Resolution Authority also issued Decrees for the partial deposit-to-equity conversion of uninsured deposits and other creditors. A percentage of 47,5% of eligible deposits were converted to 3.806.581 thousand Class A shares of €1,00 each. These shares were subsequently converted to ordinary shares. In addition, the Resolution Authority required the Company to issue shares representing 18,1% of the issued share capital of the Company after the above mentioned changes in the share capital, as consideration for the net assets transferred to the Group on 29 March 2013. Accordingly, 844.014 thousand shares were issued to Laiki Bank.

Shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares and no gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2012 was 73.331 thousand (2011: 2.266 thousand) and their cost of acquisition was €40.865 thousand (2011: €6.679 thousand).

In addition, the life insurance subsidiary of the Group held, as at 31 December 2012, a total of 16.031 thousand (2011: 6.607 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 €21.463 thousand (2011: €24.797 thousand).

Other information

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

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

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

As at 10 October 2013, 18,1% of the share capital of the Company was held by Cyprus Popular Bank Public Company Ltd. As at 31 December 2012, 5,01% of the share capital of the Company was held by Odella Resources Ltd which belongs to the trustees of a Cypriot international discretionary trust. The beneficiaries of the trust are Mr. Dmitry Rybolovlev and his two daughters. As at 31 December 2012 or at 10 October 2013, the Company was not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Company.

Dividends

The Board of Directors does not propose the payment of dividend for 2012. No dividend was proposed during 2011. The final dividend for year 2010 of €0,03 per share (amounting to €26.848 thousand) was paid in June 2011.

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 Convertible Bonds 2013/2018 and the Convertible Capital Securities were converted into shares in March 2013.

The service contracts of the executive directors in office as at 31 December 2012 included a clause for compensation in the event of an unjustified early termination. The maximum compensation payable was two annual salaries.

Strategy and priorities

Within the context of an unprecedented and intensifying economic crisis in Cyprus, as well as the implications of the Eurogroup decisions and the radical changes in the Group's balance sheet, the Group is in the process of defining a Restructuring Plan clearly articulating its strategy, business model and risk appetite. The Plan will be submitted to the Central Bank of Cyprus for approval by the end of October 2013, as per the requirements of the Memorandum of Understanding (MoU) between the Republic of Cyprus and the Troika.

The Restructuring Plan is based on the guiding principles of the Group's mission going forward and aims to restore the Group's viability by:

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

The strategy, business model and risk appetite laid out in the Group's Restructuring Plan cover all requirements set out in the MoU agreed between the government of Cyprus and the Troika. Specifically, going forward the Group aims to:

- *Revamp the business model domestically and abroad:* Going forward, the Group will focus on restoring the viability and profitability of its domestic core business. Specifically, the Group will leverage on its position as the leading financial institution in Cyprus to protect the Group's deposits franchise through enhanced products and services across customer segments, and will effectively manage the size of its loan portfolio through restructuring viable customers and projects and through extending prudent new lending to the most promising sectors of the domestic economy. Parallel to its domestic strategy and following its exit from Greece, the Group is reviewing its overseas footprint aiming to increase its profit contribution to the Group.
- *Strengthen risk management and credit policies:* Enhancing risk management is a top priority for the Group. In terms of credit risk, credit sanctioning has been separated from business and lending criteria are continuously being revised to reflect market conditions, credit monitoring is being strengthened to ensure any issues are proactively identified and addressed while the Group is also augmenting its delinquency management and recovery processes, in line with recently issued Central Bank of Cyprus directives and international best practices. Parallel to its efforts on credit risk, no proprietary trading is undertaken and foreign currency positions are hedged in order to minimise market risk.
- *Quickly integrate ex-Laiki and improve operational efficiency:* In order to improve its operational efficiency after the absorption of the domestic operations of ex-Laiki, the Group has taken decisive measures towards the restructuring of its Cyprus operations. The total number of branches in Cyprus has already decreased to 158 by end September 2013 down from 203 after the absorption of certain operations of Laiki Bank. In addition, the Group completed a voluntary retirement scheme by which personnel has been reduced to approximately 4.350 down from 5.720 (a headcount reduction of 25%). Following the voluntary retirement scheme and salary cuts, staff costs in Cyprus have been reduced by 35% on an annualised basis, marking an important step towards the restructuring of the Group's Cyprus operations, the integration of Laiki and the profitability of the Group. In parallel to these measures, the cost reduction effort in overseas operations continues unabated. The overall integration with Laiki Bank is progressing at a fast pace, including the migration of IT systems which is expected to be completed within 2014.
- *Progressively normalise funding conditions:* Eurosystem funding has already been reduced following the Company's recapitalisation and exit from Resolution, as on 1 August 2013 the Company was reinstated as an eligible counterparty by the European Central Bank for monetary policy operations and regained access to direct funding with improved terms. The Group aims to reduce further its funding from the Eurosystem, to retain and attract customer deposits, to reduce the loans-to-deposits ratio of the domestic bank, and to decrease funding to its overseas subsidiaries.
- *Enhance capital adequacy of the Group:* Following the Company's recapitalisation, the Group aims to further strengthen capital adequacy by internally generating capital through profitability and by effectively managing its risk weighted assets aiming at further deleveraging.
- *Focus on new areas of sustainable growth and profitability:* The Group will leverage on the opportunities emerging from the exploration of natural gas resources in Cyprus and the ancillary services that will evolve on the island through this development, including the provision of advisory services to the government on securitisation of future gas proceeds, asset management services to set up a sovereign wealth fund and arrangement of relevant transactions in cooperation with foreign financial institutions.

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 of countries which have entered the European Support Mechanism or whose Moody's credit rating is below Aa1 and total Group exposure exceeds €100 million is set out in Note 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

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

Regarding the first part of the Report, as a Company listed on the CSE, the Company has adopted the CSE Code and applies its principles, except where otherwise stated in the Corporate Governance Report for 2012.

Regarding the second part of the Report the Company complied with the provisions of the third revised Edition of the Corporate Governance Code throughout 2012 except where otherwise reported in the Corporate Governance Report for 2012.

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in section 1.5 of the Corporate Governance Report for 2012. The powers of the executive and supervisory bodies of the Group are also set out in the Corporate Governance Report.

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

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

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

The Corporate Governance Report for 2012 is available on the Group's website (www.bankofcyprus.com).

Preparation of periodic reporting

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

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

Board of Directors

The members of the Board of Directors of the Company as at the date of this report are listed on page 1. All Directors were members of the Board since their election by the Annual General Meeting of shareholders held on 10 September 2013. Mr Costas Hadjipapas, who was elected by the Annual General Meeting of shareholders on 10 September 2013, resigned on 10 October 2013.

The members of the Board of Directors as at 31 December 2012 and their interest in the share capital of the Company is presented in the table below. The table also sets out the date of appointment of directors appointed during 2012 as well as the date of their resignation from the Board. All members of the Board on 29 March 2013 resigned from office with effect from that date.

On 30 August 2012 Mr Andreas Artemis was elected as Chairman of the Board of Directors, replacing Mr Theodoros Aristodemou who resigned on 29 August 2012.

Mr Andreas Eliades resigned from the position of Group Chief Executive Officer and member of the Board of Directors on 10 July 2012. On the same date, Mr Yiannis Kypri was appointed as Group Chief Executive Officer. On 25 March 2013 the Resolution Authority appointed Mr Dinos Christofides as the Special Administrator of the Company. Mr Yiannis Kypri resigned from the position of Group Chief Executive Officer on 29 March 2013.

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

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

Board of Directors (continued)

	Appointed in 2012	Resigned in 2012	Interest in the share capital on 31 December 2012
<i>Non-executives</i>			%
Andreas Artemis			0,45
Vassilis G. Rologis			0,06
Costas Z. Severis			0,38
Evdokimos Xenophontos			-
Anna Diogenous			0,16
George M. Georgiades			0,01
Theodoros Aristodemou		30 August	-
Christos Mouskis		27 December	-
Manthos Mavrommatis		30 August	-
Andreas Eliades		10 July	-
Andreas J. Jacovides		1 January	-
Christakis G. Christofides		31 March	-
Costas Hadjipapas			0,01
Nikolas P. Tsakos			-
Stavros J. Constantinides			0,01
Irene Karamanou			-
Elias Neocleous	9 February		0,01
Symeon Matsis			0,01
Takis Arapoglou	28 December		-
Takis Taoushanis	28 December		0,01
Panicos Pouro	28 December		-
<i>Executives</i>			
Yiannis Pehlivanidis			0,04
Yiannis Kypri			-
			1,15

Board of Directors (continued)

The interest in the share capital of the Company of the Directors in office at 10 October 2013 is presented in the table below:

	10 October 2013
	%
Christis Hassapis	-
Vladimir Strzhalkovskiy	0,66
Anjelica Anshakova	-
Dmitry Chichikashvili	0,25
Marinos Gialelis	-
Marios Kalochoritis	-
Konstantinos Katsaros	-
Eriskhan Kurazov	-
Igor Lojevsky	-
Adonis Papaconstantinou	-
Anton Smetanin	-
Xanthos Vrachas	-
Marios Yiannas	-
Andreas Yiasemides	-
Ioannis Zographakis	-
	0,91

In the context of the Share Options 2008/2010 granted by the Group to its employees in 2008, 500 thousand options were granted to an executive director in office at 31 December 2012. In addition, 12 thousand options were granted to a non-executive director in his capacity as employee of the Company (Note 34).

Dr Christis Hassapis

Chairman

10 October 2013

Consolidated Financial Statements

	<i>Page</i>		<i>Page</i>
Consolidated Income Statement	18	5. Interest income	57
Consolidated Statement of Comprehensive Income	19	6. Interest expense	57
Consolidated Balance Sheet	20	7. Fee and commission income and expense	57
Consolidated Statement of Changes in Equity	21	8. Net foreign exchange gains	58
Consolidated Statement of Cash Flows	23	9. Net gains on financial instrument transactions and disposal of subsidiaries	59
Notes to the Consolidated Financial Statements		10. Insurance income net of claims and commissions	60
1. Corporate information	24	11. Other (expenses)/income	61
2. Accounting Policies		12. Staff costs	62
2.1 Basis of preparation	25	13. Other operating expenses	67
2.2 Changes in accounting policies and disclosures	25	14. Impairment of goodwill and intangible assets	68
2.3 Standards and Interpretations that are issued but not yet effective	27	15. Impairment of Greek Government Bonds	68
2.4 Basis of consolidation	30	16. Tax	69
2.5 Business combinations	31	17. Earnings per share	72
2.6 Investments in associates	32	18. Cash, balances with central banks and placements with banks	72
2.7 Interest in joint ventures	32	19. Investments	73
2.8 Foreign currency translation	32	20. Derivative financial instruments	79
2.9 Segmental reporting	33	21. Fair value of financial instruments	81
2.10 Turnover	33	22. Loans and advances to customers	85
2.11 Revenue recognition	33	23. Hire purchase and finance lease debtors	86
2.12 Retirement benefits	34	24. Life insurance business assets attributable to policyholders	87
2.13 Share-based payments	34	25. Property and equipment	88
2.14 Tax	35	26. Intangible assets	90
2.15 Financial instruments	35	27. Other assets	93
2.16 Derecognition of financial assets and financial liabilities	38	28. Obligations to central banks and amounts due to banks	94
2.17 Impairment of financial assets	38	29. Customer deposits	95
2.18 Hedge accounting	40	30. Insurance liabilities	96
2.19 Offsetting financial instruments	41	31. Debt securities in issue	98
2.20 Cash and cash equivalents	41	32. Other liabilities	99
2.21 Insurance business	41	33. Subordinated loan stock	100
2.22 Repurchase and reverse repurchase agreements	42	34. Share capital	102
2.23 Finance leases – The Group as lessor	43	35. Convertible Enhanced Capital Securities	106
2.24 Operating leases – The Group as lessee	43	36. Dividends	107
2.25 Property and equipment	43	37. Retained earnings	107
2.26 Investment properties	43	38. Fiduciary transactions	108
2.27 Stock of property held for sale	44	39. Contingent liabilities and commitments	108
2.28 Non-current assets held for sale	44	40. Net cash flow used in operating activities	109
2.29 Goodwill and other intangible assets	44	41. Cash and cash equivalents	110
2.30 Share capital	44	42. Operating leases – The Group as lessee	110
2.31 Provisions for pending litigation or claims	44	43. Analysis of assets and liabilities by expected maturity	111
2.32 Financial guarantees	44	44. Risk management – Credit risk	112
2.33 Comparative information	45	45. Risk management – Market risk	131
3. Significant judgements, estimates and assumptions	45	46. Risk management – Liquidity risk and funding	135
4. Segmental analysis	53	47. Risk management – Other risks	144
		48. Sovereign exposure	148
		49. Capital management	152
		50. Related party transactions	155
		51. Group companies	160
		52. Investments in associates and joint ventures	164
		53. Events after the reporting date	165

		2012	2011 (restated)
	<i>Notes</i>	€000	€000
Turnover	2.10	2.428.817	2.808.300
Interest income	5	1.992.228	2.295.116
Interest expense	6	(981.110)	(1.127.443)
Net interest income		1.011.118	1.167.673
Fee and commission income	7	238.253	247.044
Fee and commission expense	7	(19.486)	(14.679)
Net foreign exchange gains	8	27.789	45.178
Net gains on financial instrument transactions and disposal of subsidiaries	9	55.293	3.571
Insurance income net of claims and commissions	10	62.972	61.190
Other (expenses)/income	11	(18.808)	31.329
		1.357.131	1.541.306
Staff costs	12	(408.347)	(431.774)
Other operating expenses	13	(349.470)	(311.722)
Profit before impairment of loans and advances, Greek Government Bonds, goodwill and intangible assets		599.314	797.810
Provisions for impairment of loans and advances	44	(2.306.157)	(426.287)
Impairment of goodwill and intangible assets	14	(359.746)	-
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	15	(143.573)	(1.729.261)
Loss before share of profit of associates		(2.210.162)	(1.357.738)
Share of profit/(loss) of associates	52	222	(1.441)
Loss before tax		(2.209.940)	(1.359.179)
Tax	16	(13.079)	(7.234)
Loss after tax		(2.223.019)	(1.366.413)
Attributable to:			
Non-controlling interests (loss)		(9.231)	(7.073)
Owners of the Company (loss)		(2.213.788)	(1.359.340)
Basic and diluted losses per share (cent)	17	(143,5)	(151,7)

		2012	2011 (restated)
	Notes	€000	€000
Loss after tax		(2.223.019)	(1.366.413)
Other comprehensive income			
Foreign currency translation reserve			
Profit/(loss) on translation of net investment in overseas subsidiaries and branches		20.690	(2.065)
Loss on hedging of net investments	20	(12.063)	(5.673)
Transfer to the consolidated income statement on disposal of subsidiary		-	(815)
		8.627	(8.553)
Available-for-sale investments			
Profit/(loss) from revaluation before tax		59.973	(190.243)
Transfer to the consolidated income statement on impairment		3.096	326.062
Transfer to the consolidated income statement on sale		75.089	1.580
Tax		(2.239)	397
		135.919	137.796
Cash flow hedges			
Loss from revaluation before tax		-	(2.496)
Transfer to the consolidated income statement on sale of subsidiary before tax		-	1.054
Tax		-	151
		-	(1.291)
Actuarial loss for the defined benefit plans			
Loss before tax		(8.106)	(867)
Tax		(2.386)	632
		(10.492)	(235)
Property revaluation			
Fair value (loss)/gain before tax	25	(15.732)	73.648
Tax		5.573	(11.770)
		(10.159)	61.878
Other comprehensive income after tax		123.895	189.595
Total comprehensive loss for the year		(2.099.124)	(1.176.818)
Attributable to:			
Non-controlling interests (loss)		(7.222)	(7.180)
Owners of the Company (loss)		(2.091.902)	(1.169.638)

BANK OF CYPRUS GROUP
Consolidated Balance Sheet
as at 31 December 2012

Annual Financial Report 2012

		2012	2011	2010
	<i>Notes</i>	€000	(restated) €000	(restated) €000
Assets				
Cash and balances with central banks	18	1.272.424	1.375.047	2.241.825
Placements with banks	18	1.768.836	2.627.831	5.264.628
Reverse repurchase agreements		-	215.936	120.166
Investments	19	1.135.333	2.629.124	4.307.558
Investments pledged as collateral	19	734.747	938.070	1.038.036
Derivative financial assets	20	26.794	193.734	76.278
Loans and advances to customers	22	24.374.531	27.366.917	27.725.451
Life insurance business assets attributable to policyholders	24	495.756	504.579	561.695
Property and equipment	25	483.193	473.188	418.781
Intangible assets	26	123.555	472.510	479.058
Other assets	27	613.760	674.439	399.287
Investments in associates	52	3.107	2.820	3.805
Total assets		31.032.036	37.474.195	42.636.568
Liabilities				
Obligations to central banks and amounts due to banks	28	341.044	3.065.756	3.706.975
Repurchase agreements		607.773	785.993	913.109
Derivative financial liabilities	20	183.826	488.111	240.412
Customer deposits	29	28.442.152	29.654.498	32.952.567
Insurance liabilities	30	604.170	611.264	658.309
Debt securities in issue	31	44.775	49.791	83.957
Other liabilities	32	339.303	347.697	419.295
Subordinated loan stock	33	133.294	128.380	930.942
Total liabilities		30.696.337	35.131.490	39.905.566
Equity				
Share capital	34	1.795.141	899.528	894.948
Share premium		428.271	1.164.903	1.159.819
Convertible Enhanced Capital Securities	35	428.835	862.233	-
Revaluation and other reserves		106.336	2.585	(186.677)
(Accumulated losses)/retained earnings	37	(2.500.106)	(670.988)	771.608
Equity attributable to owners of the Company		258.477	2.258.261	2.639.698
Non-controlling interests		77.222	84.444	91.304
Total equity		335.699	2.342.705	2.731.002
Total liabilities and equity		31.032.036	37.474.195	42.636.568

Chr. Hassapis
V. Strzhalkovskiy
I. Zographakis
A. Stylianou

Chairman
Vice-Chairman
Director
Vice-Chairman of Executive Committee

BANK OF CYPRUS GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

Annual Financial Report 2012

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 34)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 35)	Accumulated losses (Note 37)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Shares of the Company	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2012	899.528	1.164.903	862.233	(670.988)	161.219	(133.221)	-	88.697	5.251	(112.682)	(6.679)	2.258.261	84.444	2.342.705
Loss for the year	-	-	-	(2.213.788)	-	-	-	-	-	-	-	(2.213.788)	(9.231)	(2.223.019)
Other comprehensive (loss)/income net of tax	-	-	-	(10.492)	(10.735)	136.124	-	-	-	6.989	-	121.886	2.009	123.895
Total comprehensive (loss)/income for the year	-	-	-	(2.224.280)	(10.735)	136.124	-	-	-	6.989	-	(2.091.902)	(7.222)	(2.099.124)
Purchase of shares of the Company	-	-	-	-	-	-	-	-	-	-	(39.756)	(39.756)	-	(39.756)
Disposal of shares of the Company	-	-	-	(4.702)	-	-	-	-	-	-	7.840	3.138	-	3.138
Capitalisation of reserves of subsidiary company	-	-	-	-	(6.059)	-	6.059	-	-	-	-	-	-	-
Transfer of realised profits on sale of property	-	-	-	10	(10)	-	-	-	-	-	-	-	-	-
Increase in value of in-force life insurance business	-	-	-	(3.618)	-	-	-	3.618	-	-	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	319	-	-	-	(319)	-	-	-	-	-	-
Issue of shares	159.683	-	-	-	-	-	-	-	-	-	-	159.683	-	159.683
Issue costs	-	(2.449)	-	-	-	-	-	-	-	-	-	(2.449)	-	(2.449)
Issue of bonus shares	303.743	(303.743)	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of CECS	432.187	-	(432.187)	-	-	-	-	-	-	-	-	-	-	-
Defence contribution on deemed dividend distribution	-	-	-	(28.498)	-	-	-	-	-	-	-	(28.498)	-	(28.498)
Reduction of share premium	-	(430.440)	-	430.440	-	-	-	-	-	-	-	-	-	-
Exchange difference on CECS	-	-	(1.211)	1.211	-	-	-	-	-	-	-	-	-	-
31 December 2012	1.795.141	428.271	428.835	(2.500.106)	144.415	2.903	6.059	91.996	5.251	(105.693)	(38.595)	258.477	77.222	335.699

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

Annual Financial Report 2012

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 34)	Share premium	Convertible Enhanced Capital Securities (CECS) (Note 35)	Retained earnings/ (accumulated losses)	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
Change of accounting policy (Note 2)	-	-	-	(96.923)	-	-	-	-	-	(424)	-	(97.347)	-	(97.347)
1 January 2011 (restated)	894.948	1.159.819	-	771.608	100.329	(271.012)	1.291	83.697	12.420	(105.125)	(8.277)	2.639.698	91.304	2.731.002
Loss for the year	-	-	-	(1.359.340)	-	-	-	-	-	-	-	(1.359.340)	(7.073)	(1.366.413)
Other comprehensive (loss)/income net of tax	-	-	-	(235)	60.994	137.791	(1.291)	-	-	(7.557)	-	189.702	(107)	189.595
Total comprehensive (loss)/income for the year	-	-	-	(1.359.575)	60.994	137.791	(1.291)	-	-	(7.557)	-	(1.169.638)	(7.180)	(1.176.818)
Cost of share-based payments	-	-	-	2.611	-	-	-	-	-	-	-	2.611	-	2.611
Purchase of shares of the Company	-	-	-	-	-	-	-	-	-	-	(1.946)	(1.946)	-	(1.946)
Disposal of shares of the Company	-	-	-	(2.649)	-	-	-	-	-	-	3.544	895	-	895
Transfer of realised profits on sale of property	-	-	-	104	(104)	-	-	-	-	-	-	-	-	-
Increase in value of in-force life insurance business	-	-	-	(5.364)	-	-	-	5.364	-	-	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	364	-	-	-	(364)	-	-	-	-	-	-
Change in ownership percentage of subsidiary	-	-	-	170	-	-	-	-	-	-	-	170	411	581
Conversion of Convertible Bonds and Convertible Capital Securities	387	892	(1.273)	-	-	-	-	-	-	-	-	6	-	6
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 CECS	-	-	857.084	-	-	-	-	-	-	-	-	857.084	-	857.084
Exchange of Convertible Capital Securities and Capital Securities with CECS	-	-	-	(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)
31 December 2011 (restated)	899.528	1.164.903	862.233	(670.988)	161.219	(133.221)	-	88.697	5.251	(112.682)	(6.679)	2.258.261	84.444	2.342.705

BANK OF CYPRUS GROUP
Consolidated Statement of Cash Flows
for the year ended 31 December 2012

Annual Financial Report 2012

		2012	2011 (restated)
	Notes	€000	€000
Net cash flow used in operating activities	40	(3.574.954)	(3.813.973)
Cash flows from investing activities			
Purchases of investments:			
- debt securities and treasury bills		(1.642.434)	(1.379.091)
- equity securities		(4.349)	(528)
Proceeds on disposal/redemption of investments:			
- debt securities and treasury bills		3.485.848	1.904.463
- equity securities		987	4.404
Interest received from debt securities and treasury bills		173.840	62.890
Dividend income from equity securities		241	666
Net proceeds /(decrease in cash) from disposal of subsidiary		103.137	(178.168)
Purchase of property and equipment		(28.247)	(44.091)
Proceeds on disposal of property and equipment and intangible assets		555	1.164
Purchase of intangible assets		(10.822)	(9.855)
Proceeds on disposal of investment properties		6.300	2.667
Net cash flow from investing activities		2.085.056	364.521
Cash flows from financing activities			
Issue of share capital net of issue costs paid		157.234	-
Redemption of subordinated loan stock		-	(127.315)
Issue of senior debt		-	43.753
Redemption of senior debt		(5.016)	(77.920)
Issue of CECS net of issue costs		-	171.553
Dividend payment net of reinvestment		-	(18.437)
Dividend paid by subsidiaries to non-controlling interests net of reinvestment		-	(91)
Increase of capital of subsidiary attributed to non-controlling interests		-	581
Interest on subordinated loan stock		(6.148)	(20.458)
Interest on senior debt		(1.913)	(3.110)
Interest on CECS		-	(34.631)
Acquisition of own shares		(39.756)	(1.946)
Disposal of own shares		3.138	895
Net cash flow from/(used in) financing activities		107.539	(67.126)
Net decrease in cash and cash equivalents for the year		(1.382.359)	(3.516.578)
Cash and cash equivalents			
1 January		2.725.508	6.221.596
Exchange adjustments		(5.193)	20.490
Net decrease in cash and cash equivalents for the year		(1.382.359)	(3.516.578)
31 December	41	1.337.956	2.725.508

1. Corporate information

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

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws. Since 19 March 2013, the shares of the Company have been suspended from trading on the Cyprus and Athens Stock Exchanges.

Consolidated financial statements

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2012 were authorised for issue by a resolution of the Board of Directors on 10 October 2013.

Operating environment of the Group

More than 80% of the Group's operations in 2012 were in Cyprus and Greece. Both countries were in severe recession during the year 2012.

The Cypriot economy has been adversely affected over the last couple of years by the Eurozone credit crisis, especially with respect to the economic conditions in Greece and the instability in the global financial markets. The recession that started in the third quarter of 2011 continued, with the economy contracting in 2012 by 2,4%. The financial sector was particularly hit by losses on investments in Greek government bonds, as well as loan losses on Greek and Cypriot operations.

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

On 25 March 2013, the Cypriot government and the Eurogroup reached an agreement on the key elements necessary for a future macroeconomic adjustment programme and a financial assistance facility of up to €10 billion. The stability support granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding has been agreed between Cyprus and the Troika which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. However, the bailout agreement between the Troika and Cyprus is expected to weigh heavily on the real and financial conditions of the Cypriot economy in the next 2-3 years.

Further information in respect of the programme, the restructuring of the financial sector and the impact on the Group is presented in Note 53.

In the last 5 years, real GDP contracted by more than 20% cumulatively and unemployment surged to 24% in 2012. GDP shrank by 6,4% in 2012, driven by fiscal austerity and a collapse of consumption and investment expenditure. In this period, Greece has experienced a protracted and severe recession and unprecedented pressure on its public finances.

In October 2011, the Eurozone agreed on a comprehensive set of measures for Greece including a voluntary bond exchange with a significant discount on Greek government bonds held by private investors ('PSI'). The bond exchange was completed in April 2012. The PSI, lower interest rates and a substantial extension of the average debt maturity, resulted in a significant decline of the Greek debt servicing needs as from 2012. The debt relief and stability packages are intended to provide more time for economic policy to implement fiscal adjustment and growth-enhancing structural reforms.

The persisting economic crisis both in Cyprus and Greece led to a very significant deterioration in the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and very significant losses on investments in Greek government bonds, all of which contributed to very significant losses in 2012 and 2011. The crisis also led to reduced levels of deposits.

2. Accounting Policies

2.1 Basis of preparation

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

Presentation of financial statements

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

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 43.

Statement of compliance

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

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the change in accounting policy as of 1 January 2012 in respect of the recognition of actuarial gains or losses on the defined benefit pension plans and the adoption of new and amended standards and interpretations as explained below.

2.2.1 New and amended standards and interpretations

The Group has adopted the following new standards, amendments and interpretations which did not have any material impact on the Group's financial statements.

- IAS 12 'Income Taxes' (amended) – Deferred tax: Recovery of Underlying Assets.
- IFRS 7 'Financial Instruments: Disclosures' (amended) – Enhanced Derecognition Disclosure Requirements.
- IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters' (amended).

The adoption of the above did not have any impact on the financial statements of the Group.

2.2.2 Change in accounting policy for employee retirement benefits

The Group has changed its accounting policy with respect to IAS 19 'Employee Benefits' and the recognition of actuarial gains or losses arising from defined benefit plans. The Group previously recognised these gains or losses as income or expense only when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded 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. As a consequence, the balance sheet did not reflect unrecognised actuarial gains and losses.

As from 1 January 2012, actuarial gains or losses are recognised in full in the period in which they occur, in the consolidated statement of comprehensive income.

The Group has decided to change this accounting policy as it considers that the revised policy provides more relevant information about the effect of employee benefits and their impact on the Group's financial position and performance. In addition, the new policy conforms with the provisions of the amended IAS 19, which will be applied as from 1 January 2013.

The aforementioned change in accounting policy has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in the restatement of financial information for prior periods.

2. Accounting Policies (continued)

2.2.2 Change in accounting policy for employee retirement benefits (continued)

As a result of the accounting policy change, the following adjustments were made to the financial results and position of the Group for comparative periods:

	Year ended 31 December 2011
Consolidated income statement	€000
Loss after tax	
Before the change in accounting policy	(1.377.844)
Reversal of amortisation of actuarial losses	11.431
After the change in accounting policy	(1.366.413)

	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated statement of changes in equity	€000	€000
Before the change in accounting policy	2.429.079	2.828.349
Recognition of net actuarial losses in equity	(86.374)	(97.347)
After the change in accounting policy	2.342.705	2.731.002

Consolidated balance sheet	31 December 2011
Other assets	€000
Before the change in accounting policy	675.343
Impact of the recognition in full of net actuarial losses	(3.658)
Change in deferred tax assets	2.754
After the change in accounting policy	674.439
Other liabilities	
Before the change in accounting policy	262.227
Impact of the recognition in full of net actuarial losses	85.028
Change in deferred tax liabilities	442
After the change in accounting policy	347.697

The impact on earnings per share for the year ended 31 December 2011 as a result of the restatement was approximately €0,01.

If the accounting policy had not been changed, the loss after tax for the year ended 31 December 2012 would have included an one-off cost of €53.869 thousand as a result of the termination of the main defined benefit plan for the Group's employees in Cyprus in January 2012. Also, loss after tax for the year would not have included the positive impact amounting to €16.727 thousand which represents the difference between the value of the retirement plan obligations as at 31 December 2011 and the final cost of termination of the plan.

2. Accounting Policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective

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

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

IAS 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 will implement the revisions on the presentation of the affected statements when the amendment becomes effective.

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 changed its accounting policy in respect of employee retirement benefits in 2012 (refer to Note 2.2.2. above) and does not expect a material impact from the application of the amendment on its results and financial position.

IAS 27 'Separate Financial Statements' (Revised)

The Standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in their separate financial statements. Earlier application is permitted. The Group is in the process of assessing the impact of this amendment on the Company's separate financial statements.

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

The Standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. The adoption of the revised standard is 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 impact on the Group's financial statements.

IAS 32 'Financial Instruments: Presentation' (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 'Offsetting Financial Assets and Financial Liabilities' amendments. The Group is in the process of assessing the impact of the amendment on its financial position.

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.

2. Accounting Policies (continued)

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

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

IFRS 10 'Consolidated Financial Statements'

The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 'Separate Financial Statements' that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 'Consolidation—Special Purpose Entities'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is in the process of assessing the impact of the new standard on its financial position.

IFRS 11 'Joint Arrangements'

The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities — Non-monetary Contributions by Venturers'. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is in the process of assessing the impact of the new standard on its financial position.

IFRS 12 'Disclosures of Involvement with Other Entities'

The new standard as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 and related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is in the process of assessing the impact of the new standard on the presentation of its financial statements.

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 results and financial position.

Annual Improvements 2009-2011

The IASB has issued the Annual Improvements to IFRSs 2009-2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the below amendments is for annual periods beginning on or after 1 January 2013. The Group does not expect a material impact on its financial position or the presentation of its financial statements from the adoption of the improvements:

- IAS 1 'Presentation of Financial Statements': This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- IAS 16 'Property, Plant and Equipment': This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 'Financial Instruments, Presentation': This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 'Interim Financial Reporting': The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

2. Accounting Policies (continued)

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

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

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

The guidance as issued by the IASB is effective for annual periods beginning on or after 1 January 2013. As per the EU endorsement, each company shall apply IFRS10, IFRS11, IFRS12, the amended IAS27, the amended IAS28 and the consequential amendments, at the latest, as from the commencement of its first financial years beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' to provide transition relief. The Group will implement the interim guidance with the implementation of the affected standards.

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 (i) the production of inventory in the current period and/or (ii) 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.

2.3.2 Standards and interpretations issued by the IASB but not yet adopted by the EU

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.

IFRIC Interpretation 21 'Levies'

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

2. Accounting Policies (continued)

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

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

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

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

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

The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB has amended IAS 36 to require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The IASB has also amended IAS 36 to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. Moreover, the amendments issued in this document incorporate an amendment proposed by the Exposure Draft for Annual Improvements to IFRSs 2010–2012 Cycle, published in May 2012, to require an entity to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. The intention behind that amendment is to harmonise the disclosure requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. Early application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13. The Group is in the process of assessing the impact of the amendment on the presentation of its financial statements.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when, as a consequence of laws or regulations or their introduction, an entity changes the immediate counterparty of a hedging instrument to achieve clearing with a central counterparty. The amendment covers novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. The relief does not apply to all novations. Early application is permitted. The forthcoming hedge accounting requirements of IFRS 9 will include a similar relief. The Group is in the process of assessing the impact of this amendment on its results and financial position.

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.

2. Accounting Policies (continued)

2.4 Basis of consolidation (continued)

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

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

Put/call option arrangements on non-controlling interest

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

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

2.5 Business combinations

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. Acquisition related costs are expressed as incurred and included in administrative expenses.

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

Contingent consideration

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

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

2. Accounting Policies (continued)

2.5 Business combinations (continued)

Provisional accounting

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

2.6 Investments in associates

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

Using the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The 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.

2.7 Interest in joint ventures

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

2.8 Foreign currency translation

The consolidated financial statements are presented in Euros (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2.8.1 Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to '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.

2. Accounting Policies (continued)

2.8 Foreign currency translation (continued)

2.8.2 Subsidiary companies and branches

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

Exchange differences arising on translation are recognised 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.

2.9 Segmental reporting

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

The chief operating decision-maker is the Group Executive Committee (previously the Senior Group Executive Management).

2.10 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.

2.11 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:

2.11.1 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. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.11.2 Fee and commission income

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

2.11.3 Dividend income

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

2.11.4 Rental income

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

2.11.5 Income from the disposal of property held for sale

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

2. Accounting Policies (continued)

2.12 Retirement benefits

The Group operates several defined contribution and defined benefit retirement plans. As of 1 January 2012, the main defined benefit plan in Cyprus was terminated and has been replaced by a defined contribution plan (refer to Note 12).

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

As of 1 January 2012, actuarial gains or losses are recognised in full in the period in which they occur, in the consolidated statement of comprehensive income (refer to Note 2.2.2 Change in accounting policy for employee retirement benefits).

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.

2.13 Share-based payments

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

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

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

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

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

2. Accounting Policies (continued)

2.13 Share-based payments (continued)

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).

2.14 Tax

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

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

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

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

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

2.15 Financial instruments

2.15.1 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.

2.15.2 Initial recognition and measurement of financial instruments

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

2.15.3 Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in '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.

2. Accounting Policies (continued)

2.15 Financial instruments (continued)

2.15.3 Derivative financial instruments (continued)

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.

2.15.4 Financial assets or financial liabilities held for trading

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

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

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

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

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

2.15.6 Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

2. Accounting Policies (continued)

2.15 Financial instruments (continued)

2.15.7 Loans and receivables

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

2.15.8 Available-for-sale investments

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

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in 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 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded 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 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

2.15.9 Subordinated loan stock and debt securities in issue

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

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

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

2. Accounting Policies (continued)

2.15 Financial instruments (continued)

2.15.10 Convertible bonds

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

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

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

2.15.11 Convertible Enhanced Capital Securities (CECS)

The CECS are perpetual financial instruments issued by the Company. They do not have any maturity date and may be converted at the option of the holder during any conversion period. 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 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. The CECS are mandatorily converted into ordinary shares of the Company if a Contingency Event or Viability Event occurs. These instruments were classified as equity instruments as they do not include a contractual obligation for the Company to deliver cash or another financial asset to the holders and are redeemable/convertible at the discretion of the Company.

2.16 Derecognition of financial assets and financial liabilities

2.16.1 Financial assets

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

2.16.2 Financial liabilities

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

2.17 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults.

2. Accounting Policies (continued)

2.17 Impairment of financial assets (continued)

2.17.1 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The 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.

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

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

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.

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

For held-to-maturity investments and loans and receivables investments, the Group assesses at each reporting date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

2. Accounting Policies (continued)

2.17 Impairment of financial assets (continued)

2.17.2 Investments classified as held-to-maturity and loans and receivables (continued)

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

2.17.3 Available-for-sale investments

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

In the case of equity securities classified as available-for-sale, objective evidence would include a significant decrease which is considered to be a loss of 25% or more, except in the cases of investment companies, where higher limits are set, or prolonged decrease, for a period of 12 months, in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is deducted from the 'Revaluation reserve of available-for-sale investments' and recognised in 'Net gains on financial instrument transactions and disposal of subsidiaries' in the consolidated income statement and in 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'. 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 'Impairment of Greek Government Bonds and change in fair value of related hedging derivatives'.

2.18 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.

2. Accounting Policies (continued)

2.18 Hedge accounting (continued)

2.18.1 Fair value hedges

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

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is 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.

2.18.2 Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in 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.

2.18.3 Hedges of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised 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.

2.19 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.

2.20 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.

2.21 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.

2. Accounting Policies (continued)

2.21 Insurance business (continued)

2.21.1 Life insurance business

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

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

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

2.21.2 Life insurance in-force business

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

2.21.3 General insurance business

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

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

2.21.4 Investment contracts

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

2.21.5 Liability adequacy test

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

2.22 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase ('repos') at a specific future date are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Repos outstanding at the reporting date relate to agreements with 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 reporting date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

2. Accounting Policies (continued)

2.23 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.

2.24 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'.

2.25 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 between 3 to 5 years, depending on the property, 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 reporting date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

2.26 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in 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. Accounting Policies (continued)

2.27 Stock of property held for sale

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

2.28 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.

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.

2.29 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.

2.30 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.

2.31 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.

2.32 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.

2. Accounting Policies (continued)

2.32 Financial guarantees (continued)

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.

2.33 Comparative information

Comparative have been adjusted to reflect the change in accounting policy for employee retirement benefits. The impact on loss after tax and Equity of the Group is set out in Note 2.2.2. In addition reclassifications to comparative information were made to conform to changes in the presentation in the current year. These reclassifications had no impact on the loss after tax or equity of the Group.

3. Significant judgements, estimates and assumptions

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

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

3.1 Going concern

The Company's Board of Directors has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

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

The conditions that existed in 2012, as well as the developments up to the date of approval of the financial statements set out in Note 53, that have been considered in management's going concern assessment, including amongst others, the following:

3.1.1 Regulatory capital ratios

In 2012 and 2011, the Group has suffered significant losses due to the impairment of Greek Government Bonds and increased provisions for impairment of loans and advances.

The Group participated in a Capital Exercise conducted in 2011 by the European Banking Authority ('EBA') in co-operation with the Central Bank of Cyprus. The Capital Exercise which covered 71 European Banks, aimed 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 adverse market environment. This buffer was 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 had determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which should have been covered by 30 June 2012. In January 2012 the Group had submitted a plan to the Central Bank of Cyprus which set out the various measures which the Group would take so as to achieve the required capital enhancement target as determined by the EBA.

3. Significant judgements, estimates and assumptions (continued)

3.1 Going concern (continued)

3.1.1 Regulatory capital ratios (continued)

In this context, the Group has implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million and conversion of Convertible Enhanced Capital Securities into shares of €432 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital contribution of €80 million, and (iii) management of its risk weighted assets.

During the first half of 2012 the Group incurred additional losses due to increased provisions relating to the loan portfolios in Cyprus and Greece as well as the further impairment of Greek Government Bonds and bonds issued by financial institutions in Cyprus and Greece. As a result, the Group announced on 27 June 2012 that it was not able to fully cover the EBA capital shortfall and applied to the Republic of Cyprus for capital support.

As at 31 December 2012, the Group did not meet the minimum capital adequacy ratios (Note 49).

The Cyprus economy was also adversely affected over the last few years by the Eurozone credit crisis, especially with respect to the economic conditions in Greece and the instability in the global financial markets. In June 2012, the Cyprus government applied to the Troika for financial assistance that was intended to provide, inter alia, capital support to the Group. The Cyprus government's negotiations with the Troika were ongoing at the end of the year.

As part of the agreement reached between the Troika and the Cyprus government, the Group was recapitalised through a bail-in of unsecured depositors (a deposit-to-equity conversion) which was completed in July 2013 and the absorption of accumulated losses by the holders of Ordinary shares and debt securities as of 29 March 2013. The Board considers that as at the date of approval of these financial statements, the Group's Core Tier 1 ratio exceeds 9%. The Group, as also confirmed by the Resolution Authority, has been capitalised to a level which can sustain expected losses on its loans portfolio.

3.1.2 Liquidity

The credit rating downgrades have limited the Group's access to liquidity from other financial institutions. During 2012, the Company relied on the liquidity facilities provided by the European Central Bank and the Central Bank of Cyprus (collectively referred to as the 'Eurosysteem liquidity facilities'). As at 31 December 2012, the Group had no funding from the Eurosysteem. As a result of further deterioration in the economic conditions and increased customer deposit outflows at the beginning of 2013, the Group obtained Eurosysteem funding in March 2013 (prior to the Cyprus – Eurogroup agreement) which on 15 March 2013 amounted to approximately €1 billion.

The transfer of certain operations of Cyprus Popular Bank Public Company Ltd ('Laiki Bank') to the Group resulted in an amount of approximately €9 billion of Eurosysteem funding as at the date of acquisition to be transferred to the Group.

The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on Eurosysteem funding.

The Eurosysteem funding of the Group at the date of approval of the financial statements amounts to €11 billion.

Although the Group has received no specific guarantees, the Board of Directors expects that the Group will continue to have access to the Eurosysteem liquidity facilities in line with applicable rules.

On 1 August 2013 the Company was reinstated as an eligible counterparty by the European Central Bank ('ECB') for monetary policy operations. The combination of the restoration of counterparty status and the acceptance of bonds issued or guaranteed by the Republic of Cyprus as collateral has resulted in a reduction in funding from Emergency Liquidity Assistance, as the Company has access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is provided under improved terms, given that the rate for main refinancing operations currently stands at 0,5% per annum.

3. Significant judgements, estimates and assumptions (continued)

3.1 Going concern (continued)

3.1.2 Liquidity (continued)

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

3.1.3 Exposure to Greece

The continuing severe recession in Greece led to significant impairment losses on loans and advances and on Greek government bonds. The sale of the Group's banking and leasing operations in Greece to Piraeus Bank was completed in March 2013, in line with the provisions of the Cyprus – Eurogroup agreement, thus largely eliminating the Group's exposure to the prevailing uncertainties of the Greek economy.

3.1.4 Litigation and claims

The Board and management have also considered the impact of litigation and claims against the Group relating mainly to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Group has obtained legal advice in respect of these claims. Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the Board and the management consider that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

3.1.5 Profitability

The difficult operating environment (Note 1) is affecting the Group's profitability.

Cyprus is sliding deeper into recession. In addition to the increased taxes and other fiscal austerity measures, banks are deleveraging and this will continue to constrain growth. The restrictive measures and capital controls imposed in March 2013 are also constraining private sector activity. More borrowers are expected to default, while collateral values are expected to fall even further, leading to increased levels of non-performing loans and provisions for impairment. Such loan impairment losses from future events, no matter how likely those future events are, cannot be recognised in these financial statements under the 'incurred loss' model required by the applicable accounting standards.

In addition to loan impairment losses, there may be additional valuation adjustments to the carrying amount of other assets, like government and other bonds, investments in subsidiaries, and own and investment properties.

The Group expects that the Cyprus government will honour all payments related to its public debt.

3.1.6 Restructuring plan

The Group is preparing a restructuring plan to be submitted to the Central Bank of Cyprus and the Troika, which will define its strategy, business model and risk appetite. The plan, which is in the process of being finalised, will be submitted to the Central Bank of Cyprus for approval by the end of October 2013. The plan will chart the future strategic direction of the Group and aims to create a healthy financial institution, able to best serve client needs and contribute to the recovery of the Cyprus economy by:

- Rebuilding trust and confidence of both depositors and investors in the Group and in the overall banking sector in Cyprus.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating ex-Laiki operations, maximising synergies (and bottom-line impact) of the combined entity through the realisation of synergies.

In March 2013, the Group took over the operations of Laiki Bank in Cyprus and has since proceeded with measures towards the restructuring of its Cyprus operations which include branch closures as well as salary reductions and a voluntary retirement scheme, which have led to staff cost savings of around 35% on an annualised basis for the combined operations of Bank of Cyprus and Laiki Bank.

3. Significant judgements, estimates and assumptions (continued)

3.1 Going concern (continued)

3.1.7 Uncertainties

The Board of Directors believes that the Group is taking all the necessary measures to maintain its viability and the development of its business in the current business and economic environment. However, a number of uncertainties remain:

- The recession may be more severe than envisaged in the macroeconomic scenario which formed the basis for the estimation of future credit losses for the recapitalisation of the Group.
- The liquidity situation is impacted by the level of confidence in the banking system and the period over which the restrictive measures and capital controls are in place. The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on Eurosystem funding.
- The Group is exposed to litigation and claims mainly relating to the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company.

3.2 Provision for impairment of loans and advances to customers

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

A very important factor for the estimation of provisions is the timing and net recoverable amount from foreclosure of collaterals which mainly comprise land and buildings.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. For example, it has been assumed that the market value of residential property in Cyprus is expected to decline by a further 12% in the next two years. In the case of commercial property (offices, warehouses, factories, hotels) and stock of land for real estate development in Cyprus, the decline in market value is expected to be about 26%. The timing of collections from collateral has been estimated to be 3 years for loans that have been managed by the Recoveries Division for at least 2 years and 5 years for all other loans. Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

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

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

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

3. Significant judgements, estimates and assumptions (continued)

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

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.

3.3 Impairment of goodwill

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

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

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

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

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

The key assumptions used to determine the recoverable amount for the different CGUs including a sensitivity analysis are disclosed and further explained in Note 26.

3.4 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 material 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. Significant judgements, estimates and assumptions (continued)

3.5 Impairment of available-for-sale investments

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

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

3.6 Reclassification of financial assets

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 'Reclassification of Financial Assets' which were approved by the IASB and endorsed by the EU in October 2008, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified, there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications. Refer to Note 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 financial assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in the highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgement. Financial assets proposed for reclassification need to be approved by the Group Assets and Liabilities Committee (ALCO) based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold the asset. In addition to the above, management judgement is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

3.7 Retirement benefits

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

3. Significant judgements, estimates and assumptions (continued)

3.8 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 reporting date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends, and take into consideration claims handling costs, 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 reporting date. Past experience as to the number and amount of claims reported after the reporting date is taken into consideration in estimating the IBNR provision.

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

3.9 Life insurance business

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

3.9.1 Value of in-force business

The value of in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets. The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 31 December 2012 are set out in Note 26.

3.9.2 Insurance liabilities

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

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

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

3. Significant judgements, estimates and assumptions (continued)

3.9 Life insurance business (continued)

3.9.2 Insurance liabilities (continued)

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

Mortality and morbidity rates

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

Investment return and discount rate

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

Management expenses

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

Lapses

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

3.10 Tax

The Group operates and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the 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.

3.11 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.

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

The Group's accounting policy for property held for own use as well as for investment property requires that it is measured at fair value. In the case of property held for own use valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties the valuation is performed on an annual basis. Valuations are carried out by independent qualified valuers on the basis of current market values, using current prices and recent market transactions.

3. Significant judgements, estimates and assumptions (continued)

3.12 Fair value of properties held for own use and investment properties (continued)

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

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

Since the acceleration of the economic crisis in Cyprus in 2010, transaction activity in both commercial and residential properties has recorded a significant decrease and according to local published indices, prices have declined by approximately 15% to 25% over the two years 2011 and 2012. Forced sales activity is expected to accelerate as a result of pressures on the banks to enforce security on property collaterals. The high prevailing uncertainty over the economic developments in Cyprus and the financial and property sectors in particular make forecasts of the future developments in the real estate market extremely difficult (also refer to Note 1 'Operating environment of the Group').

The Greek economic crisis has had a significant impact on the real estate market. In 2012, supply and demand were substantially lower than in the pre-2010 period, with a consequential impact on sale prices, rent values and real estate returns which continued to decline for a fifth consecutive year. There can be no assurance of the successful implementation of the adjustment programme in Greece which makes forecasts for the future developments in the Greek real estate market extremely uncertain (also refer to Note 1 'Operating environment of the Group').

In arriving at their estimates of market values as at 31 December 2012, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market, in estimating the market values of property.

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 in 2011– refer to 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 Executive Committee (previously the Senior Group 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 loss as presented in the consolidated income statement is not affected by the above adjustments.

The loans and advances to customers, the customer deposits and the related income and expense are 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
2012	€000	€000	€000	€000	€000
Net interest income	514.319	309.814	120.452	66.533	1.011.118
Net fee and commission income	132.504	46.596	32.796	6.871	218.767
Net foreign exchange gains	16.702	2.841	5.956	2.290	27.789
Net (losses)/gains on financial instrument transactions and disposal of subsidiaries	(29.713)	83.328	210	1.468	55.293
Insurance income net of claims and commissions	53.431	9.541	-	-	62.972
Other (expenses)/income	(488)	(30.086)	863	10.903	(18.808)
	686.755	422.034	160.277	88.065	1.357.131
Staff costs	(204.829)	(108.032)	(61.568)	(22.790)	(397.219)
Depreciation, amortisation and impairment	(24.419)	(11.005)	(4.482)	(3.510)	(43.416)
Other operating expenses	(147.702)	(79.495)	(48.069)	(21.078)	(296.344)
Restructuring costs	(9.710)	(11.128)	-	-	(20.838)
Profit before impairment of loans and advances, GGBs, goodwill and intangible assets	300.095	212.374	46.158	40.687	599.314
Provisions for impairment of loans and advances	(1.186.111)	(966.887)	(88.888)	(64.271)	(2.306.157)
Share of profit of associates	31	-	-	191	222
Loss before tax	(885.985)	(754.513)	(42.730)	(23.393)	(1.706.621)
Tax	42.872	(13.530)	429	1.656	31.427
Loss after tax	(843.113)	(768.043)	(42.301)	(21.737)	(1.675.194)
Non-controlling interests (loss/(profit))	1.954	-	7.278	(1)	9.231
Loss before impairment of GGBs, goodwill and intangible assets	(841.159)	(768.043)	(35.023)	(21.738)	(1.665.963)
Impairment of goodwill and intangible assets	-	(1.205)	(328.791)	(29.750)	(359.746)
Impairment of GGBs and change in fair value of related hedging derivatives, after tax					(188.079)
Loss after tax attributable to the owners of the Company					(2.213.788)

The Group Executive Committee does not consider the impairment of GGBs and change in fair value of related hedging derivatives and the impairment of goodwill and intangible assets to be part of a particular segment's operating results, and the related amounts are therefore not allocated to segments in the above analysis.

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
Net 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
Insurance income net of claims and commissions	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	(222.815)	(113.997)	(62.320)	(32.642)	(431.774)
Depreciation, amortisation and impairment	(20.288)	(13.505)	(6.308)	(4.530)	(44.631)
Other operating expenses	(118.971)	(69.645)	(52.113)	(26.362)	(267.091)
Profit before impairment of loans and advances and GGBs	485.871	204.108	59.016	48.815	797.810
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	353.021	(13.196)	4.544	25.713	370.082
Tax	(38.204)	(5.919)	(4.341)	(5.728)	(54.192)
Profit/(loss) after tax	314.817	(19.115)	203	19.985	315.890
Non-controlling interests (loss)	4.255	-	2.815	3	7.073
Profit/(loss) before impairment of GGBs	319.072	(19.115)	3.018	19.988	322.963
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					(1.359.340)

4. Segmental analysis (continued)

Analysis of total revenue

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

	Cyprus	Greece	Russia	Other countries	Total
	€000	€000	€000	€000	€000
2012					
Banking and financial services	586.825	424.437	185.930	96.089	1.293.281
Insurance services	54.092	8.611	-	-	62.703
Property and hotel business	1.154	(7)	-	-	1.147
Total revenue from third parties	642.071	433.041	185.930	96.089	1.357.131
Inter-segment revenue/(expense)	44.684	(11.007)	(25.653)	(8.024)	-
Total revenue	686.755	422.034	160.277	88.065	1.357.131
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

Analysis of assets

	Cyprus	Greece	Russia	Other countries	Total
	€000	€000	€000	€000	€000
2012					
Assets	23.500.888	8.744.961	2.193.129	2.231.729	36.670.707
Inter-segment assets					(5.638.671)
Total assets					31.032.036
2011					
Assets	27.347.232	12.750.002	2.155.831	2.336.275	44.589.340
Inter-segment assets					(7.115.145)
Total assets					37.474.195

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

5. Interest income

	2012	2011
	€000	€000
Loans and advances to customers	1.799.448	1.917.773
Placements with banks and central banks	29.776	57.252
Reverse repurchase agreements	-	529
Investments available-for-sale	32.654	78.822
Investments held-to-maturity	70.549	52.909
Investments classified as loans and receivables	22.048	64.038
	1.954.475	2.171.323
Trading investments	42	231
Derivative financial instruments	36.353	119.356
Other investments at fair value through profit or loss	1.358	4.206
	1.992.228	2.295.116

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances amounting to €82.544 thousand (2011: €51.433 thousand).

6. Interest expense

	2012	2011
	€000	€000
Customer deposits	820.386	818.767
Obligations to central banks and amounts due to banks	59.101	99.217
Repurchase agreements	17.368	20.850
Debt securities in issue	1.913	3.110
Subordinated loan stock	6.148	20.458
	904.916	962.402
Derivative financial instruments	76.194	165.041
	981.110	1.127.443

7. Fee and commission income and expense

Fee and commission income

	2012	2011
	€000	€000
Credit-related fees and commissions	95.624	97.565
Other banking commissions	132.306	138.633
Mutual funds and asset management fees	4.847	5.998
Brokerage commissions	3.020	3.352
Other commissions	2.456	1.496
	238.253	247.044

7. Fee and commission income and expense (continued)

Fee and commission income (continued)

Mutual funds and asset management fees include income of €3.168 thousand (2011: €3.765 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	2012	2011
	€000	€000
Banking commissions	18.972	14.256
Mutual funds and asset management fees	358	247
Brokerage commissions	156	176
	19.486	14.679

8. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets in foreign currency at the reporting 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

	2012	2011
	€000	€000
Trading portfolio:		
- equity securities	(2.914)	(9.150)
- debt securities	673	(315)
- derivative financial instruments	8.921	5.129
Other investments at fair value through profit or loss:		
- equity securities	(85)	-
- debt securities	(3.313)	(1.004)
Loss on disposal of held-to-maturity investments:		
- debt securities	(32.558)	-
Net (losses)/gains on disposal of available-for-sale investments:		
- equity securities	(506)	1.688
- debt securities	88.570	1.612
Gains on repurchase of own debt securities in issue and subordinated loan stock	6	6.764
(Impairment)/reversal of impairment of debt securities excluding GGBs	(1.645)	9.841
Impairment of available-for-sale equity securities	(3.096)	(13.978)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	(55.189)	(332.700)
- hedged items	56.384	327.137
Profit on dissolution/disposal of subsidiaries (Note 51)	45	8.547
	55.293	3.571

In December 2012 the Group participated in the voluntary repurchase of the new GGBs by the Greek Republic. These new bonds had been acquired in exchange of the GGBs held in March 2012 in the context of the PSI (Note 15). As a result the Group disposed of all its GGBs. The gain on disposal of the new GGBs amounts to €96.515 thousand and is included in Net gains on disposal of available-for-sale debt securities presented above.

10. Insurance income net of claims and commissions

The insurance income net of claims and commissions of €62.972 thousand (2011: €61.190 thousand) is analysed as follows:

	2012		2011	
	Income	Claims and commissions	Income	Claims and commissions
	€000	€000	€000	€000
Life insurance business	130.003	(94.753)	65.196	(34.177)
General insurance business	52.438	(24.716)	51.780	(21.609)
	182.441	(119.469)	116.976	(55.786)

	2012		2011	
	Life insurance	General insurance	Life insurance	General insurance
Income	€000	€000	€000	€000
Gross premiums	107.986	80.646	113.072	78.719
Reinsurance premiums	(17.724)	(42.433)	(17.422)	(40.015)
Net premiums	90.262	38.213	95.650	38.704
Change in the provision for unearned premiums	-	863	-	(609)
Total net earned premiums	90.262	39.076	95.650	38.095
Investment income/(expense), gains/(losses) and other income	31.164	47	(40.361)	45
Commissions from reinsurers and other income	4.959	13.315	4.543	13.640
	126.385	52.438	59.832	51.780
Change in value of in-force business before tax (Note 26)	3.618	-	5.364	-
	130.003	52.438	65.196	51.780

	2012		2011	
	Life insurance	General insurance	Life insurance	General insurance
Claims and commissions	€000	€000	€000	€000
Gross payments to policyholders	(100.616)	(33.852)	(74.167)	(32.260)
Reinsurers' share of payments to policyholders	8.377	13.236	8.541	14.052
Gross change in insurance contract liabilities	5.014	2.719	41.266	6.157
Reinsurers' share of gross change in insurance contract liabilities	1.868	(1.640)	1.933	(4.656)
Commissions paid to agents and other direct selling costs	(9.396)	(5.182)	(11.750)	(4.884)
Changes in equalisation reserve	-	3	-	(18)
	(94.753)	(24.716)	(34.177)	(21.609)

10. Insurance income net of claims and commissions (continued)

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

	2012		2011	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Net (expense)/income from non-linked insurance business assets	(147)	332	(236)	746
Net losses on financial instrument transactions and other non-linked insurance business income	(399)	(55)	(165)	(8.910)
Staff costs	(7.384)	(8.278)	(7.473)	(8.940)
Other operating expenses	(4.355)	(3.323)	(4.178)	(3.431)

11. Other (expenses)/income

	2012	2011
	€000	€000
Dividend income	241	666
Profit on sale of stock of property held for sale	932	2.410
(Losses)/gains on sale and write-off of property and equipment and intangible assets	(2.691)	281
Rental income from investment properties	1.012	2.408
(Losses)/gains from revaluation of investment properties (Note 27)	(24.851)	3.120
Income from hotel activities	3.153	9.738
Other income	3.396	12.706
	(18.808)	31.329

12. Staff costs

	2012	2011
	€000	€000
Salaries	322.391	327.053
Employer's contributions to state social insurance and pension funds	65.470	67.446
Retirement benefit plan costs	9.293	34.502
Voluntary retirement schemes (VRS)	65	162
Cost of equity-settled share-based payments	-	2.611
	397.219	431.774
Restructuring costs – VRS in Greece	11.128	-
	408.347	431.774

The cost of equity settled share-based payments comprises the cost of the Share Options 2008/2010 granted to Group employees (Note 34).

The number of persons employed by the Group as at 31 December 2012 was 10.772 (2011: 11.326).

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.

	2012	2011
	€000	€000
Effect of termination of defined benefit plans	(16.727)	-
Defined benefit plans	1.017	30.668
Defined contribution plans	25.003	3.834
	9.293	34.502

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus (30% of total Group employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14% and employee contributions of 3%-10% of the employees' salaries.

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

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

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans.

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus (continued)

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation of the remaining Group retirement plans in Cyprus during 2012 and the main retirement plan in Cyprus during 2011 are set out below:

	2012	2011
Discount rate	3,43%	4,49%
Expected rate of return on plan assets	3,43%	3,73%
Future salary increases	0% for 2013-2014 and 5,00% onwards	0% for 2012-2013 and 5,00% onwards

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, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan, are out of the Company's assets because this plan is unfunded.

In addition, a number of employees recruited up to 31 December 2002 (7% 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 was still in place at 31 December 2012.

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:

	2012	2011
Discount rate	3,56%	5,06%
Expected rate of return on plan assets	3,56%	4,88%
Future salary increases	0% for 2013-2014 and 3,00% onwards	0% for 2012-2013 and 3,00% onwards

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 current employees and a defined benefit plan which was closed in December 2008 to future accrual of benefits for active members.

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

	2012	2011
Discount rate	4,50%	4,70%
Expected rate of return on plan assets	4,50%	5,57%

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

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Other countries

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

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

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

	2012	2011
	€000	€000
Net present value of funded obligations	111.581	553.199
Fair value of plan assets	(112.445)	(494.344)
	(864)	58.855
Net present value of unfunded obligations	15.280	6.908
Unrecognised past service cost	(423)	(563)
Amount not recognised as an asset because of the asset restriction requirement	22.667	28.361
Net liability of retirement benefit plans recognised in the consolidated balance sheet	36.660	93.561
Amounts recognised in the consolidated balance sheet		
Liabilities (Note 32)	38.270	94.434
Assets (Note 27)	(1.610)	(873)
	36.660	93.561

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

	2012	2011
	€000	€000
1 January	560.107	570.412
Current service cost	2.811	25.981
Interest expense on obligations	5.198	28.463
Actuarial losses/(gains)	11.995	(27.808)
Benefits paid from the plans	(7.900)	(33.450)
Benefits paid directly by the Group	(4.507)	(231)
Contributions by plan participants	283	284
Terminations, curtailments and settlements	9.143	(4.836)
Exchange differences from overseas plans	1.022	1.292
Termination of defined benefit plan	(451.291)	-
31 December	126.861	560.107

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:

	2012	2011
	€000	€000
1 January	494.344	495.835
Expected rate of return on plan assets	4.806	19.318
Actuarial losses	(1.383)	(29.565)
Employer's contributions	55.789	40.775
Contributions by plan participants	283	284
Benefits paid from the plans	(7.900)	(33.450)
Termination of plan	(434.564)	-
Exchange differences from overseas plans	1.070	1.147
31 December	112.445	494.344

The actual return on plan assets for the year 2012 was a gain of €3.423 thousand (2011: loss of €10.249 thousand).

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

	2012	2011
Equity securities	27%	6%
Debt securities	31%	45%
Placements with banks	40%	49%
Other plan assets	2%	-
	100%	100%

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

	2012	2011
	€000	€000
Equity securities	2.828	3.563
Debt securities	44	32.520
	2.872	36.083

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:

	2012	2011
	€000	€000
Current service cost	2.811	25.981
Interest expense on plan obligations	5.198	28.463
Expected return on plan assets	(4.806)	(19.318)
Amortisation of past service cost	36	82
Curtailments and settlements	(2.222)	(4.540)
	1.017	30.668

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

	2012	2011
	€000	€000
Actuarial (losses)/gains from obligations	(11.995)	27.808
Actuarial losses from plan assets	(1.383)	(29.565)
Change in unrecognised asset due to change in the ceiling for a fund with a surplus in assets	5.272	890
	(8.106)	(867)

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

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Net present value of plan obligations	(126.861)	(560.107)	(570.412)	(551.934)	(484.950)
Fair value of plan assets	112.445	494.344	495.835	443.964	302.132
Deficit	(14.416)	(65.763)	(74.577)	(107.970)	(182.818)

Experience adjustments to plan obligations	(387)	(3.956)	(8.630)	181	(16.358)
Experience adjustments to plan assets	(1.383)	(29.565)	6.833	99.547	(432.072)

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 59% 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.

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

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

13. Other operating expenses

	2012	2011
	€000	€000
Operating lease rentals for property and equipment	40.392	45.469
Advertising and marketing	34.342	40.049
Repairs and maintenance of property and equipment	25.561	24.245
Other property-related costs	22.293	21.161
Communication expenses	20.573	21.549
Printing and stationery	6.902	8.835
Depreciation of property and equipment (Note 25)	25.470	27.127
Impairment of property (Note 25)	3.237	2.974
Amortisation of intangible assets (Note 26)	14.709	14.530
Contribution to depositor protection scheme	12.271	11.201
Special tax levy on credit institutions	18.155	18.725
Provision/(reversal of provision) and settlements of litigations or claims	15.105	(11.763)
Write-off of other assets due to disposal of Greek operations	12.411	-
Other operating expenses	88.339	87.620
	339.760	311.722
Advisory and other restructuring costs	9.710	-
	349.470	311.722

The special tax levy on credit institutions is calculated at 0,095% of customer deposits of the Group in Cyprus at the end of the previous year. During 2013 higher rates of the special tax levy were imposed. Additional information is disclosed in Note 53. In the financial statements for the year ended 31 December 2011, the special tax levy was included in the tax line in the consolidated income statement and has been reclassified to other operating expenses to be comparable with the current year presentation.

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

13. Other operating expenses (continued)

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

	2012	2011
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	2.059	2.139
Other audit-related services including review of the interim financial statements	212	564
Tax services	432	563
Other services	475	292
	3.178	3.558

14. Impairment of goodwill and intangible assets

	2012	2011
	€000	€000
Goodwill (Note 26)	338.247	-
Intangible assets (Note 26)	21.499	-
	359.746	-

15. Impairment of Greek Government Bonds

The Group has participated in the voluntary exchange of the Greek Government Bonds (GGBs) in the context of the PSI which was completed in March/April 2012, on the basis of the terms set out below:

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

The nominal value of the GGBs after the PSI exchange was follows:

	Nominal value
	€000
1 January 2012	2.087.824
Nominal value adjustment of GGBs (arising on inflation-linked GGBs)	162.609
Adjusted nominal value of GGBs on PSI exchange date	2.250.433
New GGBs arising after the exchange (31,5% of nominal value of old GGBs)	708.887

The new GGBs were valued at fair value on the PSI exchange date with an average price of 21% of their nominal value, based on the settlement price of credit default swaps for GGBs at the relevant auction. The new GGBs were classified in the available-for-sale category.

15. Impairment of Greek Government Bonds (continued)

The carrying value of the GGBs is as follows:

	Carrying value
	€000
1 January 2012	615.661
Exchange of old GGBs with EFSF bonds (15,0% of nominal value of the old GGBs plus accrued interest)	(355.905)
Loss on initial recognition of the new GGBs	(109.308)
New GGBs arising after the exchange	150.448

The detachable GDP-linked securities were measured on initial recognition at their fair value which was nil.

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

	2012	2011
	€000	€000
Impairment charge on old GGBs	-	1.365.615
Loss on initial recognition of new GGBs	109.308	-
Change in fair value of related hedging instruments	34.265	363.646
Total impairment charge per the consolidated income statement	143.573	1.729.261

The derivatives were used to hedge the interest rate risk of the GGBs and have been terminated during 2012.

In December 2012 the Group participated in the voluntary repurchase of new GGBs by the Greek Republic. As a result, the Group disposed all its GGBs and realised a gain of €96.515 thousand (Note 9).

16. Tax

	2012	2011
	€000	€000
Current tax:		
- Cyprus	3.432	35.421
- overseas	(6.038)	13.685
Cyprus defence contribution	174	273
Deferred tax	14.440	(40.695)
Prior year tax adjustments	1.071	(1.450)
	13.079	7.234

The Group's share of the tax charge of associates was nil for the years 2011 and 2012.

16. Tax (continued)

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

	2012	2011
	€000	€000
Loss before tax	(2.209.940)	(1.359.179)
Tax at the normal tax rates in Cyprus	(220.985)	(134.916)
Tax effect of:		
- expenses not deductible for tax purposes	28.606	139.283
- allowable expenses charged directly to equity	-	(3.463)
- losses non tax allowable/(income) not subject to tax	2.851	(1.868)
- differences between overseas tax rates and Cyprus tax rates	11.066	9.648
Tax effect of losses on which deferred tax is not recognised	190.470	-
	12.008	8.684
Prior years' tax adjustments	1.071	(1.450)
	13.079	7.234

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. Expenses not deductible for 2011 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 Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2012 were: Greece 20% (2011: 20%), Romania 16% (2011: 16%), Russia 20% (2011: 20%), UK 26% until 31 March 2012 and 24% thereafter (2011: 28% until March 2011 and 26% thereafter), and Ukraine 21% (2011: 25% until 31 March 2011 and 21% thereafter). In Australia the tax rate which prevailed during 2011 was 30%.

The accumulated tax losses are presented in the table below:

	31 December	
	2012	2011
	€000	€000
Expiring with 4 years	227.792	171.992
Expiring within 5 and 10 years	2.388.601	5.488
Expiring indefinitely	44.459	5.746
	2.660.852	183.226

No tax losses of prior years were utilised during 2012 (2011: €4.428 thousand). It is expected that part of the remaining tax losses will be utilised against future taxable profits in accordance with the business plans prepared by the Group's management.

16. Tax (continued)

The accumulated tax losses for which a deferred tax asset was recognised are presented in the table below:

	31 December	
	2012	2011
	€000	€000
Expiring with 4 years	3.917	171.992
Expiring within 5 and 10 years	295.580	5.488
Expiring indefinitely	44.459	5.746
	343.956	183.226

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around €2,3 million (2011: €2,3 million) will arise, for which no deferred tax liability has been recognised.

Deferred tax

The net deferred tax asset arises from:

	2012	2011
	€000	€000
Difference between capital allowances and depreciation	(6.643)	3.319
Property revaluation	25.307	27.701
Investment revaluation	774	(52.551)
Different tax treatment of finance leases	-	1.944
Unutilised tax losses carried forward	(32.063)	(19.900)
Value of in-force life insurance business	10.509	10.192
Other temporary differences	(3.481)	6.820
Net deferred tax asset	(5.597)	(22.475)
Deferred tax asset (Note 27)	(50.829)	(97.570)
Deferred tax liability (Note 32)	45.232	75.095
Net deferred tax asset	(5.597)	(22.475)

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

	2012	2011
	€000	€000
1 January	(22.475)	11.268
Change in accounting policy (Note 2)	-	(2.312)
Deferred tax recognised in the consolidated income statement	14.440	(40.695)
Deferred tax recognised in equity	(948)	11.222
Deferred tax related to assets held for sale (Note 32)	3.621	(3.621)
Disposal of subsidiary company	-	1.542
Exchange adjustments	(235)	121
31 December	(5.597)	(22.475)

16. Tax (continued)

Deferred tax (continued)

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

	2012	2011
	€000	€000
Difference between capital allowances and depreciation	(10.022)	5.207
Investment revaluation	51.096	(47.237)
Different tax treatment of finance leases	(1.944)	219
Unutilised tax losses carried forward	(12.221)	(2.784)
Value of in-force-life insurance business	319	364
Other temporary differences	(12.788)	3.536
	14.440	(40.695)

During 2012 the Group had recognised a deferred tax asset of €223.707 thousand relating to the loss on initial recognition of the new GGBs and their subsequent revaluation. This credit has been reversed as at 31 December 2012 since it is not expected to be recoverable (Note 53).

17. Earnings per share

	2012	2011
Basic and diluted losses per share		
Losses after tax attributable to the owners of the Company (€ thousand)	(2.213.788)	(1.359.340)
Weighted average number of shares in issue during the year, excluding shares of the Company (thousand)	1.542.684	896.006
Basic and diluted losses per share (cent)	(143,5)	(151,7)

The weighted average number of shares in issue during the year has not been retrospectively adjusted as a result of the bonus shares issued as part of the rights issue and the conversion of CECS (Note 34) in March 2012 since no bonus element arises from these shares.

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

Share transactions that occurred after 31 December 2012 but before the date of approval of these consolidated financial statements and would have changed significantly the number of ordinary shares or potential ordinary shares outstanding as at 31 December 2012 are disclosed in Notes 34 and 53, respectively.

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

	2012	2011
	€000	€000
Cash	263.771	216.179
Balances with central banks	1.008.653	1.158.868
	1.272.424	1.375.047
Placements with banks	1.768.836	2.627.831

18. Cash, balances with central banks and placements with banks (continued)

Balances with central banks include obligatory deposits for liquidity purposes which amount to €943.645 thousand (2011: €781.114 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

	2012	2011
	€000	€000
Investments at fair value through profit or loss	21.818	26.345
Investments available-for-sale	402.547	534.803
Investments held-to-maturity	-	1.055.406
Investments classified as loans and receivables	710.968	1.012.570
	1.135.333	2.629.124

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

	2012	2011
	€000	€000
Investments at fair value through profit or loss	-	26.544
Investments available-for-sale	694.287	718.719
Investments held-to-maturity	-	148.698
Investments classified as loans and receivables	40.460	44.109
	734.747	938.070

All investments pledged as collateral under repurchase agreements can be sold or replighted 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	
	2012	2011	2012	2011	2012	2011
	€000	€000	€000	€000	€000	€000
Debt securities	96	1.935	13.955	44.227	14.051	46.162
Equity securities	2.557	6.434	-	85	2.557	6.519
Mutual funds	5.210	208	-	-	5.210	208
	7.863	8.577	13.955	44.312	21.818	52.889

Debt securities						
Cyprus government	-	-	13.042	17.662	13.042	17.662
Other governments	-	-	-	481	-	481
Banks and other corporations	96	1.935	913	26.084	1.009	28.019
	96	1.935	13.955	44.227	14.051	46.162
Listed on the Cyprus Stock Exchange	96	1.445	13.042	17.662	13.138	19.107
Listed on other stock exchanges	-	490	449	26.565	449	27.055
Unlisted certificates of deposit, bank and local authority bonds	-	-	464	-	464	-
	96	1.935	13.955	44.227	14.051	46.162

Equity securities						
Listed on the Cyprus Stock Exchange	2.018	2.798	-	-	2.018	2.798
Listed on other stock exchanges	539	3.636	-	-	539	3.636
Unlisted	-	-	-	85	-	85
	2.557	6.434	-	85	2.557	6.519

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

	2012	2011
	€000	€000
Debt securities	1.032.302	1.207.548
Equity securities	64.532	45.974
	1.096.834	1.253.522

Debt securities		
Cyprus government	1.134	109
French government	505.890	487.200
Other governments	198.400	143.635
Banks and other corporations	326.603	576.259
Local authorities	275	345
	1.032.302	1.207.548
Listed on the Cyprus Stock Exchange	2.119	1.466
Listed on other stock exchanges	1.029.599	1.201.471
Unlisted certificates of deposit, bank and local authority bonds	584	4.611
	1.032.302	1.207.548
<i>Geographic dispersion by country of issuer</i>		
Cyprus	2.119	2.662
Greece	-	2.815
United Kingdom	9.867	155.055
France	509.745	513.542
Germany	59.688	99.883
Ukraine	3	3.857
Italy	51.536	21.294
Other European countries	102.572	274.071
U.S.A. and Canada	-	49.062
Australia	-	26.433
Other countries	2.197	-
European Financial Stability Facility and European Investment Fund	284.787	10.131
Supranational organisations	9.788	48.743
	1.032.302	1.207.548

Equity securities		
Listed on the Cyprus Stock Exchange	7.837	7.033
Listed on other stock exchanges	55.395	38.379
Unlisted	1.300	562
	64.532	45.974

19. Investments (continued)

Investments available-for-sale (continued)

Available-for-sale investments include €581 thousand (2011: €3.569 thousand) of debt securities which have been determined to be individually impaired.

Investments held-to-maturity and loans and receivables

	Held-to-maturity		Loans and receivables	
	2012	2011	2012	2011
	€000	€000	€000	€000
Debt securities	-	1.204.104	751.428	1.056.679
Cyprus government	-	1.323	749.981	511.833
Other governments	-	552.574	-	544.846
Banks and other corporations	-	649.969	1.275	-
Local authorities	-	238	172	-
	-	1.204.104	751.428	1.056.679
Listed on the Cyprus Stock Exchange	-	25.138	630.052	511.833
Listed on other stock exchanges	-	1.147.564	121.204	544.846
Unlisted certificates of deposit, bank and local authority bonds	-	31.402	172	-
	-	1.204.104	751.428	1.056.679
<i>Geographic dispersion by country of issuer</i>				
Cyprus	-	42.820	751.428	511.833
Greece	-	215.696	-	544.846
United kingdom	-	22.302	-	-
France	-	56.950	-	-
Ireland	-	363.493	-	-
Other European countries	-	146.356	-	-
USA and Canada	-	140.298	-	-
Russia	-	4.776	-	-
Romania	-	11.527	-	-
Italy	-	135.741	-	-
Other countries	-	31.402	-	-
Supranational organisations	-	32.743	-	-
	-	1.204.104	751.428	1.056.679

Loans and receivables at 31 December 2012 include €1.275 thousand (2011: €544.846 thousand) of debt securities which have been determined to be individually impaired. Held-to-maturity investments at 31 December 2011 included €68.000 thousand of debt securities which have been determined to be individually impaired.

19. Investments (continued)

Reclassification of investments

Reclassification of trading investments

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

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

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

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

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

19. Investments (continued)

Reclassification of investments (continued)

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

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

20. Derivative financial instruments

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

	2012			2011		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	865.684	3.310	5.127	487.708	2.618	3.136
Currency swaps	4.989.311	11.128	27.350	2.923.012	81.648	8.913
Interest rate swaps	285.430	1.299	30.310	2.113.671	97.569	62.558
Currency options	40.408	363	363	42.194	511	150
Equity options	74.118	7.275	7.240	459.717	8.364	9.237
Interest rate caps/floors	15.040	3	405	69.238	25	422
	6.269.991	23.378	70.795	6.095.540	190.735	84.416
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	786.663	3.416	90.310	2.427.596	2.416	395.694
Fair value of net investments – forward exchange rate contracts	226.072	-	22.721	248.084	583	8.001
	1.012.735	3.416	113.031	2.675.680	2.999	403.695
Total	7.282.726	26.794	183.826	8.771.220	193.734	488.111

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. These derivatives were used to hedge the interest rate risk of the GGBs and have been terminated during 2012.

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

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

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

Hedge accounting

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

Changes in the fair value of derivatives designated as fair value hedges, are recognised in the consolidated income statement.

Fair value hedges

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

Hedges of net investments

The Group's consolidated balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches and forward exchange contracts. As at 31 December 2012, deposits and forward exchange rate contracts amounting to €385.882 thousand (2011: €419.065 thousand) have been designated as hedging instruments and have given rise to a loss of €12.063 thousand (2011: €5.673 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 following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	€000	€000	€000	€000
Financial assets				
Cash and balances with central banks	1.272.424	1.272.424	1.375.047	1.375.047
Placements with banks	1.768.836	1.768.836	2.627.831	2.627.831
Reverse repurchase agreements	-	-	215.936	215.936
Investments at fair value through profit or loss	21.818	21.818	52.889	52.889
Investments available-for-sale	1.096.834	1.096.834	1.253.522	1.253.522
Investments held-to-maturity	-	-	1.204.104	1.066.468
Investments classified as loans and receivables	751.428	590.192	1.056.679	926.258
Derivative financial assets	26.794	26.794	193.734	193.734
Loans and advances to customers	24.374.531	24.374.531	27.366.917	27.366.917
Life insurance business assets attributable to policy holders	483.106	483.106	493.239	493.239
Other assets	53.275	53.275	61.906	61.906
Total financial assets	29.849.046	29.687.810	35.901.804	35.633.747
Financial liabilities				
Obligations to central banks and amounts due to banks	341.044	341.044	3.065.756	3.065.756
Repurchase agreements	607.773	607.773	785.993	785.993
Derivative financial liabilities	183.826	183.826	488.111	488.111
Customer deposits	28.442.152	28.442.152	29.654.498	29.654.498
Debt securities in issue	44.775	43.914	49.791	51.903
Subordinated loan stock	133.294	49.511	128.380	86.562
Other liabilities	168.840	168.840	95.395	95.395
Total financial liabilities	29.921.704	29.837.060	34.267.924	34.228.218

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

More than 96% of loans bear interest at floating rates and are presented net of impairment charges which reflect the inherent credit risk.

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 reporting date (Note 46).

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.

21. Fair value of financial instruments (continued)

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.

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
2012	€000	€000	€000	€000
Financial assets				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	3.310	-	3.310
Currency swaps	-	11.128	-	11.128
Interest rate swaps	-	1.299	-	1.299
Currency options	-	363	-	363
Equity options	-	7.275	-	7.275
Interest rate caps/floors	-	3	-	3
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	-	3.416	-	3.416
<i>Investments at fair value through profit or loss</i>				
Trading investments	7.863	-	-	7.863
Other investments at fair value through profit or loss	449	13.506	-	13.955
<i>Investments available-for-sale</i>	1.068.688	27.650	496	1.096.834
	1.077.000	67.950	496	1.145.446

21. Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
2012	€000	€000	€000	€000
Financial liabilities				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	5.127	-	5.127
Currency swaps	-	27.350	-	27.350
Interest rate swaps	-	30.310	-	30.310
Currency options	-	363	-	363
Equity options	-	7.240	-	7.240
Interest rate caps/floors	-	405	-	405
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	-	90.310	-	90.310
<i>Derivatives for fair value of net investment</i>				
Forward exchange rate contracts	-	22.721	-	22.721
	-	183.826	-	183.826

2011				
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

21. Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
2011	€000	€000	€000	€000
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

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
2012	€000	€000	€000	€000	€000
1 January	85	-	496	156	(1.432)
Realised (losses)/gains recognised in the consolidated income statement	(85)	-	-	(156)	726
Disposals	-	-	-	-	706
31 December	-	-	496	-	-

2011					
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)

During 2012 and 2011 there were no significant transfers from Level 1 to Level 2.

22. Loans and advances to customers

	2012	2011
	€000	€000
Loans and advances to customers	26.520.517	27.168.261
Hire purchase and finance lease debtors (Note 23)	1.530.070	1.704.168
Gross loans and advances to customers	28.050.587	28.872.429
Provisions for impairment of loans and advances to customers (Note 44)	(3.676.056)	(1.505.512)
	24.374.531	27.366.917

Loans and advances include mortgage loans of €1.122 million (2011: €1.045 million) in Cyprus and €620 million (2011: €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).

At 31 December 2012, loans and advances to customers also include loans amounting to €88 million (2011: €68 million) which were pledged as collateral in accordance with the terms of a Russian government programme to provide loans to support Russian small and medium sized enterprises.

At 31 December 2011, loans and advances to customers include loans of €1.439 million which have been pledged as collateral to the Republic of Cyprus for the issue of €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. These special government bonds matured during 2012.

At 31 December 2011 they also included finance lease debtors of €504 million which were securitised through special purpose entities which were dissolved in 2012 (Note 51).

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

	2012	2011
	€000	€000
Gross investment in hire purchase and finance lease contracts	1.799.262	2.102.321
Unearned finance income	(269.192)	(398.153)
Present value of hire purchase and finance lease payments	1.530.070	1.704.168
<i>Repayable</i>		
- within one year	196.413	28.833
- between one and five years	509.036	628.925
- after five years	824.621	1.046.410
Present value of hire purchase and finance lease payments	1.530.070	1.704.168
<i>Analysis by geographical area</i>		
- Cyprus	356.209	406.514
- Greece	1.402.305	1.647.511
- Romania	29.155	31.146
- Russia	11.593	17.150
Gross investment in hire purchase and finance lease contracts	1.799.262	2.102.321
<i>Repayable</i>		
- within one year	238.189	31.542
- between one and five years	585.865	759.119
- after five years	975.208	1.311.660
Gross investment in hire purchase and finance lease contracts	1.799.262	2.102.321

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

This caption also includes contracts €385.364 thousand (2011: €437.660 thousand) on which interest is accrued using the effective interest rate and is not included in the gross investment.

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

24. Life insurance business assets attributable to policyholders

	2012	2011
	€000	€000
Equity securities	28.626	22.560
Debt securities	77.303	209.726
Mutual funds	260.900	142.834
Mortgages and other loans	2.935	3.623
Bank deposits	113.342	114.496
	483.106	493.239
Property	12.650	11.340
	495.756	504.579

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
2012	€000	€000	€000	€000
Equity securities	27.569	-	1.057	28.626
Debt securities	21.380	55.923	-	77.303
Mutual funds	260.900	-	-	260.900
Mortgages and other loans	2.935	-	-	2.935
Bank deposits	113.342	-	-	113.342
	426.126	55.923	1.057	483.106

2011				
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

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

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

	2012	2011
	€000	€000
1 January	2.849	4.086
Unrealised losses recognised in the consolidated income statement	(1.792)	(1.237)
31 December	1.057	2.849

During 2012 and 2011, there were no significant transfers from Level 1 to Level 2.

25. Property and equipment

	Property	Equipment	Total
	€000	€000	€000
2012			
Net book value at 1 January	432.518	40.670	473.188
Additions	19.800	8.447	28.247
Revaluation	(15.732)	-	(15.732)
Transfer from non-current assets held for sale (Note 27)	26.500	-	26.500
Disposals and write-offs	(1.985)	(275)	(2.260)
Depreciation charge for the year	(14.023)	(11.447)	(25.470)
Impairment charge for the year	(3.237)	-	(3.237)
Exchange adjustments	1.723	234	1.957
Net book value at 31 December	445.564	37.629	483.193

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

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

25. Property and equipment (continued)

	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
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)
Impairment charge for the year	(2.974)	-	(2.974)
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

1 January 2011			
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

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

	2012	2011
	€000	€000
Freehold property	419.498	401.399
Improvements on leasehold property	26.066	31.119
	445.564	432.518

Freehold property includes land amounting to €143.003 thousand (2011: €142.416 thousand) for which no depreciation is charged.

25. Property and equipment (continued)

It is the Group's policy to revalue its properties periodically (between 3 to 5 years). As a consequence of the prevailing economic conditions in Cyprus and in Greece and their impact on the real estate market in these countries, the fair value of properties in these countries was expected to be materially different to their carrying amounts as at the year end. As a result, property revaluations were performed as at 31 December 2012 which resulted in a net loss on revaluation of €15.732 thousand which was recognised in the consolidated statement of comprehensive income and an impairment loss of €3.237 thousand which was recognised in the consolidated income statement. The valuations are carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2012 would have amounted to €255.118 thousand (2011: €237.449 thousand).

26. Intangible assets

	Computer software	Licence fees	In-force life insurance business	Customer relationships	Brands	Goodwill	Total
2012	€000	€000	€000	€000	€000	€000	€000
Net book value at 1 January	19.361	462	98.890	12.059	14.497	327.241	472.510
Additions	10.822	-	-	-	-	-	10.822
Increase in value of in-force life insurance business	-	-	3.618	-	-	-	3.618
Disposals and write-offs	(989)	-	-	-	-	-	(989)
Amortisation charge for the year	(8.193)	(462)	-	(3.037)	(3.017)	-	(14.709)
Impairment charge for the year	-	-	-	(9.434)	(12.065)	(338.247)	(359.746)
Exchange adjustments	46	-	-	412	585	11.006	12.049
Net book value at 31 December	21.047	-	102.508	-	-	-	123.555
1 January 2012							
Cost	127.464	6.162	98.890	20.959	23.196	327.241	603.912
Accumulated amortisation	(108.103)	(5.700)	-	(8.900)	(8.699)	-	(131.402)
Net book value	19.361	462	98.890	12.059	14.497	327.241	472.510
31 December 2012							
Cost	137.523	6.162	102.508	12.245	12.066	338.247	608.751
Accumulated amortisation and impairment	(116.476)	(6.162)	-	(12.245)	(12.066)	(338.247)	(485.196)
Net book value	21.047	-	102.508	-	-	-	123.555

26. Intangible assets (continued)

	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 business	-	-	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

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

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the below cash generating units (CGUs).

	2012	2011
	€000	€000
Kyprou Securities SA	-	1.205
PJSB Bank of Cyprus	-	29.714
CB Uniastrum Bank LLC	-	296.322
	-	327.241

CB Uniastrum Bank LLC is also an operating and reportable segment.

26. Intangible assets (continued)

Impairment testing of goodwill (continued)

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

CB Uniastrum Bank LLC

The recoverable amount of this CGU has been determined based on a value in use ('VIU') calculation using cash flow projections from financial budgets approved by management. The projected cash flows have been updated to reflect the funding and capital constraints which existed as at 31 December 2012 as well as those arising from the recent agreement between Cyprus and the Troika (refer to Note 53). Previous plans to expand the operations have been severely curtailed, thus reducing the projected profitability of the entity and therefore its VIU. The post-tax discount rate applied to cash flow projections is 11,6% (2011: 10,7%) and cash flows beyond the projected period are extrapolated using a 5% growth rate (2011: 5%). The terminal return on equity was estimated at 11,8% (2011: 22,1%). It was concluded that the fair value less costs to sell did not exceed the VIU. As a result of this analysis, the VIU was less than the carrying amount and goodwill amounting to €308.180 thousand was fully written off and is recorded within 'Impairment of goodwill and intangible assets' in the consolidated income statement.

PJSB Bank of Cyprus

The recoverable amount of this CGU has also been determined based on a VIU calculation using cash flow projections from financial budgets approved by management. The projected cash flows have been updated to reflect the funding and capital constraints which existed as at 31 December 2012 as well as those arising from the recent agreement between Cyprus and the Troika (refer to Note 53). Previous plans to expand the operations have been severely curtailed, thus reducing the projected profitability of the entity and therefore its VIU. The post-tax discount rate applied to cash flow projections is 16,6% (2011: 16,8%) and cash flows beyond the projected period are extrapolated using a 5% growth rate (2011: 5%). The terminal return on equity was estimated at 19,6% (2011: 24,0%). It was concluded that the fair value less costs to sell did not exceed the VIU. As a result of this analysis the VIU was less than the carrying amount and goodwill amounting to €28.862 thousand was fully written off and is recorded within 'Impairment of goodwill and intangible assets' in the consolidated income statement.

Key assumptions used in value in use calculations

The calculation of VIU for both CB Uniastrum Bank LLC and PJSB Bank of Cyprus 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 entity operates. This calculation is most sensitive to the following assumptions:

- *Discount factor:* The discount factor represents the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and specific risks of the underlying assets that have been incorporated in the cash flow estimates. The discount factor is the Cost of Equity (K_e) of the specific CGU as this is derived using the Capital Asset Pricing Model (CAPM). The K_e is derived using the risk-free rate of the market that the CGU is operating in, adjusted to reflect the risk of cash flows in foreign currency and the risk premium of holding equity compared to the specific market returns over a period of time.
- *Projected growth rates, GDP and local inflation rates:* Rates are based on published market research.
- *Interest margins:* Interest margins are based on current fixed-interest yields, the risk profile of the CGU and inflation of the specific market that the CGU is operating in.

26. Intangible assets (continued)

Impairment testing of goodwill (continued)

Impairment of other intangibles

Following the impairment of goodwill relating to the acquisition of CB Uniastrum Bank LLC and PJSB Bank of Cyprus, an impairment charge was recognised on customer relationships and brands that arose on the acquisition of the above mentioned entities. This charge amounted to €3.037 thousand for customer relationships and €3.017 thousand for brands, thus reducing the carrying amounts of both intangibles to nil as at 31 December 2012. The respective impairment charge is included within 'Impairment of goodwill and intangible assets' in the consolidated income statement.

Valuation of in-force life insurance business

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

	2012	2011
Discount rate (after tax)	10,0%	10,0%
Return on investments	5,5%	5,5%
Expense inflation	5,0%	5,0%

27. Other assets

	2012	2011
	€000	€000
Debtors	26.400	27.396
Stock of property held for sale	11.624	8.762
Non-current assets held for sale	-	27.268
Investment properties	316.378	187.795
Taxes refundable	41.459	10.133
Deferred tax asset (Note 16)	50.829	97.570
Retirement benefit plans assets (Note 12)	1.610	873
Reinsurers' share of insurance contract liabilities (Note 30)	65.927	64.191
Prepaid expenses	5.004	5.634
Receivable from disposal of subsidiary	-	103.137
Other assets	94.529	141.680
	613.760	674.439

At 31 December 2011, the Group had transferred assets (mainly immovable property) to the category non-current assets held for sale. As these assets were not sold during 2012, they have been reclassified back to the corresponding category on the balance sheet, Property and equipment. The deferred tax liability relating to these assets has also been reclassified in deferred tax liabilities (Note 32).

27. Other assets (continued)

Investment properties

The movement of investment properties is summarised below:

	2012	2011
	€000	€000
1 January	187.795	116.307
Exchange adjustments	(677)	(570)
Transfer from property and equipment	-	1.053
Additions	160.411	70.552
Disposals	(6.300)	(2.667)
(Losses)/gains from revaluation	(24.851)	3.120
31 December	316.378	187.795

28. Obligations to central banks and amounts due to banks

	2012	2011
	€000	€000
Obligations to central banks	-	2.100.556
Amounts due to banks	341.044	965.200
	341.044	3.065.756

Obligations to central banks at 31 December 2011 bore annual interest at 1,00% to 1,50% and represented financing obtained from the Central Bank of Cyprus, which the Group had secured through open market operations within the monetary policy framework of the Eurosystem. This financing was fully secured by eligible collateral. In addition to the collateral disclosed in Notes 19 and 22, at 31 December 2011 Covered Bonds with nominal value €1.700 million issued by the Group (Note 31) had been pledged as collateral. The obligations have been fully repaid during 2012.

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

29. Customer deposits

	2012	2011
	€000	€000
<i>By type of deposit</i>		
Demand	6.417.980	6.631.662
Savings	1.865.042	2.259.345
Time or notice	20.159.130	20.763.491
	28.442.152	29.654.498
<i>By geographical area</i>		
Cyprus	18.511.979	19.165.805
Greece	7.152.375	7.698.752
Russia	1.253.677	1.294.591
United Kingdom	1.215.207	1.209.604
Romania	214.149	202.232
Ukraine	94.765	83.514
	28.442.152	29.654.498

During the recapitalisation process of the Company through a bail-in of depositors, 47,5% of eligible deposits (as these are defined in the Bail-in Decrees issued by the Resolution Authority in March and July 2013) of the Company in Cyprus as at 26 March 2013 have been converted into shares of the Company, representing 81% of the share capital. Further information is presented in Note 53.

30. Insurance liabilities

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Life insurance	€000	€000	€000	€000	€000	€000
Life insurance contract liabilities	527.673	(29.561)	498.112	532.687	(27.693)	504.994
General insurance						
Provision for unearned premiums	36.283	(17.799)	18.484	35.641	(16.292)	19.349
<i>Other liabilities</i>						
Claims outstanding	39.703	(18.567)	21.136	42.786	(20.206)	22.580
Unexpired risks reserve	477	-	477	113	-	113
Equalisation reserve	34	-	34	37	-	37
General insurance contract liabilities	76.497	(36.366)	40.131	78.577	(36.498)	42.079
	604.170	(65.927)	538.243	611.264	(64.191)	547.073

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:

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	532.687	(27.693)	504.994	573.955	(25.761)	548.194
New business	5.335	(1.902)	3.433	5.404	(1.353)	4.051
Change in existing business	(10.349)	34	(10.315)	(46.672)	(579)	(47.251)
31 December	527.673	(29.561)	498.112	532.687	(27.693)	504.994

30. Insurance liabilities (continued)

General insurance liabilities

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

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	€000	€000	€000	€000	€000	€000
1 January	35.641	(16.292)	19.349	35.279	(16.539)	18.740
Premium income	80.646	(42.433)	38.213	78.719	(40.015)	38.704
Earned premiums	(80.004)	40.926	(39.078)	(78.357)	40.262	(38.095)
31 December	36.283	(17.799)	18.484	35.641	(16.292)	19.349

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

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Claims and adjustments for losses	€000	€000	€000	€000	€000	€000
1 January	42.786	(20.206)	22.580	47.475	(24.863)	22.612
Amount paid for claims settled in the year	(33.852)	13.236	(20.616)	(32.260)	14.053	(18.207)
Increase in liabilities arising from claims	30.769	(11.597)	19.172	27.571	(9.396)	18.175
31 December	39.703	(18.567)	21.136	42.786	(20.206)	22.580
Reported claims	36.391	(17.009)	19.382	39.262	(18.486)	20.776
Incurred but not reported	3.312	(1.558)	1.754	3.524	(1.720)	1.804
	39.703	(18.567)	21.136	42.786	(20.206)	22.580

31. Debt securities in issue

	Contractual interest rate	2012	2011
Medium term senior debt		€000	€000
SEK 50 million 2009/2012	OMX Stockholm 30 index	-	5.341
SEK 100 million 2010/2014	Return of specific shares	11.990	11.484
€2 million 2010/2016	DJ EUROSTOXX 50 index	1.897	1.897
USD 2 million 2010/2016	S&P 500 index	1.502	1.597
		15.389	20.319
Other debt securities in issue			
RUB Certificates of Deposit and Promissory Notes	11%	28.894	28.980
Interest-free loan from the European Development Bank	-	492	492
		29.386	29.472
		44.775	49.791

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

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company have been bailed in and were converted into shares. Further information is presented in Note 53.

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2011: €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 and was redeemed at par in May 2012.

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 2012 between 0,18% and 1,34% (2011: 1,0%-1,6%) per annum.

Covered Bonds

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

Under the Programme, the Company issued in July and December 2011 covered bonds of €700 million and €1.000 million, respectively.

The covered bonds issued have a maturity of 3 years with a potential extension of their repayment by one year, bear interest at the three month Euribor plus 1,25% annually and are traded on the Luxembourg Bourse.

On 29 June 2012, covered bonds of €150 million issued in July 2011 were cancelled.

31. Debt securities in issue (continued)

Covered Bonds (continued)

Loans and advances pledged as collateral for covered bonds are disclosed in Note 22.

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

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

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2011: €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

	2012	2011
	€000	€000
Income tax payable	11.354	16.790
Special defence contribution payable	9.844	9.694
Deferred tax liability (Note 16)	45.232	75.095
Liability of retirement benefit plans (Note 12)	38.270	94.434
Provision for pending litigation or claims	10.042	3.837
Financial guarantees	4.459	4.518
Liabilities for investment-linked contracts under administration	6.232	7.724
Accrued expenses and other provisions	32.682	26.320
Deferred income	12.348	10.269
Deferred tax relating to non-current assets held for sale (Note 27)	-	3.621
Items in the course of settlement	94.431	43.159
Other liabilities	74.409	52.236
	339.303	347.697

32. Other liabilities (continued)

Provision for pending litigation or claims

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

	2012	2011
	€000	€000
1 January	3.837	3.287
Increase of provision in the year	6.180	562
Exchange adjustments	25	(12)
31 December	10.042	3.837

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	2012	2011
		€000	€000
Subordinated Bonds in USD 2013/2014/2015	2,50%	6.922	6.928
Convertible Bonds 2013/2018 (€573 million)	Six-month Euribor plus 1,00%	27.103	26.907
Convertible Capital Securities (€645 million)	5,50%	76.775	72.380
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	22.494	22.165
		133.294	128.380

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

	2012	2011
	€000	€000
Convertible Bonds 2013/2018	6	-

During the recapitalisation of the Company in 2013, the subordinated loan stock in issue by the Company has been converted into shares (except for the Subordinated Bonds in USD which are issued by CB Uniastrum Bank LLC). Further information is presented in Note 53.

Subordinated Bonds

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2011: €4.000 million).

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 were listed on the Cyprus Stock Exchange and Athens Exchange.

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

The Convertible Bonds have contributed in the recapitalisation of the Company in 2013 through the absorption of losses in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013 (Note 53).

As at the date of approval of the financial statements there are no Convertible Bonds in issue (Note 53).

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 were 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, 6 thousand Convertible Capital Securities have been converted into 1 thousand shares.

During 2012 the Company proceeded with the deferral of the coupon payment relating to the period since 1 January. The Company would satisfy the deferred coupon payments only on the redemption of the securities and no interest would accrue on the deferred coupon payment. During 2011 no coupon payment was deferred.

The Convertible Capital Securities have contributed in the recapitalisation of the Company in 2013 through the absorption of losses in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013 (Note 53).

As at the date of approval of the financial statements there are no Convertible Capital Securities in issue (Note 53).

33. Subordinated loan stock (continued)

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 were 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).

During 2012 the Company proceeded with the deferral of the coupon payment relating to the period since 1 January. The Company would satisfy the deferred coupon payments only on the redemption of the securities and no interest would accrue on the deferred coupon payment. During 2011 no coupon payment was deferred.

The three-month Euribor during 2012 ranged between 0,18% and 1,34% (2011: 1,0%-1,6%) per annum and the six-month Euribor ranged between 0,32% and 1,61% (2011: 1,2%-1,8%) per annum.

The Capital Securities have contributed in the recapitalisation of the Company in 2013 through the absorption of losses in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013 (Note 53).

As at the date of approval of the financial statements there are no Capital Securities in issue (Note 53).

34. Share capital

	2012		2011	
	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €1,00 each	3.000.000	3.000.000	3.000.000	3.000.000
<i>Issued and fully paid</i>				
1 January	899.528	899.528	894.948	894.948
Issue of shares	159.683	159.683	-	-
Bonus issue	303.743	303.743	-	-
Conversion of Convertible Enhanced Capital Securities	432.187	432.187	-	-
Conversion of Convertible Bonds and Convertible Capital Securities	-	-	387	387
Dividend reinvestment	-	-	4.193	4.193
31 December	1.795.141	1.795.141	899.528	899.528

Authorised share capital

At the Extraordinary General Meetings of 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 of €1,00 each, which rank pari passu with the existing ordinary shares of the Company.

34. Share capital (continued)

Issued share capital

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 respective at the time conversion price into shares, in the ratio of one Right for each existing ordinary share. Every three Rights exercised were converted into one New Share at the subscription price of €1,00 per share. In addition, for each New Share arising from the exercise of the Rights, the Company granted one fully paid Bonus Share.

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

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

In 2011, 387 thousand shares were issued as a result of the conversion of Convertible Bonds and Convertible Capital Securities and the Company's share capital and share premium increased by €387 thousand and €892 thousand, respectively.

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 share. The reinvestment price for the dividend paid on 16 June 2011 was set at €2,00 per share. As a result of the dividend reinvestment during 2011, 4.192.331 shares were issued and the Company's share capital and share premium increased by €4.193 thousand and €4.192 thousand respectively.

All issued ordinary shares carry the same rights.

34. Share capital (continued)

Issued share capital (continued)

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

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

The Resolution Authority also issued Decrees for the partial deposit-to-equity conversion of uninsured deposits and other creditors. A percentage of 47,5% of eligible deposits were converted to 3.806.581 thousand Class A shares of €1,00 each. These shares were subsequently converted to ordinary shares. In addition, the Resolution Authority required the Company to issue shares to Laiki Bank representing 18,1% of the issued share capital of the Company after the above mentioned changes in the share capital, as consideration for the net assets transferred to the Group on 29 March 2013. Accordingly, 844.014 thousand shares were issued to Laiki Bank.

Following the above-mentioned changes in share capital, the issued share capital of the Company as at the date of approval of these financial statements amounts to €4.674.327 thousand divided into 4.674.327.268 ordinary shares of a nominal value of €1,00 each.

Share premium reserve

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

The shareholders' Annual General Meeting held on 19 June 2012 approved a special resolution for the reduction by an amount of €430.440 thousand of the credit balance of the Company's Share Premium account. During September 2012 the District Court of Nicosia by order approved the reduction of the Share Premium account. The reduction was effected by writing off accumulated losses from the 'Retained earnings/(accumulated losses)' reserve.

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

Shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2012 was 73.331 thousand (2011: 2.266 thousand) and their cost of acquisition was €40.865 thousand (2011: €6.679 thousand).

In addition, the life insurance subsidiary of the Group held, as at 31 December 2012, a total of 16.031 thousand (2011: 6.607 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 €21.463 thousand (2011: €24.797 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 option.

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 was adjusted in accordance with the relevant terms of issue from €5,50 to €4,24 per share.

At the Extraordinary General Meeting of the Company's shareholders held on 23 March 2011, the exercise price of the Share Options 2008/2010 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 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.

In accordance with their issue terms, the exercise price of the Share Options may be adjusted to reflect the sequence of corporate actions and changes pursuant to the relevant provisions and decisions of the Decrees issued by the Resolution Authority in 2013.

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

	2012	2011
	€000	€000
1 January	14.280	14.563
Share options forfeited	(1.695)	(283)
31 December	12.585	14.280

35. Convertible Enhanced Capital Securities

	2012	2011
	€000	€000
1 January	862.233	-
Issue of Convertible Enhanced Capital Securities	-	857.084
Conversion into shares	(432.187)	(1.273)
Exchange difference	(1.211)	6.422
31 December	428.835	862.233

The CECS were issued by the Company on 18 May 2011, following the approval by the Extraordinary General Meeting of shareholders on 23 March 2011. For the purposes of regulatory capital the CECS 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 nominal value of the CECS issued consisted 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 Company proceeded with a mandatory coupon cancellation for the period since 31 December 2011. According to the issue terms and conditions, any coupon payment cancelled will be fully and irrevocably cancelled and will no longer be 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.

35. Convertible Enhanced Capital Securities (continued)

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.

It is noted that during 2012, the Group proceeded with the amendment of certain terms of the issue of the CECS in order to satisfy the requirements of the European Banking Authority (EBA) for inclusion of the remaining amount of the CECS (€429 million) as eligible for reducing the capital shortfall as determined by the EBA Capital Exercise (Note 49). The amendments include, among others, the deletion of the phrase 'taking into account its specific financial and solvency condition' in the term for the optional coupon cancellation by the Company. They also include the deletion of the phrase 'on the basis of the assessment of the financial and solvency situation of the Company for the next three years' in the mandatory coupon cancellation term.

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

As at 31 December 2012, the Group held CECS of nominal value €29.794 thousand (2011: €29.833 thousand).

During March 2012, CECS with nominal value of €432 million were converted into shares in the context of the Group's Capital Strengthening Plan (Note 34). During 2011, CECS with nominal value of €1.273 thousand were converted into 386 thousand shares.

The CECS have contributed in the recapitalisation of the Company in 2013 through the absorption of losses in accordance with a series of decrees issued by the Central Bank of Cyprus under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013 (Note 53).

As at the date of approval of these financial statements there are no CECS in issue (Note 53).

36. Dividends

	2012	2011
Declared and paid during the year:	€000	€000
Final dividend for 2011: nil (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 total dividend paid during 2011 includes an amount of €26 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 20% in 2012 (until 31 August 2011: 15% and from 1 September to 31 December 2011: 17%) 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 and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2012 amounted to €1.371 million (2011: €3.233 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 2012 amount to €12.264 thousand (2011: €31.266 thousand).

Litigation

The Group's provision for pending litigation or claims is set out in Note 32. The litigation that arose after the reporting date is set out in Note 53. 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 (€417 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. This case was settled during 2012.

40. Net cash flow used in operating activities

	2012	2011 (restated)
	€000	€000
Loss before tax	(2.209.940)	(1.359.179)
<i>Adjustments for:</i>		
Provisions for impairment of loans and advances	2.306.157	426.287
Depreciation of property and equipment	25.470	27.127
Amortisation of intangible assets	14.709	14.530
Impairment of property	3.237	2.974
Impairment of goodwill and intangible assets	359.746	-
Cost of share-based payments	-	2.611
Amortisation of discounts/(premiums) of debt securities and subordinated loan stock	7.291	(52.784)
Losses/(gains) on sale and write-off of property and equipment and intangible assets	2.691	(281)
Losses/(gains) from revaluation of investment property	24.851	(3.120)
Interest on debt securities	(126.651)	(200.206)
Dividend income	(241)	(666)
Profit on exchange of CECS	-	(6.733)
Net losses/(gains) on disposal of investments in equity securities	506	(1.688)
Net gains on disposal of investments in debt securities	(88.570)	(1.612)
Share of (profit)/loss of associates	(222)	1.441
Profit on dissolution/disposal of subsidiaries	(45)	(8.547)
Profit from revaluation of debt securities designated as fair value hedges	(56.384)	(327.137)
Impairment of GGBs and change in fair value of related hedging derivatives	143.573	1.729.261
Impairment of investments	4.741	4.137
Interest on subordinated loan stock	6.148	20.458
Interest on senior debt	1.913	3.110
Change in present value of in-force life insurance business	(3.618)	(5.364)
	415.362	264.619
<i>Change in:</i>		
Placements with banks	(362.783)	(72.542)
Obligations to central banks and amounts due to banks	(2.724.712)	(455.705)
Obligatory balances with central banks	(162.531)	(38.801)
Customer deposits	(1.212.346)	(2.225.307)
Value of in-force life insurance policies and liabilities	1.729	10.071
Loans and advances to customers	532.336	(1.190.321)
Other assets	43.798	(24.047)
Accrued income and prepaid expenses	630	1.489
Other liabilities	(14.694)	(64.250)
Accrued expenses and deferred income	8.441	(25.757)
Derivative financial instruments	(137.345)	130.243
Investments at fair value through profit or loss	31.071	147.966
Repurchase agreements	(178.220)	(127.116)
Reverse repurchase agreements	215.936	(95.770)
Subordinated loan stock	(6)	1.017
	(3.543.334)	(3.764.211)
Tax paid	(31.620)	(49.762)
Net cash flow used in operating activities	(3.574.954)	(3.813.973)

40. Net cash flow used in operating activities (continued)

Net cash flow used in operating activities – interest and dividends

	2012	2011
	€000	€000
Interest paid	(1.012.744)	(1.086.456)
Interest received	2.148.559	2.028.788
Dividends received	241	666
	1.136.056	942.998

41. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2012	2011
	€000	€000
Cash and non-obligatory balances with central banks	328.779	593.933
Treasury bills repayable within three months	99.379	-
Placements with banks with original maturity less than three months	909.798	2.131.575
	1.337.956	2.725.508

Cash and non-obligatory balances with central banks	328.779	593.933
Obligatory balances with central banks	943.645	781.114
Total cash and balances with central banks (Note 18)	1.272.424	1.375.047

Placements with banks with original maturity less than three months	909.798	2.131.575
Other restricted placements with banks (Note 46)	388.817	463.710
Other placements with banks	470.221	32.546
Total placements with banks (Note 18)	1.768.836	2.627.831

42. Operating leases – The Group as lessee

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

	2012	2011
	€000	€000
Within one year	14.239	36.364
Between one and five years	20.863	21.021
After five years	4.433	2.000
	39.535	59.385

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

43. Analysis of assets and liabilities by expected maturity

	2012			2011		
	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	753.454	518.970	1.272.424	632.638	742.409	1.375.047
Placements with banks	1.546.727	222.109	1.768.836	2.581.834	45.997	2.627.831
Reverse repurchase agreements	-	-	-	215.936	-	215.936
Investments	390.226	1.479.854	1.870.080	444.809	3.122.385	3.567.194
Derivative financial instruments	16.041	10.753	26.794	186.673	7.061	193.734
Life insurance business assets attributable to policyholders	18.901	476.855	495.756	13.967	490.612	504.579
Loans and advances to customers	5.770.991	18.603.540	24.374.531	6.109.988	21.256.929	27.366.917
Property, equipment and intangible assets	5.973	600.775	606.748	-	945.698	945.698
Other assets	230.844	382.916	613.760	262.723	411.716	674.439
Investments in associates	-	3.107	3.107	-	2.820	2.820
	8.733.157	22.298.879	31.032.036	10.448.568	27.025.627	37.474.195
Liabilities						
Obligations to central banks and amounts due to banks	260.695	80.349	341.044	1.696.944	1.368.812	3.065.756
Repurchase agreements	31.813	575.960	607.773	176.035	609.958	785.993
Derivative financial instruments	65.043	118.783	183.826	73.284	414.827	488.111
Customer deposits	11.126.769	17.315.383	28.442.152	9.923.074	19.731.424	29.654.498
Insurance liabilities	101.322	502.848	604.170	105.750	505.514	611.264
Debt securities in issue	29.386	15.389	44.775	34.813	14.978	49.791
Other liabilities	293.771	45.532	339.303	198.647	149.050	347.697
Subordinated loan stock	-	133.294	133.294	22.150	106.230	128.380
	11.908.799	18.787.538	30.696.337	12.230.697	22.900.793	35.131.490

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, with the exception of demand deposits in Russia which are placed in the less than one year time band. In the United Kingdom they are classified on the same basis as that used for regulatory purposes. In Romania, Ukraine and Channel Islands they are classified on the basis of contractual maturities.

The historic behavioural date for Cyprus may not adequately reflect the events after the reporting date and the current economic conditions.

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 at all companies of the Group in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group.

The Group Credit Risk Management Unit sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line (consumer, business and corporate) and the quality of the Group's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The credit policies are combined with modern methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate. The portfolio is regularly reviewed by a specialist unit of Group Internal Audit.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Group Credit Risk Management Unit determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in Note 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.

Following the March 2013 events relating to the Group's recapitalisation and restructuring, the Group has applied stricter lending criteria and has significantly reduced the approval limits of the various credit authorities.

44. Risk management – Credit risk (continued)**Maximum exposure to credit risk**

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

2012	Fair value of collateral and credit enhancements held by the Group								
	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Property	Other	Surplus collateral	Net collateral	Net exposure to credit risk
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Balances with central banks (Note 18)	1.008.653	-	-	-	-	-	-	-	1.008.653
Placements with banks	1.768.836	-	-	-	-	-	-	-	1.768.836
Trading investments - debt securities	96	-	-	-	-	-	-	-	96
Debt securities at fair value through profit or loss	13.955	-	-	-	-	-	-	-	13.955
Debt securities classified as available-for-sale, held-to-maturity and loans and receivables	1.783.730	-	-	-	-	-	-	-	1.783.730
Derivative financial instruments	26.794	1.310	-	-	-	-	-	1.310	25.484
Loans and advances to customers	24.374.531	1.820.535	363.821	294.388	24.544.975	3.270.589	(7.741.127)	22.553.181	1.821.350
Debtors (Note 27)	26.400	-	-	-	-	-	-	-	26.400
Reinsurers' share of insurance contract liabilities (Note 27)	65.927	-	-	-	-	-	-	-	65.927
Other assets	94.529	-	-	-	-	-	-	-	94.529
On-balance sheet total	29.163.451	1.821.845	363.821	294.388	24.544.975	3.270.589	(7.741.127)	22.554.491	6.608.960
<i>Contingent liabilities</i>									
Acceptances and endorsements	12.971	27	-	-	5.029	-	(3.037)	2.019	10.952
Guarantees	1.546.572	688.503	3.199	17.546	128.019	12.318	(68.517)	781.068	765.504
<i>Commitments</i>									
Documentary credits	15.879	-	-	-	-	-	-	-	15.879
Undrawn formal standby facilities, credit lines and other commitments to lend	2.723.837	1.026	-	-	31.899	-	(18.475)	14.450	2.709.387
Off-balance sheet total	4.299.259	689.556	3.199	17.546	164.947	12.318	(90.029)	797.537	3.501.722
Total credit risk exposure	33.462.710	2.511.401	367.020	311.934	24.709.922	3.282.907	(7.831.156)	23.352.028	10.110.682

44. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

2011	Fair value of collateral and credit enhancements held by the Group								
	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Property	Other	Surplus collateral	Net collateral	Net exposure to credit risk
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Balances with central banks (Note 18)	1.158.868	-	-	-	-	-	-	-	1.158.868
Placements with banks	2.627.831	-	-	-	-	-	-	-	2.627.831
Reverse repurchase agreements	215.936	-	210.102	-	-	-	-	210.102	5.834
Trading investments - debt securities	1.935	-	-	-	-	-	-	-	1.935
Debt securities at fair value through profit or loss	44.227	-	-	-	-	-	-	-	44.227
Debt securities classified as available-for-sale, held-to-maturity and loans and receivables	3.468.331	-	-	-	-	-	-	-	3.468.331
Derivative financial instruments	193.734	34.002	-	-	-	-	-	34.002	159.732
Loans and advances to customers	27.366.917	1.620.398	440.053	318.713	25.801.121	3.028.313	(8.774.219)	22.434.379	4.932.538
Debtors (Note 27)	27.396	-	-	-	-	-	-	-	27.396
Reinsurers' share of insurance contract liabilities (Note 27)	64.191	-	-	-	-	-	-	-	64.191
Other assets	244.817	-	-	-	-	-	-	-	244.817
On-balance sheet total	35.414.183	1.654.400	650.155	318.713	25.801.121	3.028.313	(8.774.219)	22.678.483	12.735.700
<i>Contingent liabilities</i>									
Acceptances and endorsements	17.649	79	-	-	5.843	-	(3.346)	2.576	15.073
Guarantees	1.823.869	9.467	1.577	1.077	157.729	17.794	(71.170)	116.474	1.707.395
<i>Commitments</i>									
Documentary credits	31.663	-	-	-	-	-	-	-	31.663
Undrawn formal standby facilities, credit lines and other commitments to lend	3.680.981	1.137	-	-	53.746	-	(30.778)	24.105	3.656.876
Off-balance sheet total	5.554.162	10.683	1.577	1.077	217.318	17.794	(105.294)	143.155	5.411.007
Total credit risk exposure	40.968.345	1.665.083	651.732	319.790	26.018.439	3.046.107	(8.879.513)	22.821.638	18.146.707

44. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

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

	2012	2011
On-balance sheet	€000	€000
Cyprus	16.620.681	21.234.335
Greece	8.324.201	10.013.866
Russia	2.008.588	1.999.386
United Kingdom	1.326.359	1.187.719
Romania	560.007	636.592
Ukraine	323.615	342.285
	29.163.451	35.414.183
Off-balance sheet		
Cyprus	2.484.945	3.038.980
Greece	1.567.365	2.208.980
Russia	199.749	232.827
United Kingdom	23.428	35.163
Romania	23.349	38.114
Ukraine	423	98
	4.299.259	5.554.162

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. As at 31 December 2012 the Group did not comply with this requirement.

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 customer groups whose credit facilities amounted to more than 10% of the Group's capital base as at 31 December 2012 was €5,519,650 thousand (2011: €2,573,979 thousand). The increase in 2012 is mainly the result of the decrease in the Group capital base during the year.

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 for the granting of new loans to customers.

The main types of collateral obtained by the Group include real estate mortgages on properties, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In 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 to customers**

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
By economic activity							
Trade	1.621.879	1.337.611	398.902	55.489	27.278	21.462	3.462.621
Manufacturing	518.754	1.197.493	179.067	15.525	28.226	12.956	1.952.021
Hotels and catering	914.486	1.130.222	-	115.327	108.375	8.534	2.276.944
Construction	2.420.212	1.013.129	78.885	56.583	25.504	15.538	3.609.851
Real estate	1.715.884	651.750	183.669	484.948	223.221	91.777	3.351.249
Private individuals	5.323.545	2.611.578	521.945	53.594	42.515	78.660	8.631.837
Professional and other services	1.425.792	503.640	614.806	51.883	81.185	98.938	2.776.244
Other sectors	932.384	992.254	47.250	657	13.850	3.425	1.989.820
	14.872.936	9.437.677	2.024.524	834.006	550.154	331.290	28.050.587
By customer sector							
Corporate	7.082.512	3.470.307	1.199.608	321.927	453.600	242.810	12.770.764
Small and medium-sized enterprises (SMEs)	2.276.659	2.739.550	366.649	472.642	53.292	29.558	5.938.350
Retail							
- housing	3.740.856	1.634.263	58.976	33.584	18.739	20.792	5.507.210
- credit cards	120.658	155.727	102.966	-	-	7	379.358
- consumer and other	1.652.251	1.437.830	296.325	5.853	24.523	38.123	3.454.905
	14.872.936	9.437.677	2.024.524	834.006	550.154	331.290	28.050.587

44. Risk management – Credit risk (continued)**Analysis of loans and advances to customers (continued)**

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2011	€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

In Greece, the 'corporate' sector and 'other sectors' include loans to government-controlled businesses amounting to €252.588 thousand (2011:€306.901 thousand), which according to the European Banking Authority are classified as sovereign debt (Note 48).

44. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

	2012	2011
	€000	€000
Neither past due nor impaired	17.402.119	20.624.394
Past due but not impaired	5.752.371	5.936.534
Impaired	4.896.097	2.311.501
	28.050.587	28.872.429

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis.

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	Grade 1	Grade 2	Grade 3	Total
2012	€000	€000	€000	€000
Cyprus	7.249.180	993.674	1.109.151	9.352.005
Greece	3.534.245	89.121	1.680.195	5.303.561
Russia	1.124.666	389.162	-	1.513.828
United Kingdom	602.863	60.638	25.716	689.217
Romania	418.337	3.523	-	421.860
Ukraine	88.494	5.136	28.018	121.648
	13.017.785	1.541.254	2.843.080	17.402.119

2011				
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

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.

44. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are neither past due nor impaired (continued)

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and advances to customers that are past due but not impaired

	2012	2011
Past due:	€000	€000
- up to 30 days	1.102.785	1.128.952
- 31 to 90 days	1.854.459	2.151.204
- 91 to 180 days	873.830	966.408
- 181 to 365 days	798.306	633.467
- over one year	1.122.991	1.056.503
	5.752.371	5.936.534

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 2012 is €4.601.146 thousand (2011: €4.357.361 thousand).

Impaired loans and advances to customers on an individual basis

	2012		2011	
	Loans and advances	Fair value of collateral	Loans and advances	Fair value of collateral
	€000	€000	€000	€000
Cyprus	2.877.827	1.822.899	1.081.610	666.930
Greece	1.519.603	753.377	908.566	217.366
Russia	279.518	178.137	176.190	70.435
United Kingdom	57.351	30.229	57.478	32.229
Romania	76.480	51.570	35.604	19.801
Ukraine	85.318	61.996	52.053	24.352
	4.896.097	2.898.208	2.311.501	1.031.113

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

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either totally or partially.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

44. Risk management – Credit risk (continued)

Forbearance (continued)

Rescheduled credit facilities are those facilities for which the Group has modified the repayment programme (extension of the grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess. Loans repaid by monthly instalments for which the elimination or suspension of maximum two monthly instalments per year is part of the original loan terms or is part of the documented policies of the Group, and accordingly no specific approval is required for the said elimination or suspension, but is up to the borrower's discretion to exercise this right, are not considered as rescheduled loan facilities.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Rescheduled loans are monitored by the Credit Risk Department. For example, the trends of re-default are closely monitored and analysed in order to identify the drivers for the re-defaults.

Rescheduled loans are assessed as a separate group within each portfolio for the purposes of impairment calculation.

The below tables show the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
1 January	1.843.527	1.099.737	54.266	94.855	66.609	58.875	3.217.869
New loans and advances rescheduled in the year	1.895.156	1.497.983	107.045	1.335	26.174	21.341	3.549.034
Assets no longer rescheduled (including repayments)	(540.332)	(945.395)	(53.312)	(37.989)	(32.611)	(15.523)	(1.625.162)
Applied in writing off rescheduled loans and advances	-	-	-	(5.022)	-	-	(5.022)
Interest accrued on rescheduled loans and advances	197.500	3.912	3.025	2.428	3.360	1.476	211.701
Exchange adjustments	(1.068)	1.751	2.193	2.657	(493)	(1.833)	3.207
31 December	3.394.783	1.657.988	113.217	58.264	63.039	64.336	5.351.627
2011							
1 January	1.418.951	487.558	63.962	89.500	28.067	41.695	2.129.733
New loans and advances rescheduled in the year	1.250.428	949.676	39.663	13.268	46.417	23.193	2.322.645
Assets no longer rescheduled (including repayments)	(937.519)	(345.899)	(50.645)	(11.033)	(9.880)	(7.595)	(1.362.571)
Applied in writing off rescheduled loans and advances	(16)	(58)	-	-	(3)	-	(77)
Interest accrued on rescheduled loans and advances	110.367	6.907	1.286	3.120	2.008	1.458	125.146
Exchange adjustments	1.316	1.553	-	-	-	124	2.993
31 December	1.843.527	1.099.737	54.266	94.855	66.609	58.875	3.217.869

44. Risk management – Credit risk (continued)

Analysis of rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
By economic activity							
Trade	263.551	113.294	17.901	369	210	10.462	405.787
Manufacturing	63.668	89.909	7.219	75	1.488	379	162.738
Hotels and catering	239.384	296.273	-	11.229	971	4.951	552.808
Construction	937.094	205.160	10.282	12.144	3.966	10.560	1.179.206
Real estate	615.446	154.365	-	27.975	18.821	24.394	841.001
Private individuals	839.420	530.828	-	1.117	1.823	8.492	1.381.680
Professional and other services	249.147	128.241	77.815	5.355	26.867	3.868	491.293
Other sectors	187.073	139.918	-	-	8.893	1.230	337.114
	3.394.783	1.657.988	113.217	58.264	63.039	64.336	5.351.627
By customer sector							
Corporate	1.995.147	603.348	97.686	35.832	50.413	55.865	2.838.291
Small and medium-sizes enterprises (SMEs)	589.460	499.786	12.986	22.357	10.803	5.802	1.141.194
Retail							
- housing	635.409	396.576	2.322	71	881	172	1.035.431
- credit cards	327	-	-	-	-	-	327
- consumer and other	174.440	158.278	223	4	942	2.497	336.384
	3.394.783	1.657.988	113.217	58.264	63.039	64.336	5.351.627

44. Risk management – Credit risk (continued)

Analysis of rescheduled loans and advances to customers (continued)

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2011	€000	€000	€000	€000	€000	€000	€000
By economic activity							
Trade	58.418	52.592	3.449	367	182	683	115.691
Manufacturing	49.952	50.930	10.906	112	46	2.351	114.297
Hotels and catering	249.510	194.978	-	14.168	6.496	-	465.152
Construction	675.119	93.190	4.435	16.290	5.420	6.580	801.034
Real estate	247.779	105.181	-	56.892	24.510	35.746	470.108
Private individuals	288.182	424.199	5.955	1.701	1.003	8.432	729.472
Professional and other services	159.417	96.855	29.521	5.206	26.992	3.488	321.479
Other sectors	115.150	81.812	-	119	1.960	1.595	200.636
	1.843.527	1.099.737	54.266	94.855	66.609	58.875	3.217.869
By customer sector							
Corporate	1.177.294	469.875	43.111	71.071	49.782	51.261	1.862.394
Small and medium-sizes enterprises (SMEs)	390.284	195.643	5.737	23.781	15.824	4.894	636.163
Retail							
- housing	213.674	268.240	3.761	-	847	170	486.692
- consumer and other	62.275	165.979	1.657	3	156	2.550	232.620
	1.843.527	1.099.737	54.266	94.855	66.609	58.875	3.217.869

44. Risk management – Credit risk (continued)

Credit quality of rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	2.200.463	871.475	97.446	40.642	25.694	19.390	3.255.110
Past due but not impaired	773.395	672.857	3.939	5.086	34.796	16.268	1.506.341
Impaired	420.925	113.656	11.832	12.536	2.549	28.678	590.176
	3.394.783	1.657.988	113.217	58.264	63.039	64.336	5.351.627
2011							
Neither past due nor impaired	1.418.846	581.022	29.409	59.027	59.144	10.734	2.158.182
Past due but not impaired	385.560	507.365	20.001	13.889	5.654	17.946	950.415
Impaired	39.121	11.350	4.856	21.939	1.811	30.195	109.272
	1.843.527	1.099.737	54.266	94.855	66.609	58.875	3.217.869

44. Risk management – Credit risk (continued)

Fair value of collateral held for rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	1.837.569	619.427	40.263	40.504	9.183	19.389	2.566.335
Past due but not impaired	642.094	552.064	3.580	5.086	8.047	14.675	1.225.546
Impaired	303.889	78.111	8.162	9.365	2.282	18.774	420.583
	2.783.552	1.249.602	52.005	54.955	19.512	52.838	4.212.464
2011							
Neither past due nor impaired	1.236.424	435.989	23.983	60.850	12.749	33.749	1.803.744
Past due but not impaired	333.492	408.378	19.603	12.294	4.810	68.271	846.848
Impaired	30.495	7.633	3.515	11.955	1.496	9.097	64.191
	1.600.411	852.000	47.101	85.099	19.055	111.117	2.714.783

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 rescheduled loans and advances to customers

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
2012	€000	€000	€000	€000	€000	€000	€000
Individual impairment	280.682	57.344	3.324	3.170	541	11.097	356.158
Collective impairment	98.965	-	3.457	50	277	-	102.749
	379.647	57.344	6.781	3.220	818	11.097	458.907
2011							
Individual impairment	18.595	7.078	697	3.081	649	6.133	36.233
Collective impairment	-	-	797	62	251	-	1.110
	18.595	7.078	1.494	3.143	900	6.133	37.343

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
2012	€000	€000	€000	€000	€000
1 January	649.025	632.012	148.430	76.045	1.505.512
Exchange adjustments	(988)	-	4.837	2.669	6.518
Applied in writing off impaired loans and advances	(9.276)	(41.087)	(1.996)	(9.569)	(61.928)
Interest accrued on impaired loans and advances	(47.867)	(29.588)	(1.687)	(3.402)	(82.544)
Collection of loans and advances previously written off	2.338	-	-	3	2.341
Charge for the year	1.186.111	966.887	88.888	64.271	2.306.157
31 December	1.779.343	1.528.224	238.472	130.017	3.676.056
Individual impairment	1.425.220	1.045.187	130.113	115.371	2.715.891
Collective impairment	354.123	483.037	108.359	14.646	960.165
2011					
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

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. For example, it has been assumed that the market value of residential property in Cyprus is expected to decline by a further 12% in the next two years. In the case of commercial property (offices, warehouses, factories, hotels) and stock of land for real estate development in Cyprus, the decline in market value is expected to be about 26%.

The timing of collections from collateral has been estimated to be 3 years for loans that have been managed by the Recoveries Division for at least 2 years and 5 years for all other loans.

44. Risk management – Credit risk (continued)

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

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

Indicatively, if the actual recoverable amount of impaired loans from collateral in Cyprus portfolio is lower than the amount estimated as at 31 December 2012 by 5% and 10%, then provisions for impairment of loans and advances would increase by €112.134 thousand and €231.335 thousand respectively. The corresponding drop in Greek portfolio would increase the provisions for impairment of loans and advances by €96.750 thousand and €180.412 thousand respectively. Alternatively, if the collateral value in Cyprus increased by 5% and 10% then the provisions for impairment of loans and advances would decrease by €120.485 thousand and €240.384 thousand respectively.

Collateral and other credit enhancements obtained

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

	2012	2011
	€000	€000
Residential property	6.712	7.813
Commercial and other property	156.936	63.989
	163.648	71.802

The total carrying value of the assets obtained by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2012 amounted to €280.065 thousand (2011: €165.265 thousand).

The majority of the repossessed assets are subsequently disposed of and the net proceeds are used to recover the balance due from the customer. Any excess proceeds are either returned to the customer or are credited to the consolidated income statement, depending on the underlying agreement with the customers.

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:

	2012	2011
	€000	€000
Aaa – Aa3	1.102.312	1.425.410
A1 – A3	786.184	1.327.462
Baa1 – Baa3	190.429	589.534
Ba1 – Ba3	10.495	62.815
B1 – B3	373.186	39.905
Caa – C	84.882	212.329
Unrated	179.054	81.911
Other receivables from banks	50.947	47.333
	2.777.489	3.786.699

Band B1-B3 above includes an amount of €363.170 thousand which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus and band Caa-C includes respective amount of €82.459 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:

	2012	2011
	€000	€000
Aaa – Aa3	893.381	1.346.439
A1 – A3	26.639	347.393
Baa1 – Baa3	58.385	599.941
Ba1 – Ba3	51.064	368.581
B1 – B3	764.395	45.591
Caa – C	1.133	756.030
Unrated	2.784	50.518
	1.797.781	3.514.493
<i>Issued by:</i>		
- Cyprus government	764.157	530.927
- other governments	704.290	1.728.736
- banks and other corporations	328.887	1.254.247
- local authorities	447	583
	1.797.781	3.514.493
<i>Classified as:</i>		
- trading investments	96	1.935
- investments at fair value through profit or loss	13.955	44.227
- available-for-sale investments	1.032.302	1.207.548
- held-to-maturity investments	-	1.204.104
- investments classified as loans and receivables	751.428	1.056.679
	1.797.781	3.514.493

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 and as a percentage of net interest income and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euro	US Dollars	British Pounds	Other currencies	Total
<i>Change in interest rates</i>	€000	€000	€000	€000	€000
2012					
+1% for all currencies	(11.197)	23.276	4.876	(833)	27.699
-0,25% for US Dollars, Japanese Yen, EUR, -0,1% for Swiss Franc and -0,5% for all other currencies	7.640	(2.905)	(1.281)	280	7.576
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)

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
2012		
+1% for all currencies	15.024	(3.455)
-0,25% for US Dollars, Japanese Yen and Euro, -0,1% for Swiss Franc and -0,5% for all other currencies	(3.802)	878
2011		
+1% for all currencies	102.750	(2.112)
-0,25% for US Dollars, Japanese Yen and Swiss Franc and -0,5% for all other currencies	(50.938)	1.088

Currency risk

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

In order to manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for the total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

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
2012	%	€000
US Dollar	+8	1.787
Russian Rouble	+8	(3.603)
Romanian Lei	+8	(2.126)
Ukrainian Hryvnia	+5	2.671
Swiss Franc	+8	2.616
British Pounds	+8	713
Australian Dollar and Japanese Yen	+10	375
Other currencies	+8	2.493

US Dollar	-8	(1.522)
Russian Rouble	-8	3.068
Romanian Lei	-8	1.811
Ukrainian Hryvnia	-20	(8.459)
Swiss Franc	-8	(2.228)
British Pounds	-8	(607)
Australian Dollar and Japanese Yen	-10	(307)
Other currencies	-8	(2.121)

2011		
US Dollar	+8	2.108
Russian Rouble	+8	511
Romanian Lei	+8	377
Ukrainian Hryvnia	+5	187
Swiss Franc	+8	3.033
British Pounds	+8	(136)
Australian Dollar and Japanese Yen	+10	1.067
Other currencies	+8	371

45. Risk management – Market risk (continued)

Currency risk (continued)

	Change in exchange rate	Impact on profit after tax and equity
2011	%	€000
US Dollar	-8	(1.796)
Russian Rouble	-8	(435)
Romanian Lei	-8	(321)
Ukrainian Hryvnia	-20	(594)
Swiss Franc	-8	(2.584)
British Pounds	-8	116
Australian Dollar and Japanese Yen	-10	(873)
Other currencies	-8	(371)

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, such as maximum amount invested in a specific issuer, specific industry, etc.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the 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
2012	%	€000	€000
Cyprus Stock Exchange	+50	2.671	3.931
Athens Exchange	+30	-	301
Moscow Interbank Currency Exchange (MICEX)	+20	-	140
Bucharest Stock Exchange	+20	-	10.885
Other Stock Exchanges	+15	421	-
Cyprus Stock Exchange	-50	(6.171)	(430)
Athens Exchange	-30	-	(301)
Moscow Interbank Currency Exchange (MICEX)	-20	-	(140)
Bucharest Stock Exchange	-20	(10.885)	-
Other Stock Exchanges	-15	(421)	-

45. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

	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)	-

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 2012 was Baa1 (2011: Ba2).

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
2012		
+7%	885	71.501
-7%	(885)	(71.501)
2011		
+9%	3.818	106.980
-9%	(3.818)	(106.980)

46. Risk management – Liquidity risk and funding

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

46. Risk management – Liquidity risk and funding (continued)

To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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. In order to finance assets that cannot be readily converted into cash, such as loans, the Group relies on customer deposits.

Management structure

Local Treasury centres at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding the liquidity availability. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by Group Market Risk Management (GMRM). GMRM is an independent department, reporting directly to the General Manager Risk Management and 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. GMRM reports to ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. It also provides the results of various stress tests to the ALCO.

The ALCO of each unit is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies. The ALCO is responsible for setting the policies for the effective managing and monitoring of the liquidity across the Group. It also monitors the liquidity position of its major banking units (maturity gap between assets and liabilities and funding requirement) using a number of assumptions, including conditions that may have an adverse impact on the Group's liquidity, at least monthly.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy statement and reviews at least quarterly the various regulatory and internal liquidity ratios, of each banking unit and of the Group.

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Company's activities. On a daily basis, GMRM prepares the report of highly liquid assets showing the change in the position compared to the previous day, and submits it to the members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

The Group Market Risk Management prepares a weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Cyprus and then to the European Banking Authority (EBA).

Monthly

GMRM prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO.

Quarterly

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

46. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

Periodic

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

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 a meeting of the Funding Crisis Committee. The plan sets out the members of this Committee and a series of possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the Central Bank of Cyprus.

Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by GMRM and monitored by ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months.

The Group's liquidity ratio was as follows:

	2012	2011
	%	%
31 December	8,79	21,51
Average ratio	14,99	24,69
Highest ratio	23,93	28,82
Lowest ratio	7,08	18,91

During 2012, the liquidity ratio deteriorated due to the accelerating economic crisis in Cyprus, Greece and other Eurozone countries, which resulted in the decrease in the value of bonds and the outflow of customer deposits.

The ratio of loans and advances to customer deposits is presented below:

	2012	2011
	%	%
31 December	85,70	92,29
Average ratio	91,65	87,69
Highest quarter ratio	93,85	92,29
Lowest quarter ratio	85,70	84,14

46. Risk management – Liquidity risk and funding (continued)

Sources of funding

Customer deposits were the main funding source of the Group as at 31 December 2012 and 2011. 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 large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

As at the end of 2012, other sources of funding included repurchase agreements with other banks and long term debt.

As at 31 December 2012, the Group had no funding from the Eurosystem. As a result of further deterioration in the economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group obtained Eurosystem funding in March 2013 (prior to the Cyprus – Eurogroup agreement) which on 15 March 2013 amounted to approximately €1 billion.

The transfer of certain operations of Laiki Bank to the Group as a result of the agreement between Cyprus and the Eurogroup of 25 March 2013 (refer to Note 53), resulted in an amount of approximately €9,1 billion Eurosystem funding as at the date of acquisition to be transferred to the Group. The Group currently has limited access to interbank and wholesale markets which combined with a reduction in deposits in Cyprus has resulted in increased reliance on Eurosystem funding.

The carrying value of Group's encumbered assets as at 31 December 2012 and 2011 respectively are summarised below:

	31 December 2012	31 December 2011
Asset type pledged as collateral:	€000	€000
- cash and other liquid assets	707.749	691.131
- other investment securities	853.617	938.070
- loans and advances (Note 22)	1.830.000	3.818.000
Total encumbered assets	3.391.366	5.447.201

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under CSA and Repurchase agreements, and (ii) for trade finance transactions and guarantees issued.

Securities are mainly used as collateral for repurchase transactions as well as for covered bonds while loans are mainly used as collateral for bonds and notes issued or borrowed (e.g. covered bonds, securitisation issues, the Special government bond issued by the Republic of Cyprus and lent to the Company).

Cash and cash equivalents includes independent amounts of €388.817 thousand (2011: €463.710 thousand) which are not immediately available for use by the Group but are released once the transactions are terminated.

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

46. Risk management – Liquidity risk and funding (continued)

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

Financial assets

The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and accounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Placements with banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturities).

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 deducted as haircut 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. Fixed deposits are classified in time bands, based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits. It should be noted that following the March 2013 events, various restrictions have been imposed on depositors through the various decrees (Note 53). Consequently, the ability of depositors to withdraw deposits, even on the maturity date, is restricted by the provisions of the decrees.

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

Derivative financial instruments

Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivables and payables amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities

The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

46. Risk management – Liquidity risk and funding (continued)

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

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2012	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances at central banks	1.074.653	111.726	66.237	19.808	-	1.272.424
Placements with banks	1.284.825	13.790	248.249	134.617	87.355	1.768.836
Investments at fair value through profit or loss	8.327	128	191	13.172	-	21.818
Loans and advances to customers	6.352.506	997.135	3.259.916	6.399.813	7.365.161	24.374.531
Fair value of net settled derivative assets	14.064	96	3.647	5.416	3.571	26.794
Non trading investments	306.257	99.876	24.547	952.857	464.725	1.848.262
Other assets	38.095	7.666	2.410	3.371	1.733	53.275
Total undiscounted financial assets	9.078.727	1.230.417	3.605.197	7.529.054	7.922.545	29.365.940
Financial liabilities						
Obligations to central banks and amounts due to banks	253.679	33.438	5.778	79.436	-	372.331
Repurchase agreements	-	-	32.006	355.009	266.964	653.979
Customer deposits	15.854.142	6.714.733	5.391.883	797.595	53.940	28.812.293
Debt securities in issue	27.612	566	1.208	15.389	-	44.775
Fair value of net settled derivative liabilities	-	2	4.523	41.853	73.138	119.516
Subordinated loan stock	-	-	2.130	4.792	148.347	155.269
Other liabilities	179.422	7.971	7.854	29.555	778	225.580
Total undiscounted financial liabilities	16.314.855	6.756.710	5.445.382	1.323.629	543.167	30.383.743

46. Risk management – Liquidity risk and funding (continued)

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

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
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 and funding (continued)

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

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2012	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	2.749.877	147.622	85.980	6.271	-	2.989.750
Contractual amounts payable	(2.735.903)	(146.359)	(85.392)	(6.100)	-	(2.973.754)
	13.974	1.263	588	171	-	15.996
<i>Financial liabilities</i>						
Contractual amounts receivable	3.105.174	72.218	28.227	213.981	-	3.419.600
Contractual amounts payable	(3.139.982)	(75.815)	(28.651)	(230.657)	-	(3.475.105)
	(34.808)	(3.597)	(424)	(16.676)	-	(55.505)
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	3.180	4.051	5.695	44	-	12.970
Guarantees	56.872	44.625	309.736	339.742	795.597	1.546.572
<i>Commitments</i>						
Documentary credits	-	2.752	5.467	7.437	223	15.879
Undrawn formal standby facilities, credit lines and other commitments to lend	1.699.682	820.107	46.475	58.279	99.295	2.723.838
	1.759.734	871.535	367.373	405.502	895.115	4.299.259

46. Risk management – Liquidity risk and funding (continued)

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

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
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

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 is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their financial strength and credit rating.

Life insurance contracts

The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

	2012	2011
Change in embedded value	€000	€000
Change in interest rates +0,25%	565	633
Change in expenses +10%	(3.683)	(4.870)
Change in lapsation rates +10%	(610)	(777)
Change in mortality rates+10%	(8.505)	(10.710)

47. Risk management – Other risks (continued)

Insurance risk (continued)

Life insurance contracts (continued)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non-economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non-economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with-profit business versus non-profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

General insurance contracts

The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The major risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative development in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

Operational risk

Operational risk 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 the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level so as to facilitate decision making for risk control activities, and (iii) the 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)

For operational risk management, the focus during 2012 remained on the reinforcement of a coherent and sound operational risk framework throughout the Group with the objective of minimising operational losses. The unprecedented deterioration of the economic conditions, the political developments and the regulatory measures which led to the events described in Note 53, had a material impact on the Group's business and created many challenges for operational risk management.

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 2012, 495 (2011: 412) 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 of its employees on operational risk issues through ongoing staff training.

The Group also has insurance policies to cover unexpected operational losses through a number of insurers and reinsurers.

Business Continuity Plans and Disaster Recovery Plans 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 supervisory 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 overseas subsidiaries and branches of the Group are similarly supervised by the corresponding regulatory authorities in the countries where they operate.

The continuing and increasing regulatory obligations imposed on the Group may have both positive as well as adverse impact on its operations. Basel III is in the process of being adopted by the EU through the revised Directive for Capital Requirements (CRD IV). The revised Directive is scheduled to come into effect on 1 January 2014 and provides for a phasing period, during which the new rules will be gradually applied.

47. Risk management – Other risks (continued)

Regulatory risk (continued)

The operations of Cyprus insurance companies are supervised by the Insurance Companies Control Service (Ministry of Finance). Solvency II, the updated set of regulatory requirements for insurance companies that operate in the EU, is expected to come into effect on 1 January 2016 and establishes a revised set of market consistent EU-wide capital requirements and risk management standards. Solvency II requirements are expected to have an impact on the capital requirements of the Group's insurance undertakings and their implementation involves more complex calculations of factor-based formulas, stress testing and financial models.

The investment banking and the mutual fund management companies of the Group are supervised by the relevant capital market commissions, in the countries in which they operate.

Intensity of competition

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

The Group's competitive position in Cyprus was drastically altered by the events described in Note 53. Following the acquisition of certain operations of Cyprus Popular Bank Public Company Ltd by the Group, the Group's market share in loans and deposits in Cyprus was significantly boosted, even though depositor psychology led to substantial deposit outflows from the Cyprus banking system. In this sense, the Bank of Cyprus was rendered the biggest and most systemically important local banking organisation in Cyprus.

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 and government actions in Cyprus, Greece (Note 1), the European Union and other countries may adversely affect the operations of the Group, its strategy and prospects. As described in Note 53, during March 2013 the Republic of Cyprus and the Eurogroup reached an agreement on the package of measures intended to restore the viability of the financial sector and sound public finance over the coming years which had a material impact on the Group's financial standing and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in the Eurozone which might lead to a Euro exit of a Eurozone member state, the ongoing unresolved political issue of the Turkish occupied areas, and political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas.

Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

48. Sovereign exposure

The Group's sovereign exposure and non-sovereign exposure in countries which have entered or have applied to the European Support Mechanism or whose Moody's credit rating is below Aa1 and total Group exposure exceeds €100 million is presented below. These countries are: Cyprus, Greece, Ireland, Italy, Russia, Romania, Ukraine, Portugal and Spain. The Group had no exposure to Portugal or Spain at 31 December 2012.

At 31 December 2011 the sovereign exposure to Greece was considered to be impaired. The Group had no exposure to Greek government bonds at 31 December 2012. The sovereign exposure to the other countries, were not considered to be impaired at 31 December 2011 and 2012, despite the financial difficulties of these countries, as the situation is not severe enough to impact the future cash flows of these countries' sovereign securities.

Credit risk

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

48. Sovereign exposure (continued)

Credit risk (continued)

The Group's exposure to sovereign debt securities and other assets in the countries above is analysed below:

	Cyprus	Greece	Ireland	Italy	Russia	Romania	Ukraine
2012	€000	€000	€000	€000	€000	€000	€000
Deposits with central banks	363.170	82.459	-	-	122.669	23.855	6.595
Placements with banks	60.500	5.538	-	7.071	144.825	35.039	3.450
Investments in sovereign debt securities							
- available-for-sale investments	1.134	-	47.602	51.536	2.197	6.603	-
- loans and receivables	749.981	-	-	-	-	-	-
- investments held-to-maturity	-	-	-	-	-	-	-
- fair value through profit or loss	13.042	-	-	-	-	-	-
Investments in debt securities of banks and other corporations							
- available-for-sale investments	985	-	-	-	-	-	3
- loans and receivables	1.447	-	-	-	-	-	-
- fair value through profit or loss	96	-	-	-	-	-	464
Loans and advances to customers (before provisions)	14.872.936	9.437.677	-	-	2.024.524	550.154	331.290
Derivative financial assets	259	-	-	-	-	-	-
Total on balance sheet	16.063.550	9.525.674	47.602	58.607	2.294.215	615.651	341.802
Contingent liabilities	779.089	757.992	-	-	15.685	2.033	33
Commitments	1.705.856	809.373	-	-	184.064	21.316	390
Total off balance sheet	2.484.945	1.567.365	-	-	199.749	23.349	423
Total exposure to credit risk	18.548.495	11.093.039	47.602	58.607	2.493.964	639.000	342.225

48. Sovereign exposure (continued)

Credit risk (continued)

	Cyprus	Greece	Ireland	Italy	Russia	Romania	Ukraine
2011	€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 of 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 (before provisions)	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

On 31 December 2012 the revaluation reserve of available-for-sale investments includes losses amounting to €10.822 thousand (2011: €52.731 thousand) relating to the above sovereign debt securities and losses amounting to €359 thousand (2011: €22.366 thousand) relating to debt securities of banks and other corporations.

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

In Cyprus, loans and advances to customers include loans to local authorities, semi-governmental organisations and government-controlled businesses of €118.000 thousand (2011: €126.070 thousand). In addition, contingent liabilities and commitments include an amount of €25.502 thousand for these entities (2011: €23.711 thousand). In Greece, loans and advances to customers include loans of €118.025 thousand (2011: €110.849 thousand) which are secured by Greek Government guarantees.

48. Sovereign exposure (continued)

Liquidity risk

The table below presents the Group's sovereign debt securities exposure to countries which have entered or have applied to the European Support Mechanism (Greece, Ireland, Portugal, Spain and Cyprus), based on the remaining contractual maturity of the financial assets.

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
2012						
Cyprus						
- available-for-sale	1.009	-	-	125	-	1.134
- loans and receivables	-	99.377	12.607	510.974	127.023	749.981
- at fair value through profit or loss	-	-	-	13.042	-	13.042
	1.009	99.377	12.607	524.141	127.023	764.157

Ireland						
-available-for-sale	-	-	-	-	47.602	47.602

2011						
Greece						
Greek Government Bonds						
- 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
	-	-	7.389	224.208	384.545	616.142

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

For the Greek Government Bonds (GGBs), the analysis is presented without taking into account the restructuring and exchange plan of Greek sovereign debt (Note 15).

48. Sovereign exposure (continued)

Liquidity risk (continued)

As at 31 December 2012, no GGBs were held by any insurance subsidiary of the Group as assets attributable to policyholders. As at 31 December 2011, GGBs amounting to €582 thousand were held by an insurance subsidiary of the Group as assets attributable to policyholders. These GGBs are not included in the category fair value through profit or loss in the table above.

Greek, Spanish and Italian Government bonds have been valued under Level 1 and Cyprus Government Bonds under Level 2.

In June 2013, Cyprus Government Bonds with notional amount of €164 million and maturities between one and five years, were exchanged with Cyprus Government Bonds maturing over five years.

As at 31 December 2012, the Group had no sovereign exposure to Spain, Portugal and Greece.

As at 31 December 2011, the Group had 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 increases 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 2012 were 10,2% and 12,2%, respectively.

The MoU, signed between the Cyprus government and the Troika in 2013 provides that the Central Bank of Cyprus will increase the minimum core tier 1 capital ratio to 9% by 31 December 2013.

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:

	2012	2011
<i>Regulatory capital</i>	€000	€000
Core original own funds (core tier 1)	(407.284)	891.910
Original own funds (tier 1)	119.695	1.848.688
Additional own funds (tier 2)	248.892	239.267
Carrying value of insurance companies	(171.680)	(162.846)
Total regulatory capital	196.907	1.925.109
Risk weighted assets – credit risk	19.318.362	22.391.062
Risk weighted assets – market risk	3.014	3.463
Risk weighted assets – operational risk	2.258.476	2.395.363
Total risk weighted assets	21.579.852	24.789.888
	%	%
Core tier 1 ratio	(1,9)	3,6
Tier 1 ratio	0,6	7,5
Tier 2 ratio	1,2	1,0
Total capital ratio	0,9	7,8
Minimum ratios per the Central Bank of Cyprus Directive		
Core tier 1 ratio	8,7	8,0
Tier 1 ratio	10,2	9,5
Total capital ratio	12,2	11,5

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

The total regulatory capital during the year ended 31 December 2012 has been positively affected by the issue of shares by the Company (Note 34) and negatively affected by the losses for the year.

The Group participated in a Capital Exercise conducted in 2011 by the European Banking Authority (EBA) in co-operation with the Central Bank of Cyprus. The Capital Exercise which covered 71 European Banks aimed 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 adverse market environment. This buffer was 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 determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which should have been covered by 30 June 2012.

In January 2012 the Group had submitted a plan to the Central Bank of Cyprus which set out the various measures which the Group would take so as to achieve the required capital enhancement target as determined by the EBA.

49. Capital management (continued)

In this context, the Group has implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million and conversion of CECS into shares of €432 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital contribution of €80 million, and (iii) management of its risk weighted assets.

In addition, the Group has proceeded with the amendment of certain issue terms of the CECS (Note 35) to satisfy the conditions of the EBA for inclusion of the remaining amount of the CECS of €429 million as eligible for reducing the capital shortfall.

Despite the implementation of the above measures, the capital shortfall increased further due to additional provisions relating to the loan portfolio in Cyprus and Greece as well as the further impairment of GGBs and bonds issued by financial institutions in Cyprus and Greece in the period October 2011 to June 2012. The Group announced on 27 June 2012 that it was not able to fully cover the capital shortfall and it had therefore applied to the Republic of Cyprus for capital support.

In June 2012 the Republic of Cyprus applied for the provision of financial assistance from other member states of the European Union and the International Monetary Fund.

The negotiations for a macroeconomic adjustments programme between the Cyprus government and Troika (European Commission, European Central Bank and International Monetary Fund) were ongoing at the end of 2012. On 25 March 2013, the Cypriot government and the Eurogroup reached an agreement for a financial assistance facility of up to €10 billion, which is conditional upon the implementation of an extensive programme of policy reforms.

The Eurogroup agreement provided that the Bank of Cyprus Group would be recapitalised through a bail-in of its unsecured depositors and that none of the programme's funds would be used for the recapitalisation. The agreement also provided for the resolution of Laiki Bank and the transfer of part of its operations to Bank of Cyprus.

The Company was under resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with the decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority, in accordance with the Resolution of Credit Institutions and Other Institutions Law of 2013.

The recapitalisation was implemented via the bail-in of unsecured depositors, through the conversion of 47,5% of unsecured deposits into equity. In addition, the holders of ordinary shares and debt securities issued by the Company as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses. According to the Resolution Authority, the Group has been capitalised to a level which can sustain possible future losses on its loan portfolio.

50. Related party transactions

	2012	2011	2012	2011
	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	9.893	224.042
- less than 1% of the Group's net assets per director	16	17	23.356	58.680
	17	18	33.249	282.722
Loans and advances to other key management personnel and connected persons			832	1.690
Total loans and advances as at 31 December			34.081	284.412
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			5.028	7.970
- connected persons			29.053	276.442
			34.081	284.412
Interest income for the year			9.511	14.186
Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			19.260	64.866
- connected persons			21.948	47.683
			41.208	112.549
Interest expense on deposits for the year			3.452	3.847
Debt securities in issue, subordinated loan stock and CECS:				
- members of the Board of Directors and other key management personnel			56	23.246
- connected persons			2	3.045
			58	26.291
Interest expense on debt securities in issue, subordinated loan stock and CECS			-	1.469

The above table does not include year end balances for members of the Board of Directors and their connected persons who resigned during the year.

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 €16.124 thousand (2011: €117.542 thousand). Of these, €13.813 thousand (2011: €95.170 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 €77 thousand (2011: €308 thousand). The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 December 2012 amounted to €4.191 thousand (2011: €34.830 thousand).

During 2012 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €205 thousand (2011: €235 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 €274 thousand (2011: €271 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous holds an indirect interest; purchases of equipment amounting to €513 thousand (2011: €458 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €144 thousand (2011: €128 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis; acquisition of immovable property amounting to €185 thousand (2011: nil) by a company that is being influenced by connected persons of Mr Vasilis G. Rologis and rent amounting to €310 thousand (2011: nil) paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the Director Mr Elias Neocleous is a partner, from the date of his appointment on 9 February 2012 to 31 December 2012 amounted to €324 thousand.

There are no material related party transactions and balances which took place after the year end of both for the members of the interim Board of Directors and the members who were elected at the Annual General Meeting.

Connected persons include spouses, minor children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of 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.

50. Related party transactions (continued)

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

	2012	2011
	€000	€000
Director emoluments		
<i>Executives</i>		
Salaries and other short term benefits	1.191	1.617
Bonus waived	-	(328)
Employer's contributions	77	55
Retirement benefit plan costs	134	207
	1.402	1.551
Share options	-	359
<i>Non-executives</i>		
Fees	578	800
Emoluments of a non-executive director who is also an employee of the Company	151	143
Total directors' emoluments	2.131	2.853
Other key management personnel emoluments		
Salaries and other short term benefits	584	744
Bonus waived	-	(175)
Employer's contributions	44	43
Retirement benefit plan costs	65	83
Share options	-	134
Total other key management personnel emoluments	693	829
Total	2.824	3.682

Fees and emoluments of executive directors

During 2012 the number of executive directors was three until July 2012 and two thereafter.

The salaries and other short term benefits of executive directors amounting to €1.191 thousand (2011: €1.617 thousand) relate to Mr Andreas Eliades €315 thousand (2011: €706 thousand), Mr Yiannis Pehlivanidis €488 thousand (2011: €504 thousand) and Mr Yiannis Kypri €388 thousand (2011: €407 thousand). On 30 May 2012, the Board of Directors accepted the proposal of Messrs Andreas Eliades, Yiannis Pehlivanidis and Yiannis Kypri to reduce their salaries by 20%, 15% and 10% respectively. Mr. Eliades resigned on 10 July 2012.

According to their contract of employment, the executive directors in office during 2012 were 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 was 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.

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 recognised in the financial statements in relation to the 2010 bonus was reversed in 2011 and amounted to €209 thousand for Mr Andreas Eliades and €119 thousand for Mr Yiannis Kypri.

For the years 2011 and 2012 no bonus has been recommended for the Executive Directors.

The retirement benefit plan costs amounting to €134 thousand (2011: €207 thousand) relate to Mr Andreas Eliades €51 thousand (2011: €134 thousand), Mr Yiannis Pehlivanidis €30 thousand (2011: €nil) and Mr Yiannis Kypri €53 thousand (2011: €73 thousand).

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)

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 participated in the new defined contribution plan for the Group's employees in Cyprus. Mr Yiannis Pehlivanidis participated in the retirement benefit plans for the Group's employees in Greece, which were the defined contribution plan and the defined benefit plan for retirement benefits which were required by the law. The total retirement benefits of the executive directors increased during 2011 by €599 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 in 2011 to €269 thousand and €90 thousand respectively. There was no cost charged to the income statement relating to these share options during 2012.

Fees of non-executive directors

	2012	2011
	€000	€000
Andreas Artemis	75	82
Evdokimos Xenophontos	39	38
Theodoros Aristodemou	82	165
Vassilis G. Rologis	32	49
Costas Z. Severis	40	52
Chistakis G. Christofides	20	41
Anna Diogenous	31	48
George M. Georgiades	42	60
Andreas J. Jacovides	20	49
Christos Mouskis	39	53
Manthos Mavrommatis	29	46
Costas Hadjipapas	26	34
Nikolas P. Tsakos	23	30
Stavros J. Constantinides	32	37
Irene Karamanou	25	16
Elias Neocleous	15	n/a
Symeon Matsis	8	n/a
Takis Arapoglou	-	n/a
Takis Taoushanis	-	n/a
Panicos Pourous	-	n/a
	578	800

Mr Costas Hadjipapas, a non-executive director who is also an employee of the company, had emoluments during 2012 amounting to €123 thousand (2011: €111 thousand), including bonus waived of €8 thousand. Employer's contributions amounted to €11 thousand (2011: €10 thousand) and the retirement benefit plan cost amounted to €17 thousand (2011: €20 thousand). The emoluments for 2011 includes €2 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. The shareholders' Annual General Meeting held on 19 June 2012 approved the non-executive directors' proposal to further reduce their salaries. The reduction amounted to 50% for the Chairman and 25% for the other non-executive directors.

50. Related party transactions (continued)

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

Emoluments of other key management personnel

During 2012 the number of key management personnel was three until January, and two thereafter. 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's other key management personnel in view of the prevailing economic conditions, waived their entire bonus for 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 and 2012 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 during 2011 to €134 thousand.

51. Group companies

The main companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking	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	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 Zois (branch of EuroLife Ltd)	Greece	Life insurance	100
Kyprou Asfalistikí (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100
Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	100
Misthosis Funding Plc	United Kingdom	Special purpose entity	-
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	-

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, at 31 December 2012 the Company had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Limestone Properties Ltd, Samarinda Navigation Co. Ltd, Turnmill Properties Ltd, Fairford Properties Ltd, Inverness Properties Ltd, Dinmont Properties Ltd, Lendrick Properties Ltd, Sunnybridge Properties Ltd, Caraway Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Ikosia Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threffield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Drysdale Properties Ltd, Snowfield Properties Ltd, Medaland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd and Elias Houry Estates 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, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Gosman Properties Ltd and Salecom Ltd.

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

51. Group companies (continued)

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

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

Dissolution and liquidation of subsidiaries

In 2012 the subsidiaries Katoikia I Holdings Ltd, Katoikia I Mortgage Finance Plc and Kyprou Insurance Services Ltd were dissolved. The net profit from the process of dissolution amounted to €45 thousand.

On 20 December 2012 the relevant procedures started for the liquidation of S.C. ONT Carpati S.A. and the dissolution was completed in 2013.

Transfer of banking business of subsidiary

On 25 June 2012 the banking business carried out by the UK branch (Bank of Cyprus UK), was transferred to the banking subsidiary Bank of Cyprus UK Ltd, registered in the UK.

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 in the future 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
	€000
Net interest income	23.240
Fee and commission income	2.788
Other income	1.132
	27.160
Staff costs	(8.443)
Other operating expenses	(8.957)
Profit before provisions	9.760
Provisions for impairment of loans and advances	(1.040)
Profit before tax	8.720
Tax	(2.795)
Profit after tax	5.925

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
	€000
Cash and balances with central banks	5.848
Placements with banks	291.150
Loans and advances to customers	1.054.421
Other assets	7.958
Total assets	1.359.377
Obligations to central banks and amounts due to banks	185.514
Customer deposits	1.072.762
Other liabilities	6.402
Total liabilities	1.264.678
Share capital	82.398
Revaluation and other reserves	(739)
Retained earnings	13.040
Total equity	94.699
Total liabilities and equity	1.359.377

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

Change in the percentage holding of subsidiary

During July 2011, the Company sold 20% of its subsidiary Leasing Company Uniastrium 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%.

Changes in the Group structure after the reporting date are disclosed in Note 53.

52. Investments in associates and joint ventures

Investments in associates

Share of profit/(loss) of associates

	2012	2011
	€000	€000
Interfund Investments Plc	32	(1.441)
Rosequeens Properties SRL	190	-
	222	(1.441)

Carrying value of the investment

	2012	2011
	€000	€000
Interfund Investments Plc	2.917	2.820
Rosequeens Properties SRL	190	-
	3.107	2.820

Interfund Investments Plc

The Group has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the Cyprus Stock Exchange.

The Group's interest in the main financial highlights of the company is presented as follows:

	2012	2011
	€000	€000
Total assets	2.992	2.892
Liabilities	(75)	(72)
Net assets	2.917	2.820
Carrying amount of the investment	2.917	2.820
Market value of the investment on the Cyprus Stock Exchange	640	1.281

<i>Share of associate's income and profit</i>		
Operating profit/(loss)	32	(1.441)
Profit/(loss) after tax	32	(1.441)

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

52. Investments in associates and joint ventures (continued)

Investments in associates (continued)

Grand Hotel Enterprises Society Ltd

As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010, the Group acquired 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 2012 and 2011 had nil accounting value as the net assets of the associate had a negative balance.

The Group has granted a loan to GHES of €100.828 thousand (2011: €101.935 thousand) which is secured by a mortgage on the hotel owned by GHES. In addition, GHES owes an amount of €7.814 thousand (2011: €18.851 thousand) to the Group. The Group's income statement for 2012 includes interest income of €5.706 thousand (2011: €5.508 thousand) from GHES.

Rosequeens Properties SRL

The Group owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of due balances amounting to approximately €21 million. The carrying value of the investment amounts to €190 thousand.

Investments in joint ventures

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:

	2012	2011
	€000	€000
Gross income	9.083	8.695
Profit before tax	934	1.066
Net assets	14.644	15.164
Total assets	21.710	22.231

In the context of the acquisition of certain operations of Cyprus Popular Bank Public Co. Ltd (Note 53), the Group acquired additional 30% of the share capital of JCC Payment Systems Ltd in March 2013.

53. Events after the reporting date

53.1 Preliminary results for year 2012

On 28 February 2013, the Company announced that, given that the results of the diagnostic exercise commissioned by the Cypriot authorities to assess the Group's capital needs have not been finalised and communicated to the Group, it was not in a position to announce the preliminary results for the year 2012 within the time frame prescribed by the law. In light of the above, any announcement of preliminary results could have led to confusion, as it would not have provided all the information necessary for a complete assessment of the results and prospects of the Group as required by the relevant legislation. Furthermore, it was noted that the Group was preparing a restructuring plan which was to be submitted to the relevant authorities for approval.

53.2 Cyprus and Eurogroup agreement

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

Cyprus and Troika (comprising the European Commission, the International Monetary Fund and the European Central Bank) reached an agreement on the final terms of a Memorandum of Understanding (MoU) in order to implement the agreement. The financial assistance that Cyprus will receive is up to €10 billion and is subject to a restructuring programme. The memorandum was approved on 12 April 2013 and the first two tranches of funds have already been received by the Republic of Cyprus.

53. Events after the reporting date (continued)

53.2 Cyprus and Eurogroup agreement (continued)

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

53.2.1 Restructuring of the financial sector

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

- Based on a decision by the Central Bank of Cyprus in its capacity as Resolution Authority and in compliance with Cyprus' newly adopted Bank Resolution Framework, Cyprus Popular Bank Public Company Ltd (Laiki Bank) was subjected to immediate resolution. Laiki Bank, including mostly uninsured depositors and assets outside Cyprus, is expected to be run down over time. The assets in Cyprus of Laiki Bank, the insured deposits and €9 billion of Eurosystem funding were transferred to the Group.
- Uninsured deposits (i.e. deposits in excess of €100 thousand) in the Company remained frozen until the completion of the Company's recapitalisation in July 2013. The Company has been recapitalised through a deposit-to-equity conversion of uninsured deposits with full contribution of equity shareholders and debtholders.
- The Greek branches of the Company, Laiki Bank and Hellenic Bank, were absorbed by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Financial Stability Fund (HFSF). Piraeus Bank acquired assets of €20 billion and liabilities of €14 billion of these branches.

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

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

53.2.2 Tax and other fiscal measures

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

Increase of corporation tax rate

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

Carry forward of tax losses

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

Increase in special defence contribution on interest

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

53. Events after the reporting date (continued)

53.2 Cyprus and Eurogroup agreement (continued)

53.2.2. Tax and other fiscal measures (continued)

Assessment and Collection of Taxes Law

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

Immovable property taxes

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

Annual levy on bank deposits

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

53.2.3 Temporary restrictions on money transfers

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

53.2.4 Restructuring of the Group as a result of the programme

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

Sale of the Group's Greek operations to Piraeus Bank

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

Based on preliminary (unaudited) financial information, the carrying value of the net assets transferred to Piraeus Bank amount to approximately €0,2 billion (comprising net loans of €7,8 billion, property and equipment of €0,1 billion and deposits of €7,7 billion). The Group made a payment to Piraeus Bank of €1,2 billion, resulting in a loss currently estimated at approximately €1,4 billion. This loss represents future expected losses for three years to June 2015 and other adjustments as determined by the Resolution Authority. There are still certain outstanding issues relating to this transaction, including the definition of the assets disposed and the settlement of the resulting balance due from/to Piraeus Bank.

As a result of this transaction, the Group has written off in 2012 a deferred tax asset of €0,3 billion in Greece as this is no longer considered as recoverable.

Acquisition of certain operations of Cyprus Popular Bank Public Company Ltd by the Group

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

Pursuant to the provisions of this Decree and the conclusion of the valuation process of the transferred assets and liabilities of Laiki Bank by the Resolution Authority, the Resolution Authority determined that the value of the transferred assets, title deeds and rights exceeds the value of the transferred liabilities. By a further Decree issued on 30 July 2013, the Resolution Authority required the Company to issue to Laiki Bank a number of Class A shares, to compensate Laiki Bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares (Note 53.2.5). The Decree issued by the Resolution Authority required that the shares issued to Laiki Bank should represent 18,1% of the issued share capital of the Company after the recapitalisation. Accordingly 844.014 thousand shares were issued to Laiki Bank.

53. Events after the reporting date (continued)

53.2 Cyprus and Eurogroup agreement (continued)

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

Acquisition of certain operations of Cyprus Popular Bank Public Company Ltd by the Group (continued)

The Company is currently in the process of assessing the fair value of the transferred assets and liabilities for the purposes of accounting for the business combination of the Group with Laiki Bank on 29 March 2013 under IFRS.

Sale of subsidiaries

On 18 July 2013, the Group agreed the sale of the subsidiary Kyprou Asset Management AEDAK to Alpha Trust Mutual Fund Management S.A., subject to the approval of the relevant regulatory authorities. The transaction was completed on 7 October 2013.

On 29 August 2013, the Group appointed Blackstone Group International Partners LLP as its financial advisor to explore and review strategic alternatives available for the Group's shareholding in its Ukrainian subsidiary, PJSC Bank of Cyprus. The Group currently holds a 99,7% indirect stake in the share capital of PJSC Bank of Cyprus, which it acquired in 2008.

Laiki UK operations

On 1 April 2013, the customer loans and advances of the UK Branch of Laiki Bank were transferred to the Company, in accordance with the relevant decree issued by the Resolution Authority. The customer deposits of the UK Branch of Laiki Bank were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Group.

Romanian operations

On 25 April 2013, in accordance with the relevant Decree issued by the Resolution Authority, the Company's Romanian Branch has transferred to Marfin Bank (Romania) SA assets amounting to €82 million which include certain customer loans and related collateral and cash and other liquid assets and customer deposits amounting to €77 million.

53.2.5 Recapitalisation of the Company

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

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

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

Bail-in of depositors as at 26 March 2013

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

On 30 July 2013, the Central Bank of Cyprus in its capacity as Resolution Authority, issued a decision whereby an additional 10% of the eligible deposits has been converted to equity, revising the total percentage of eligible deposits converted to equity to 47,5%. As a result of the bail-in, the Company issued 3.806.581 thousand new Class A shares of €1,00 each.

The debt securities in issue by the Company (Note 31) were also bailed-in via conversion into shares.

53. Events after the reporting date (continued)

53.2 Cyprus and Eurogroup agreement (continued)

53.2.5 Recapitalisation of the Company (continued)

Holders of debt securities as at 29 March 2013

The Bail-in Decrees provide that the subordinated debt and claims of the Company include subordinated debt and claims up to Tier 2 capital, including Tier 1 capital. In this respect, the following securities are included:

- Convertible Bonds 2013/2018 (Note 33)
- Capital Securities 12/2007 (Note 33)
- Convertible Capital Securities (Note 33)
- Convertible Enhanced Capital Securities (Note 35)

According to the Decrees:

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

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

- Reduction of the nominal value of all Class D shares from €1,00 each to Class D shares of nominal value of €0,01 each.
- The total amount from the reduction of the nominal value of the issued Class D shares would be utilised for the reduction of capital against accumulated losses of the Company.
- Each Class D share of nominal value of €0,01 was converted to an Ordinary Share of €0,01 each.
- Following the conversion of Class A, Class B, Class C and Class D shares to Ordinary Shares as described within the Amended Decree, every 100 Ordinary Shares of nominal value €0,01 each registered to the same shareholder were consolidated and converted to one Ordinary Share of nominal value of €1,00 each. Any remaining Ordinary Shares of nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the Company's capital against accumulated losses.
- All Ordinary Shares resulting from the above corporate actions would comprise the sole class of shares of the Company and each share ranks pari passu and has the same voting and dividend rights with the other Ordinary Shares.

As a result of the above, the Company issued 5.819 thousand ordinary shares of nominal value €1,00 each, to the holders of debt securities as at 29 March 2013.

53. Events after the reporting date (continued)

53.2 Cyprus and Eurogroup agreement (continued)

53.2.5 Recapitalisation of the Company (continued)

Holders of ordinary shares as of 29 March 2013 (continued)

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

According to the Amended Decrees the following have been decided:

- Reduction of the nominal value of all ordinary shares from €1,00 each to ordinary shares of nominal value of €0,01 each.
- The total amount from the reduction of the nominal value of the issued ordinary shares has been utilised for the reduction of the Company's capital against accumulated losses of the Company.
- Following the conversion of Class A, Class B, Class C and Class D shares to ordinary shares as described within the Amended Decree, every 100 ordinary shares of nominal value €0,01 each registered to the same shareholder were consolidated and converted to one Ordinary Share of nominal value of €1,00 each. Any remaining ordinary shares of nominal value of €0,01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the cancelled shares were utilised for the reduction of the capital against accumulated losses.

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

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

Following the above-mentioned changes in share capital, as well as the issue of shares to Laiki Bank, the issued share capital of the Company as at the date of approval of these financial statements amounts to €4.674.327 thousand divided into 4.674.327.268 ordinary shares of a nominal value of €1,00 each.

Share premium reserve

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

53.2.6 Exit from resolution

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

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

On 1 August 2013, the Company was reinstated as an eligible counterparty by the European Central Bank (ECB) for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus resulting in a reduction in funding from Emergency Liquidity Assistance (ELA), as the Company has access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is under improved terms, given that the rate for main refinancing operations stands at 0,5%.

53. Events after the reporting date (continued)

53.3 Changes to the composition of the Board of Directors and other key management personnel

The changes in the composition of the Board of Directors are presented in detail in the Directors' Report.

On 25 March 2013, the Resolution Authority appointed Mr Dinos Christofides as Special Administrator for the Company. On 29 March 2013, Mr Yiannis Kypri resigned from his position as the Group Chief Executive Officer. All members of the Board of Directors in office on 29 March 2013 resigned.

On 26 April 2013, the Central Bank of Cyprus in its capacity as the Resolution Authority had appointed the members of an interim Board of Directors who elected Messrs. Sophocles Michaelides and Erol Riza as Chairman and Vice-Chairman, respectively.

Effective from 29 May 2013 the Resolution Authority appointed Mr Christos Sorotos in the position of Interim Group Chief Executive Officer and Director, following a recommendation from the interim Board of Directors of the Company.

On 21 June 2013 the Resolution Authority terminated the appointment of the Special Administrator Mr Dinos Christofides.

The Annual General Meeting held on 10 September 2013 elected the new Board of Directors and approved the adjournment of the business to receive and consider the Directors' report and the Consolidated Financial Statements for the year 2012 and to appoint the auditors.

53.4 Litigation and investigations

A number of customers have filed actions against the Company alleging that they were misled into purchasing bonds and capital securities and claim various remedies including the return of the money they have paid. The Company is contesting the said claims, which are pending before the Court. In another development, the Central Bank of Cyprus has conducted an investigation and found that the Company breached certain regulatory requirements concerning the 2009 issue of Convertible Capital Securities, but not any regulatory requirements concerning the 2011 issue of CECS. The Central Bank imposed upon the Company a fine of €4,000. The Company intends to file a recourse before the Supreme Court against the ruling and imposition of a fine by the Central Bank.

The Cyprus Securities and Exchange Commission has conducted an investigation against the Company concerning alleged non-disclosure of important information. It was held that the Company was in breach of the law and the Commission has imposed an administrative fine upon the Company of €160 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company intends to file a recourse before the Supreme Court against the fine imposed upon it.

Following the issue of the Decrees in respect of the bailed-in depositors, a number of the affected depositors filed claims against the Company and other parties (Central Bank of Cyprus, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. Actions on the part of affected depositors are filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by the depositors as a result of the Law and the Decrees issued thereafter. In some of the actions interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The Company is taking active steps to obtain the discharge and cancellation of the said interim orders and is defending the actions of depositors vigorously. The said actions are being contested by the Company and are pending before the District Courts.

53. Events after the reporting date (continued)

53.4 Litigation and investigations (continued)

The position of the Company is that the Resolution Law and the Decrees take precedence over all other Laws and management assesses that it is probable that the orders will be lifted and the said deposits will be eventually converted into equity.

There are also numerous claims filed by shareholders and holders of debt securities as at 29 March 2013 whose shares were applied for the absorption of losses of the Company. Such proceedings have been filed before the Supreme Court of Cyprus. The Company is an interested party in these proceedings. The objective of these proceedings before the Supreme Court is to obtain the annulment (i.e. cancellation and setting aside) of the Decrees of the Resolution Authority as unconstitutional and/or unlawful and/or irregular. These proceedings are still at an early stage. The Company is appearing in these proceedings as an interested party. Both the Government of the Republic and the Resolution Authority are taking the view that the relevant Law and Decrees are lawful and constitutional. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by a Court of Law.

In May 2013, a bailed-in depositor had assigned his rights arising from the deposit to a third party which filed a claim in the Commercial Court of Kiev against the Company and its subsidiary in Ukraine. A judgement was issued against the Company and its subsidiary in Ukraine by the Court of first instance for the amount of €11 million. The Group filed an Appeal against this judgement, which however has been rejected and dismissed. The Group has filed another Appeal before the Supreme Court of Ukraine.

The Cyprus Securities and Exchange Commission is carrying out investigations in respect of:

- The Group's exposure to GGBs.
- Information provided on the amount of the capital shortfall as determined by the European Banking Authority and the amount of requested state aid in June 2012.
- The circumstances which led the Group to the need to apply for state support.

The above investigations are in progress and therefore their final outcome cannot be currently assessed.

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 16 to 172, which comprise the consolidated balance sheet as at 31 December 2012, 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 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw your attention to note 3.1 'Going concern' to the consolidated financial statements which indicates the significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal 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 15 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
10 October 2013

Annual Corporate Governance Report **2012**

Bank of Cyprus Group



Introduction

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

Part A

As a company listed on the CSE, Bank of Cyprus Public Company Ltd ('the Bank' or 'the Company') has adopted the CSE Code and applies its principles except where otherwise reported in the sections that follow.

Part B

The Company complied with the provisions of the CSE Code of the Corporate Governance Code throughout 2012 except where otherwise reported in the sections that follow.

The following sections contain, among other, information and declarations in relation to the implementation of the provisions of the Code.

1. Board of Directors

1.1 The role of the Board of Directors

The primary role of the Board of Directors is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board of Directors sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The authorities of the members of the Board of Directors are specified by the Articles of Association of the Company and by Legislation. The Board of Directors may issue share capital if there is sufficient authorised share capital and as long as the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares are not offered to existing shareholders, the approval of the shareholders in General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

1.2 Composition of the Board of Directors

As at 31 December 2012, the Board of Directors comprised 17 members (as listed below), specifically the non-executive Chairman Mr Andreas Artemis, the non-executive Vice-Chairman Mr Evdokimos Xenophontos, another 13 non-executive Directors and two executive Directors.

There is a clear division between the roles of the Chairman and the Group Chief Executive Officer / Executive Management of the Company.

Board of Directors as at 31 December 2012

Andreas Artemis (Chairman from 30/8/2012)
Evdokimos Xenophontos (Vice-Chairman from 30/8/2012)
Takis Arapoglou (from 28/12/2012)
Vassilis G. Rologis
Costas Z. Severis
Anna Diogenous
George M. Georgiades
Symeon Matsis (from 19/06/2012)
Elias Neocleous (from 09/02/2012)
Panicos Pourous (from 28/12/2012)
Costas Hadjipapas
Takis Taoushanis (from 28/12/2012)
Nikolas P. Tsakos
Stavros J. Constantinides
Irene Karamanou
Yiannis Kypri
Yiannis Pehlivanides

All the above Directors were members of the Board throughout 2012, unless otherwise indicated above. Furthermore, Messrs Theodoros Aristodemou (former Chairman), Christakis G. Christofides, Andreas Eliades (former CEO), Manthos Mavrommatis and Christos Mouskis resigned from the Board of Directors on 30 August 2012, 31 March 2012, 10 July 2012, 30 August 2012 and 27 December 2012 respectively.

The Board also appointed Mr Phivos Zomenis as the new Company Secretary of the Company in July 2012, following the appointment of Mr Yiannis Kypri as the Group Chief Executive Officer on 12 July 2012.

Changes to the Governance of the Bank since 31 December 2012

On 10 January 2013 Messrs George M Georgiades and Nikolas P Tsakos resigned from the Board of Directors.

Following the Eurogroup meetings that took place on 16 March 2013 and 25 March 2013, the Central Bank of Cyprus, in its capacity as Resolution Authority, decided on 25 March 2013 to place Bank of Cyprus under Resolution, in order to implement resolution measures in accordance with the Resolution of Credit and Other Institutions Law, 2013. Furthermore, on the same day the Central Bank of Cyprus appointed Mr Dinos Christofides as the Special Administrator to implement the restructuring of the Bank. The Special Administrator and the Central Bank of Cyprus, in its capacity as Resolution Authority, took over the powers of the shareholders, the Board of Directors and the executive management of the Company, pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013.

The entire Board of Directors of the Company collectively resigned on 29 March 2013. The CEO, Mr Yiannis Kypri, and Deputy CEO, Mr Yiannis Pehlivanides, also resigned from their executive positions.

On 26 April 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, appointed an Interim Board of Directors (as listed below), in accordance with the requirements of the Memorandum of Understanding (MOU) agreed between the Republic of Cyprus and the Troika. As per the MOU, the Interim Board's appointment would be effective until the Company's shareholders are organised in a general meeting. On 30 April 2013 the Board of Directors elected Messrs Sophocles Michaelides and Erol Riza as Chairman and Vice-Chairman respectively.

Interim Board of Directors

Sophocles Michaelides (Chairman)
Erol Riza (Vice-Chairman)
Takis Arapoglou (from 10/5/2013 and up to 2/7/2013)
Constantinos Damtsas
Lenia Georgiadou
Costas Hadjipapas
Philippos Mannaris
Lambros Papadopoulos
Andreas Persianis
Andreas Poetis
Panikos Poulos
Savvakis Savvides
Takis Taoushanis
Georgios Theocharides
Michalis Zannetides

On 29 May 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, appointed Mr Christos Sorotos as Interim Group Chief Executive Officer and executive member of the Board of Directors, following a recommendation of the Interim Board of Directors of the Company.

On 30 May 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, terminated the powers of the Special Administrator. The non executive duties previously exercised by the Special Administrator were transferred to the Interim Board of Directors and the executive duties of the Special Administrator were transferred to the Interim Chief Executive Officer. The Bank remained under Resolution, in accordance with the Resolution of Credit and Other Institutions Law, 2013, and the Central Bank of Cyprus, in its capacity as Resolution Authority, retained all its powers as described above.

On 30 July 2013 the Central Bank of Cyprus, in its capacity as Resolution Authority, issued decrees pursuant to the Resolution of Credit and Other Institutions Law, 2013, through which it completed the recapitalisation of the Company through the bail-in of depositors (a deposit-to-equity conversion). On the same day, the Central Bank of Cyprus, in its capacity as Resolution Authority, notified the Company that it was no longer under resolution. Consequently, the shareholders' rights were reinstated as of that date. The Company issued notice to its shareholders on 8 August 2013 that a shareholders' Annual General Meeting would be convened on 10 September 2013.

Board of Directors appointed on 10 September 2013

On 10 September 2013 the shareholders of the Company elected a new Board of Directors as follows:

Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialelis
Costas Hadjipapas (up to 10/10/2013)
Christis Hassapis
Marios Kalochoritis
Konstantinos Katsaros
Eriskhan Kurazov
Igor Lojevsky
Adonis Papaconstantinou
Anton Smetanin
Vladimir Strzhalkovskiy
Xanthos Vrachas
Marios Yiannas
Andreas Yiasemides
Ioannis Zographakis

Following the Annual General Meeting, the Board of Directors convened a meeting in which Messrs Christis Hassapis and Vladimir Strzhalkovskiy were elected as Chairman and Vice-Chairman, respectively.

On 10 October 2013 Mr Costas Hadjipapas resigned from the Board of Directors.

1.2.1 Independence

Provision A.2.3 of the Code requires that at least 50% of the Board of Directors, excluding the Chairman, be independent non-executive Directors.

Board of Directors as at 31 December 2012

As at 31 December 2012 six out of the 17 members of the Board of Directors were considered independent (based on the Director independence criteria of the Code) as follows:

Takis Arapoglou
Irene Karamanou
Symeon Matsis
Elias Neocleous
Panicos Poulos
Takis Taoushanis

The Board of Directors had proceeded with actions during 2012 in order to enhance the number of independent Directors on the Board. In this respect it had appointed four new independent Directors during the year. These efforts continued during 2013 with the Board announcing two additional appointments (both independent Directors) on 28 February 2013 which were subject to Central Bank of Cyprus approval. The Eurogroup events of mid March followed and the approval of the Central Bank of Cyprus had not been granted by that time.

Interim Board of Directors

The Interim Board of Directors appointed on 26 April 2013 had a majority of independent Directors. 10 out of the 15 members of the Interim Board of Directors were considered independent (based on the Director independence criteria of the Code) as follows:

Sophocles Michaelides (Chairman)
Erol Riza (Vice-Chairman)
Constantinos Damtsas
Lenia Georgiadou
Lambros Papadopoulos
Andreas Persianis
Panikos Poulos
Savvakis Savvides
Takis Taoushanis
Georgios Theocharides

Board of Directors appointed on 10 September 2013

The Board of Directors considers the following Directors to be independent (based on the Director independence criteria of the Code) as at the date of this report thereby satisfying provision A.2.3 of the Code.

Christis Hassapis (Chairman)
Vladimir Strzhalkovskiy (Vice-Chairman)
Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialelis
Marios Kalochoritis

Konstantinos Katsaros
Eriskhan Kurazov
Igor Lojevsky
Anton Smetanin
Xanthos Vrachas
Marios Yiannas
Ioannis Zographakis

1.3 Senior Independent Director

The Senior Independent Director of the Company, Mr Manthos Mavromatis, resigned from the Board of Directors on 30 August 2012. On 10 October 2013 the Board of Directors appointed Mr Konstantinos Katsaros as Senior Independent Director. The Senior Independent Director is available to shareholders if they have concerns that are not resolved through normal communication channels.

1.4 Meetings of the Board of Directors

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2012, 40 Board meetings were held. The issues examined by the Board of Directors include the Group's strategy, budgets and results and any other major issues or transactions.

The attendance of the members of the Board of Directors for 2012 is presented in the following table.

Name	Board of Directors	Audit Committee	Remuneration Committee	Nomination & Corporate Governance Committee	Risk Committee
Theodoros Aristodemou (up to 30/8)	14/23				
Andreas Artemis	40			3	4
Vassilis G Rologis	38			4	
Costas Z Severis	37	15			8
Christakis G Christofides (up to 31/3)	6/7			1/1	
Evdokimos Xenophontos	39				
Anna Diogenous	39			4	
George M Georgiades	37	15			8
Christos Mouskis (up to 27/12)	31/39		4		
Manthos Mavrommatis (up to 30/8)	21/23	10/13	4	4	
Costas Hadjipapas	38				8
Nikolas P Tsakos	18				-
Stavros J Constantinides	40	17	4		
Irene Karamanou	36	16			8
Elias Neocleous (from 9/2)	26/38				
Symeon Matsis (from 19/6)	22/26				
Andreas Eliades (up to 10/7)	18/18				4/4
Yiannis Kypri	40				
Yiannis Pehlivanides	39				
Total meetings	40	17	4	4	8

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

1.5 Board Renewal

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

- The number of Directors shall not be less than ten nor more than eighteen.
- At the first and every subsequent Annual General Meeting of the Company one-third of the Directors, or if their number is not three or a multiple of three, then the nearest number to one third, shall retire from office.
- The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall, unless they otherwise agree among themselves, be determined by lot.
- A retiring Director shall be eligible for re-election.
- No person other than a Director retiring at the Meeting shall unless recommended by the Directors be eligible for election to the office of Director at any General Meeting unless not less than six nor more than twenty-one days before the date appointed for the Meeting there shall be left at the registered office of the Company notice in writing, signed by a member duly qualified to attend and vote at the Meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.
- The Directors shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

2. Members of the Board of Directors

The curriculum vitae of the all the members of the Board of Directors as at the date of this report are provided below.

2.1 Non-executive Directors

Christis Hassapis (Chairman)

He was born in 1959. He has a Bachelor's degree in Mechanical Engineering from the George Washington University and a Master's and a PhD degree in Economics from Boston College, USA. He is a professor at the Department of Economics, School of Economics and Management, of the University of Cyprus, since 1993, and he teaches "Banking and Financial Markets", "Money and Banking" and "Economics", among others. His research interests are in the areas of Banking, International Finance and Macroeconomics. His research publications include, among others, papers on the Exchange Risk and Excess Returns in the European Monetary System, on the Relationship between Output, Money and Interest Rates, on the links between Growth and Stock Price Changes, on the transmission of Stock Market Fluctuations to Output, on Borrowing Constraints and Portfolio Choice, on the relationship between Financial Variables and Real Activity and on the Convergence and Variability of Money and Capital Markets. He has participated in more than 25 international conferences on Finance and Economics and co-organised several international conferences on issues including Saving, Portfolios and Pensions, Household Saving and Portfolios in Developed and Emerging Markets, Applied Business and Economics and Multinational Finance. He has served, among others, as an elected member of the Board of the University of Cyprus, as a member of the University of Cyprus Senate, as Vice Dean for the School of Economics and Management, as a member of the Academic Council of the Economics Research Centre, as a member of the Research Centre for Banking and Finance, as the Chairman of the Board of UCy

Voice Radio Station, as a Member of the Cyprus Council for the Recognition of Higher Education Qualifications for Economics, as a Member of the Board of Diogenis Business Incubator and as a member on numerous Board committees, such as the Internal Audit Committee, the Finance and Tenders Board Committee, the Development Planning Committee, and many others.

Vladimir Strzhalkovskiy (Vice-Chairman)

He was born in 1954. He has a PhD degree in Economics, specialty "Applied Mathematics", from Leningrad Institute of Electronic Engineering of V.I. Lenin, in 1977.

He has held the position of Deputy Minister of the Ministry of Economic Development of the Russian Federation for four years (July 2000 – November 2004), Chairman of the Executive Board of the World Tourism Organisation (2003 - 2004), Head of the Federal Agency Tourism Organisation (November 2004 – August 2008), member of the Board of Director of the company INTER RAO Ues (June 2011 – June 2013) and he also served as Chairman of the Board (August 2008 – December 2012), member of the Board (December 2008 – December 2012) and Vice President (December 2012 – June 2013) of the Mining and Metallurgical Company.

Anjelica Anshakova

She was born in 1970. She graduated from Kiev State University of Economics with a major in banking (Diploma with honours). She is a member of the Association of Chartered Certified Accountants (ACCA) since 1998. Moreover, she obtained certification from the Chartered Institute of Managements Accountants (CIMA) in 2002.

She worked in the Kiev and Moscow offices of international consulting company Arthur Andersen for 8 years. After the merger of Arthur Andersen with Ernst & Young, Ms Anshakova continued her career in the subdivision responsible for bank audit and consulting. In 2003 she worked for the "Promsvyazcapital" Group in various positions including executive director of "Promsvyazcapital". She then joined a leading printing and publishing house in Moscow region before becoming a director of JSC "Link Capital" in 2006. She is a member of the Board of directors and the Head of the Audit Committee of JSC BINBNANK (Moscow, Russia).

Dmitry Chichikashvili

He was born in 1966. He graduated from the Department of Banking and Insurance at the Financial Academy (Moscow, Russia, 1995 – 1996) with a major in Economics in Banking and Insurance Business, and from Tbilisi State Medical University, (1984 – 1990), with a major in the Faculty of Medicine (Doctor).

After a successful start in the banking sector, first at GUTA BANK (Commercial Bank, Moscow, as First Deputy Chairman (May 1993 – July 1996), and then at INKOR BANK (Commercial Bank, Moscow, Russia) as Chairman (July 1996 – May 1997), he developed and formed his own businesses, initially under the name of "Energogarat Capital Story" (investments in real estate). He is currently serving as Chairman of the "Insigma" group of companies (primarily involved in the construction and development of real estate). In cooperation with leading consultants and investment companies more than 20 sizeable Class "A" projects have been completed or are under construction, such as apartment towers "Glade Plaza", "Gentry" and "George Plaza", business centres "Wave Tower", "Bakhrushina House" and the residential/office/retail complex "Italian Quarter" in Moscow (Russia) and a hotel/retail complex in central Tbilisi (Georgia).

Marinos Gialeli

He was born in 1968. He holds a B.A in Management – Finance from the East Strassbourg University (USA) and an MBA in Investments from the Fairleigh Dickinson University (USA). He has worked for "Lieber and Weissman Securities LLC" in New York, "CLR Financial Services Ltd" and "Harvest Financial Services Ltd".

He has been working for the Hotel Employees Provident Fund since 2004 and he is responsible for the General Management of the Fund. His competences are, among others, the management and administration of the daily operations and matters related to the Fund and the introduction and supervision of the procedures application by supporting the decisions of the Management Committee of the Fund. In respect of the investments of the Fund, he is responsible for the monitoring of the portfolio, making recommendations to the Management Committee concerning the investments policy and coordinating the investing operations after obtaining directions from the Management Committee. He participates and coordinates the meetings of the Management Committee.

Marios Kalochoritis

Marios Kalochoritis was born in 1973. He holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University. He is a Financial Executive with experience in investment banking, hedge fund management, private equity, wealth management and as a Chief Financial Officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations.

He has recently moved to Dubai from Cyprus to set a family office for an industrialist family as Head of Investments, after spending five and half years in Cyprus where, as the Managing Director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was Senior Vice President for Credit Suisse Bank in Zurich and he was heading business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the Chief Financial Officer for Amana Group in Dubai, a major regional construction group. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department he analysed and made investments in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan bank in New York and McKinsey & Co in Athens.

Konstantinos Katsaros

He was born in 1977. He graduated with excellence from the Law School of Aristotle University of Thessaloniki in 1999, having received a scholarship from the State Scholarship Foundation. He received a scholarship and a diploma for the postgraduate seminar course in maritime law of Tulane University, New Orleans, USA & the University of the Aegean. He completed his postgraduate studies in History, Philosophy and Sociology of Law (LLM) at the Aristotle University of Thessaloniki. He is currently a PhD candidate in the department of Law School of the Aristotle University.

He has worked as an investment broker / advisor in Guardian Trust Securities S.A. and Vorioelladiki Securities S.A., until his entry to the Thessaloniki Bar Association in 2002. He obtained licence as a certified consultant from ADEX in May 2001. He was a co-founding partner of the advertising company Friktoria Ltd from 2000 to 2007, which created major innovative marketing tools in the fields of classified marketing, targeting students and lawyers, and acted as its representative to UACCNG. In his career as an independent lawyer, he has offered his services as legal advisor to numerous companies. He has also offered his services as a member of the scientific committee of the Bar's official magazine.

Since 2009, when he contributed to the preparation of the new constitutional charter of the Church of Cyprus, he has been the legal advisor of the Holy Archbishopric of Cyprus and head of the legal activities of its legal entities (Archbishopric, parishes, partnerships, companies, foundations and other financial entities), gaining significant experience in various sectors of its financial (amongst them the banking sector) and other activities. He is a member of the Nicosia Bar Association since 2012. From February 2012 until September 2013 he has been the non-executive Chairman of the Board of Directors of LOGOS Information and Cultural LLP and its representative in many forums. He is the secretary of Tarseion Foundation. He is also teaches as a visiting professor at the

Department of Law of the University of Nicosia in the fields of Commercial and Company Law, and he has authored scientific articles and has lectured in scientific conferences.

Eriskhan Kurazov

Eriskhan Kurazov was born in 1977. In 2001 he obtained a Masters of Economics from the Russian University of People's Friendship and at the same University he became a Specialist in Law in 2005 and a Lawyer in 2007.

He has served as a Deputy Head of Division at B&N Bank from 2003 to 2004 and from 2004 to 2007 as a Financial Director at CJSC "Association" Grand". From 2008 to today Mr Kurazov has progressed from Deputy General Director, to General Director at the CJSC "Smart Finance Group" to his current position as a General Manager at the CJSC "SP" Eurasia M4. He is also a member of the Board of Directors at: "Dekmos" (Joint Stock Company), "BIN-Insurance" LLC, CJSC "Service Reestr" and the Audit Committee at B&N Bank (Joint-Stock Company). In addition, Mr Kurazov serves as an Executive Director of Tomilino Logistic LLC, Head of Branch of Indwell Limited, Head of Branch of Seicento Limited and Head of Branch of Megalead Limited.

Igor Lojevsky

He was born in 1957. He holds an MS in Systems Engineering from Omsk State Technical University and an MBA from the University of Massachusetts, Boston. Over the last fifteen years, working for major global institutions (The World Bank, Deutsche Bank, Dresdner Bank), he has accumulated an extensive banking experience with specific focus on revitalisation of degrading banking platforms in major emerging markets economies. He also has first class academic training, specifically through "EDHEC – Risk Institute PhD in Finance programme" in application of modern restructure and resolution concepts for failed/nearly failed financial institutions.

He is a Vice Chairman of Deutsche Bank AG for Eastern Europe for Asset & Wealth Management and Corporate Banking & Securities Divisions. He previously held the position of Chief Executive Officer and Chief Country Officer of Deutsche Bank Group in Russia/CIS. He is also currently an independent Director in OJSC "Aeroflot - Russian Airlines", where he used to be a Chairman of the Strategy Committee and currently chairs the Audit Committee. He is also an independent board member of GeoProMining Ltd, where he served on the Remuneration Committee. His previous board mandates include major Russian industrial corporate and financial institutions (OJSC "Kamaz", OJSC "Russian Regional Development Bank", FESCO Transportation Group, Eurotek Ltd).

Adonis Papaconstantinou

He was born in 1953. He graduated with honours in 1977 from London University (Queen Mary College) where he studied Computer Science. He is also a graduate (1996) of Columbia University's (New York) Senior Executive program. From 1977 until 2003 he was employed by NCR Corporation (a U.S.A. multinational Information Technology organisation) specialising in banking, retail and data warehousing systems. During his tenure with NCR Corporation he assumed a number of management positions culminating to the position of Vice President and Area Managing Director for NCR Corporation's Middle East and Africa region, an organisation with Headquarters in Nicosia – Cyprus. The region consisted of 55 countries and employed around 1000 people. He also was the Chairman of the Board for NCR (Cyprus) Ltd, NCR (IRI) Ltd, NCR (North Africa) Ltd as well as Chairman of the NCR (Cyprus) Ltd Provident Fund Committee.

In 2003 he co-founded Bartercard (Cyprus) Ltd, the Cyprus Licensee of Bartercard International, an Australian Trade Exchange Organisation with presence in various countries. He is the Managing Director of Bartercard (Cyprus) Ltd and the Chairman and Managing Director of E.P. FOCUSED INFORMATION TECHNOLOGY SOLUTIONS LTD (FITS), an organisation providing business consulting services. He holds the following professional qualifications: Fellow of the British Computer Society since 1988, Chartered Engineer at the Engineering Council since 1993, Chartered Fellow of the British Computer Society since 2004 and member of the Cyprus Computer Society since inception.

Anton Smetanin

He was born in 1984. In 2007 he graduated from the Law Faculty of Lomonosov Moscow State University with a Diploma in Law.

From 2007 to 2011 he worked as a Lawyer at GSL Law and Consulting LLC, in Moscow, Russia. From 2011 to 2012 he served as a member of the Board of Directors at Bank of Moscow. From 2011 to date he is self-employed, practicing in private law, mainly dealing with legal advice and support, representing clients' interests in various major deals in the fields of M&A, capital raising for project financing, bank loan raising, real estate acquisition etc. He also represents clients' interests in different stages of arbitration proceedings as well as in the courts of general trial jurisdiction.

Xanthos Vrachas

He was born in 1979. He holds an MBA from Harvard Business School, a BSc from Georgetown University, and is a Certified Public Accountant (CPA). He is the Chief Financial Officer and Chief Investment Officer of Universal Life, a life and health insurance group.

Prior to assuming his current position, he worked as an investment banker in the Corporate Finance and Restructuring team at Merrill Lynch in London. Previously, he was an auditor with Deloitte & Touche in the United States.

Marios Yiannas

He was born in 1978. He graduated from the London School of Economics and Political Science with a BSc in Actuarial Science (First Class Honours). He is a Fellow of the UK Institute and Faculty of Actuaries (FIA).

He is a founder and Director of Cronje & Yiannas Actuaries and Consultants Ltd. He has advised pension funds and insurance companies across Europe and the Middle East for more than 12 years on investments and governance. He has also advised local and multinational companies on general human resource and governance matters. He trained and qualified as a consulting actuary with Towers Watson in London in the area of pensions and investments.

He holds the following qualifications: Fellow of the Institute and Faculty of Actuaries in the UK (FIA), Fellow (FCAA) and member of the Executive Council of the Cyprus Association of Actuaries, Member of the International Actuarial Association, Member of the UK Institute of Directors.

Andreas Yiasemides

He was born in 1976. He graduated from the University of Manchester in the UK in 1999 with a first class honours BA degree in Economics with specialisation in Accounting, Finance and Econometrics. He worked with PricewaterhouseCoopers in Nicosia in the financial services audit department as senior associate between 1999 and 2003, having financial institutions in his portfolio. He is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and a holder of an audit practising certificate.

From 2003 till March 2013, he was employed with the Bank of Cyprus Group. He held various positions including those of Head of Cyprus Leasing for Attica region in Greece, Head of Corporate Unit in Bank of Cyprus Romania, member of Credit Review team of the Group Internal Audit department and officer of the Group Credit Risk Policy Department. He was also the Head of Custody and Trust department of the Bank of Cyprus.

Since March 2013, he is Principal in Fiduserve Fund Services, a company providing registration and administration of funds of various countries including Cyprus, Malta, Luxembourg and other jurisdictions. He is a founding member of Cyprus Investment Fund Association (CIFA).

Ioannis Zographakis

He was born in 1963. He holds a Bachelor's degree in Civil Engineering from Imperial College in London and an MBA from Carnegie Mellon University in the USA. He is a senior executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations.

He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he was the Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In his four years as CEO of SLC, he managed to almost triple the earnings and the stock price of the company, outperforming the markets. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and UK Retail Bank Head. Deciding to move closer to home in 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested.

He has been a Director for the Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece.

3. Board Committees

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

3.1 Audit Committee

The members of the Audit Committee during 2012 were as follows:

Stavros J. Constantinides (Chairperson)
Costas Z. Severis
Irimi Karamanou
George M. Georgiades
Manthos Mavrommatis - up to 30/8/2012

The Committee did not satisfy the requirements of the Code in relation to its composition for part of 2012, following the resignations of Board members that had taken place during the year. The Board of Directors had initiated a process for the appointment of new independent members to the Board of Directors and on 5 November 2012 had announced its decision to appoint three new independent Directors, which was subject to approval by the Central Bank of Cyprus. The Central Bank granted its approval at the end of December 2012.

The Audit Committee held 17 meetings during 2012, including one joint meeting with the Risk Committee. The Audit Committee considers and makes recommendations to the Board on matters relating to the review and assessment of inter-alia, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group Internal Audit Division. The Committee also considers and makes recommendations to the Board on compliance issues based on the reports prepared by the Group Compliance Unit.

During 2012 the Audit Committee reviewed to its satisfaction 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 Committee reviewed the provisions and the quarterly results of the Group which were submitted to the Board of Directors for approval.

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.

During 2012, the Audit Committee examined the following issues, among others. The Committee reviewed and agreed the Audit Programme of the Internal Audit Division. It examined internal audit reports covering various operations, functions and issues, including the review of credit facilities. The Committee also examined the Group Anti-Bribery Policy and recommended its approval to the Board of Directors.

The Committee also examined the reports which are submitted on an annual basis to the Central Bank of Cyprus for internal controls, anti-money laundering and compliance and recommended their approval to the Board of Directors and submission to the Central Bank of Cyprus.

The Committee reviewed supervisory review reports of the Central Bank of Cyprus and the management letters of the external auditors. Furthermore, it recommended to the Board the appointment of an audit firm other than the external auditors of the Company to conduct the review of internal controls required every three years by the relevant Directive of the Central Bank of Cyprus.

3.2 Remuneration Committee

The members of the Remuneration Committee during 2012 were as follows:

Manthos Mavrommatis - up to 30/8/2012 (Chairperson)
Christos Mouskis - up to 27/12/2012
Stavros J Constantinides

The Committee did not satisfy the requirements of the Code in relation to its composition for part of 2012, following the resignations of Board members that had taken place during the year. The Board of Directors had initiated a process for the replenishment of the Board and its Committees with new independent members and on 5 November 2012 had announced its decision to appoint three new independent Directors, which was subject to approval by the Central Bank of Cyprus. The Central Bank granted its approval at the end of December 2012.

The Remuneration Committee held four meetings during 2012. The Committee considers and makes recommendations to the Board on matters relating to the remuneration of executive and non-executive Directors and Senior Executive Management, as well as the overall Group remuneration policy. In addition, in accordance with Appendix 1 of the Code, the Committee

prepares the annual Board of Directors' Remuneration Report which is ratified by the Board of Directors and submitted to the Shareholders' Annual General Meeting. The Board of Directors Remuneration Report for the year 2012 (which was approved by the Board of Directors on 10 October 2013) is included in section 4 of this Report.

During 2012, the Remuneration Committee examined the following issues, among others. At the beginning of 2012 the Committee conducted its annual review of top management remuneration. The Committee decided to recommend to the Board no bonuses for 2011 and no salary increases for 2012 for the Executive and General Management of the Group. Furthermore, on 30/5/2012 the Committee accepted the Executive Management's proposal for salary reductions compared to 2011 (Group CEO: 20%, First Deputy Group CEO: 15%, Deputy Group CEO: 10%).

The Committee also recommended to the Board the reduction of non executive Director remuneration by 25% compared to the remuneration approved the previous year by the shareholders' annual general meeting. This was approved by Company's shareholders on 19 June 2012.

The Committee also approved the Group Remuneration Policy. The Group Remuneration Policy incorporates both CRD III and CSE Code requirements and it applies to Directors, Executive Management, Officers and staff across the Group.

The Board directly considered and approved the following remunerations issues. The remuneration package and service contract of the new Chief Executive Officer of the Group (see Section 4 below), who was appointed on 12 July 2012. It approved salary reductions for Senior Group General Managers and Group General Managers of 15% and 10% respectively. It also approved the implementation and terms of the Voluntary Retirement Scheme for Cyprus and Greece.

3.3 Nominations and Corporate Governance Committee

The members of the Nominations and Corporate Governance Committee during 2012 were as follows:

Anna Diogenous (Chairperson)
Andreas Artemis
Vassilis G. Rologis
Christakis G. Christofides - up to 31/3/2012
Manthos Mavrommatis - up to 30/8/2012

During 2012, the Nominations and Corporate Governance Committee held four meetings. The Committee makes recommendations to the Board for the appointment of new Directors in order to fill vacant positions on the Board, taking into consideration relevant factors and criteria. The Committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board. The Committee is responsible for the formulation of the succession plans of the Board. Additionally, the Committee has general responsibility for the application of corporate governance principles by the Group.

Although the Committee satisfied the composition requirements of the Code, following the resignations of Board members that had taken place during 2012, from September onwards all nominations were examined directly by the Board of Directors. Specifically, the appointments of Messrs Arapoglou, Pourois and Taoushanis were considered and approved directly by the Board of Directors.

3.4 Risk Committee

The members of the Risk Committee during 2012 were as follows:

Costas Z. Severis (Chairperson)
George M. Georgiades
Andreas Artemis
Andreas Eliades - up to 10/7/2012
Costas Hadjipapas
Nikolas P. Tsakos
Irimi Karamanou

During 2012, the Risk Committee held eight meetings, including a joint meeting with the Audit Committee. The Committee examines, inter-alia, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters.

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 44 to 47 of the consolidated financial statements.

During 2012, the Committee examined the following issues, among others. At the beginning of the year the Risk Committee reviewed the Activity Review reports for the previous year and action plans for 2012 for all the Divisions reporting to the Committee (Market Risk, Credit Risk, Operational Risk and Group IT System Security Division).

During 2012 the Committee monitored the risk exposure of the Group at least on quarterly basis by reviewing the reports provided by the relevant Divisions on credit, market and operational risk and also on the compliance with the Group's risk strategy. During 2012 changes were made to risk policies based on developments in the economy and banking environment of the countries in which the Group operates. The various Divisions also updated the Committee on developments in their risk area.

The Committee dedicated a whole meeting for the review of the Report on Internal Capital Adequacy Assessment Procedures (ICAAP) May 2012 which it approved for submission to the Board. The ICAAP Report was submitted to the Central Bank of Cyprus following its approval by the Board. Given the importance of closely monitoring capital adequacy, the review of relevant data became more frequent in 2012 with information being submitted to the Committee on a quarterly basis following the Group's quarterly results. The Committee also reviewed the stress testing results from the Central Bank / IMF Scenarios which are prepared on a six-monthly basis and submitted to the CBC.

During the year the Committee approved the Pillar III Disclosures Report for 2011, the Risk Committee Annual report for 2011 and the Liquid Assets Investment Policy and submitted them to the Board for final approval.

3.5 Interim Board Committees and Board Committees as at the date of this report

Both the Interim Board of Directors appointed on 26 April 2013 and the Board of Directors elected on 10 September 2013 set up Board Committees in accordance with the relevant requirements of the Code (except for the participation of the Group Chief Executive Officer the Risk Committee which was agreed with the Central Bank of Cyprus) as follows:

Audit Committee:

Interim Board

Lambros Papadopoulos (Chairperson)
Constantinos Damtsas
Lenia Georgiadou
Philippos Mannaris
Andreas Poetis
Erol Riza
George Theocharides

As at 10 October 2013

Ioannis Zographakis (Chairperson)
Andreas Yiasemides
Anjelica Anshakova
Konstantinos Katsaros
Xanthos Vrachas

Remuneration Committee:

Interim Board

Lenia Georgiadou (Chairperson)
Constantinos Damtsas
Andreas Poetis
Panicos Poulos
Savvakis Savvides

Remuneration and HR Committee:

As at 10 October 2013

Marios Yiannas (Chairperson)
Marios Kalochoritis

Nomination and Corporate Governance Committee:

Interim Board

Takis Taoushianis (Chairperson)
Takis Arapoglou - up to 2/7/2013
Philippos Mannaris
Sophocles Michaelides
Lambros Papadopoulos
Andreas Persianis
Savvakis Savvides

As at 10 October 2013

Christis Hassapis (Chairperson)
Marinos Gialeli
Marios Kalochoritis
Konstantinos Katsaros
Marios Yiannas
Andreas Yiasemides

Risk Committee:

Interim Board

Erol Riza (Chairperson)
Takis Arapoglou - up to 2/7/2013
Philippos Mannaris
Andreas Persianis
Panicos Poulos
Savvakis Savvides
Christos Sorotos

As at 10 October 2013

Vladimir Strzhalkovskiy (Chairperson)
Anjelica Anshakova
Dmitry Chichikashvili
Marinos Gialeli
Ioannis Zographakis
Xanthos Vrachas

3.6 Other Committees

Regional Boards for International Operations

During 2012 the Board had operated Regional Boards for International Operations. In September 2012 the Board decided to disband the Regional Boards and to directly oversee the operations of the Group's international operations.

Other Committees - Interim Board

The Interim Board of Directors established the following Committees to assist it in carrying out its role.

Human Resources Committee

Philippos Mannaris (Chairperson)
Costas Hadjipapas
Andreas Poetis
Michalis Zannetides

Restructuring Committee

Savvakis Savvides (Chairperson)
Takis Arapoglou - up to 2/7/2013
Constantinos Damtsas
Costas Hadjipapas
Michalis Zannetides

Communication Committee

Constantinos Damtsas (Chairperson)
Lenia Georgiadou
Sophocles Michaelides
Panicos Pourous
Takis Taoushianis
Costas Hadjipapas

Recapitalisation Committee

George Theocharides (Chairperson)
Takis Arapoglou - up to 2/7/2013
Erol Riza
Lambros Papadopoulos
Panicos Pourous
Takis Taoushianis

Other Committees - as at 10 October 2013

The Board of Directors elected on 10 September 2013 decided to maintain a Committee to monitor the restructuring of the Group as follows:

Strategy & Restructuring Committee

Andreas Yiasemides (Chairperson)
Dmitry Chichikashvili (Vice-Chairperson)
Anjelica Anshakova
Marios Kalochoritis
Adonis Papaconstantinou
Xanthos Vrachas
Marios Yiannas
Konstantinos Katsaros
Ioannis Zographakis

4. Board of Directors' Remuneration Report for the year 2012

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

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

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

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

Details on Director (executive and non-executive) remuneration are provided in Note 50 of the Consolidated Financial Statements for the year 2012.

4.1 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 Group 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 Remuneration Committee, and are subsequently submitted to the Board of Directors for approval.

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

4.2 Remuneration of non-executive Directors

The remuneration of non-executive Directors is not linked to the profitability of the Group. The remuneration of non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the Committees of the Board of Directors and the Boards of Group subsidiary companies. The shareholders' Annual General Meeting held on 19 June 2012 approved the non-executive Directors' proposal to further reduce their remuneration. The reduction amounted to 50% for the Chairman and 25% for the other non-executive Directors from the remuneration that was approved by the previous Annual General Meeting. The reduction also applied to the remuneration for participation of non-executive Directors in Committees of the Board of Directors and in the Regional Boards for International Operations.

4.3 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.

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

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

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

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

Remuneration

For the years 2011 and 2012 no bonus was recommended by the Board of Directors for executive Directors.

On 30 May 2012, the Board of Directors accepted the proposal of Messrs Andreas Eliades (resigned on 10 July 2012), Yiannis Pehlivanides and Yiannis Kypri to reduce their salaries by 20%, 15% and 10% respectively.

Retirement Benefit Schemes

Until 31 December 2011, the Group Chief Executive Officer, Mr Andreas Eliades (resigned on 10 July 2012) and the Deputy Group Executive Officer, Mr Yiannis Kypri, participated in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan. From 1 January 2012, Messrs Andreas Eliades and Yiannis Kypri participated in the new defined contribution plan for the Group's employees in Cyprus. The First Deputy Group Chief Executive Officer, Mr Yiannis Pehlivanides participated in the retirement benefit plans for the Group's employees in Greece, which were the defined contribution plan and the defined benefit plan for retirement benefits which were required by the law. The main characteristics of the retirement benefit schemes for Cyprus and Greece are presented in Note 12 of the Consolidated Financial Statements for the year 2012.

Share Options

No share options were granted to executive Directors during 2012.

In the context of the Share Options 2008/2010 granted on 28 May 2008 to the Group's employees, 1.500 thousand share options were granted to Mr Andreas Eliades, 500 thousand Options were granted to Mr Yiannis Kypri and 12.000 share options were granted to the non-executive Director, Mr Costas Hadjipapas, in his capacity as an employee of the Group.

As at 31 December 2012, the executive Directors did not hold any other share options nor did they exercise any share options during 2012.

Further details regarding share options can be found in Note 34 of the Consolidated Financial Statements for the year 2012.

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 (resigned on 10 July 2012), and Mr Yiannis Kypri, Deputy Group Chief Executive Officer had a five year duration (1 January 2009 – 31 December 2013). The compensation that was payable in the event of a non-justified early termination was two annual salaries. The employment contract of Mr Yiannis Pehlivanides, First Deputy Group Chief Executive Officer had three year duration (1 May 2010 – 31 April 2013) and provided for compensation payable in the event of a non-justified early termination of one annual salary.

Following the resignation of Mr Andreas Eliades from his position of Group Chief Executive Officer on 10 July 2012, the Board appointed Mr Yiannis Kypri as the new Group Chief Executive Officer on 12 July 2012. The Board of Directors approved a two year employment contract (12 July 2012 – 12 July 2014), plus an option to extend the contract for an additional year. The employment contract did not include provisions for the award of bonuses. The compensation that was payable in the event of a non-justified early termination was three months salary in lieu of notice.

4.4 Early Retirement Scheme

In December 2012, the Board of Directors approved the terms of a Voluntary Retirement Scheme for staff with remaining length of service of up to 10 years. The maximum compensation payable was 30 monthly salaries and was calculated based on the remaining number of months of service. Participants in the scheme were also offered life insurance coverage and employer contributions to the Medical Fund. 219 employees opted for the Scheme.

5. 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 for the year 2012.

All transactions with members of the Board of Directors and their connected persons are in accordance with usual commercial terms and for loans these are made on normal business terms as for comparable transactions with customers of a similar credit standing in the ordinary course of business. Any banking facilities to members of the Board of Directors of the Company are approved by the Board of Directors. The interested Director does not participate nor is present during the approval process.

6. Accountability and Audit

6.1 Going concern

The Company's Board of Directors has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis. Notwithstanding this assessment and the conclusion reached, the Board considers that uncertainties remain that may cast significant doubt upon the Company's ability to continue as a

going concern. The conditions that existed in 2012, as well as the developments up to the date of approval of the financial statements set out in Note 53, that have been considered in management's going concern assessment are described in the Report of the Board of Directors and Note 3.1 of the Consolidated Financial Statements for the year 2012.

6.2 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.

The Board of Directors which was appointed on 10 September 2013, due to its very recent appointment and short tenure up until the date of this report, is not able to provide a statement in relation to the effectiveness of the Group's internal controls. The Board of Directors will ensure that they are in a position to provide the necessary statement in the Annual Corporate Governance Report for 2013.

The Board of Directors confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations, except those that are known by the relevant authorities (where applicable).

6.3 Corporate Governance Compliance Officer

The Board of Directors has appointed Mr Phivos Zomenis as Corporate Governance Compliance Officer.

7. Shareholder Relations

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

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

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

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

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

10 October 2013

Financial Information for the Period from 1 January 2012 to 31 December 2012

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

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

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

Members of the Board of Directors: Christis Hassapis (Chairman), Vladimir Strzhalkovskiy (Vice Chairman), Anjelica Anshakova, Dmitry Chichikashvili, Marinos Gialelis, Marios Kalochoritis, Konstantinos Katsaros, Eriskhan Kurazov, Igor Lojevsky, Adonis Papaconstantinou, Anton Smetanin, Xanthos Vrachas, Marios Yiannas, Andreas Yiasemides and Ioannis Zographakis.

Date of approval of the financial statements for year 2012 by the Board of Directors: 10 October 2013

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 2012

	2012	2011 (restated)
	€000	€000
Net interest income	1.011.118	1.167.673
Net fee and commission income	218.767	232.365
Net foreign exchange gains	27.789	45.178
Net gains on financial instrument transactions and disposal of subsidiaries	55.293	3.571
Insurance income net of claims and commissions	62.972	61.190
Other (expenses)/income	(18.808)	31.329
	1.357.131	1.541.306
Staff costs	(408.347)	(431.774)
Other operating expenses	(349.470)	(311.722)
Profit before impairment of loans and advances, Greek Government Bonds, goodwill and intangible assets	599.314	797.810
Provisions for impairment of loans and advances	(2.306.157)	(426.287)
Impairment of goodwill and intangible assets	(359.746)	-
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	(143.573)	(1.729.261)
Loss before share of profit of associates	(2.210.162)	(1.357.738)
Share of profit/(loss) of associates	222	(1.441)
Loss before tax	(2.209.940)	(1.359.179)
Tax	(13.079)	(7.234)
Loss after tax	(2.223.019)	(1.366.413)
Attributable to:		
Non-controlling interests (loss)	(9.231)	(7.073)
Owners of the Company (loss)	(2.213.788)	(1.359.340)
Basic and diluted losses per share (€)	(1.4350)	(1.5171)
Loss after tax	(2.223.019)	(1.366.413)
Other comprehensive income after tax	123.895	189.595
Total comprehensive loss for the year	(2.099.124)	(1.176.818)
Attributable to:		
Non-controlling interests (loss)	(7.222)	(7.180)
Owners of the Company (loss)	(2.091.902)	(1.169.638)

BANK OF CYPRUS GROUP

Extracts from the Consolidated Balance Sheet

as at 31 December 2012

		2012	2011 (restated)
	Notes	€000	€000
Assets			
Cash and balances with central banks		1.272.424	1.375.047
Placements with banks		1.768.836	2.627.831
Reverse repurchase agreements		-	215.936
Investments	3	1.135.333	2.629.124
Investments pledged as collateral	3	734.747	938.070
Derivative financial assets		26.794	193.734
Loans and advances to customers		24.374.531	27.366.917
Life insurance business assets attributable to policyholders		495.756	504.579
Property and equipment		483.193	473.188
Intangible assets		123.555	472.510
Other assets		613.760	674.439
Investments in associates		3.107	2.820
Total assets		31.032.036	37.474.195
Liabilities			
Obligations to central banks and amounts due to banks		341.044	3.065.756
Repurchase agreements		607.773	785.993
Derivative financial liabilities		183.826	488.111
Customer deposits		28.442.152	29.654.498
Insurance liabilities		604.170	611.264
Debt securities in issue		44.775	49.791
Other liabilities	4	339.303	347.697
Subordinated loan stock		133.294	128.380
Total liabilities		30.696.337	35.131.490
Equity			
Share capital		1.795.141	899.528
Share premium		428.271	1.164.903
Convertible Enhanced Capital Securities		428.835	862.233
Revaluation and other reserves		106.336	2.585
Accumulated losses		(2.500.106)	(670.988)
Equity attributable to owners of the Company		258.477	2.258.261
Non-controlling interests		77.222	84.444
Total equity		335.699	2.342.705
Total liabilities and equity		31.032.036	37.474.195

BANK OF CYPRUS GROUP

Extracts from the Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	2012	2011
	€000	€000
Total equity at 1 January	2.342.705	2.828.349
Change of accounting policy	-	(97.347)
Total equity at 1 January (restated)	2.342.705	2.731.002
Loss for the year	(2.223.019)	(1.366.413)
Other comprehensive income after tax	123.895	189.595
Purchase of shares of the Company	(39.756)	(1.946)
Disposal of shares of the Company	3.138	895
Cost of share-based payments	-	2.611
Issue of shares	159.683	-
Issue costs	(2.449)	-
Dividend paid and reinvested	-	(18.437)
Defense contribution on deemed dividend distribution	(28.498)	(2.191)
Dividend paid by subsidiaries	-	(978)
Issue of Convertible Enhanced Capital Securities (CECS)	-	857.084
Exchange of Convertible Capital Securities and 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
Conversion of convertible bonds and convertible capital securities	-	6
Total equity at 31 December	335.699	2.342.705

BANK OF CYPRUS GROUP
Extracts from the Consolidated Statement of
Comprehensive Income
for the year ended 31 December 2012

	2012	2011 (restated)
	€000	€000
Loss after tax	(2.223.019)	(1.366.413)
Foreign currency translation reserve	8.627	(8.553)
Available-for-sale investments	135.919	137.796
Cash flow hedges	-	(1.291)
Actuarial loss for the defined benefit plans	(10.492)	(235)
Property revaluation	(10.159)	61.878
Total comprehensive loss for the year	(2.099.124)	(1.176.818)

BANK OF CYPRUS GROUP

Extracts from the Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	2012	2011 (restated)
	€000	€000
Net cash flow used in operating activities	(3.574.954)	(3.813.973)
Net cash flow from investing activities	2.085.056	364.521
Net cash flow from/(used in) financing activities	107.539	(67.126)
Net decrease in cash and cash equivalents for the year	(1.382.359)	(3.516.578)
Exchange adjustments	(5.193)	20.490
Total cash outflow for the year	(1.387.552)	(3.496.088)
Cash and cash equivalents at 1 January	2.725.508	6.221.596
Cash and cash equivalents at 31 December	1.337.956	2.725.508

BANK OF CYPRUS PUBLIC COMPANY LTD
Extracts from the Income Statement
and Statement of Comprehensive Income
for the year ended 31 December 2012

	2012	2011 (restated)
	€000	€000
Net interest income	854.444	988.635
Net fee and commission income	179.488	189.345
Net Foreign exchange gains	20.601	35.702
Dividend from subsidiaries and joint ventures	31.179	18.449
Net gains on financial instrument transactions and disposal of subsidiaries	57.217	24.637
Other (expenses)/Income	(2.759)	7.715
	1.140.170	1.264.483
Staff costs	(312.400)	(331.362)
Other operating expenses	(248.105)	(228.907)
Profit before impairment of loans and advances, Greek Government Bonds, goodwill and intangible assets	579.665	704.214
Provisions for impairment of loans and advances	(1.948.043)	(356.320)
Provision for impairment of loans and advances of subsidiaries	(337.000)	-
Impairment of investment in subsidiary	(354.417)	-
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	(143.573)	(1.719.764)
Loss before tax	(2.203.368)	(1.371.870)
Tax	(12.563)	2.940
Loss after tax	(2.215.931)	(1.368.930)
Basic and diluted losses per share (€)	(1.4340)	(1.5255)
Loss after tax	(2.215.931)	(1.368.930)
Other comprehensive income after tax	125.204	200.115
Total comprehensive loss for the year	(2.090.727)	(1.168.815)

BANK OF CYPRUS PUBLIC COMPANY LTD

Extracts from the Balance Sheet

as at 31 December 2012

		2012	2011 (restated)
	Notes	€000	€000
Assets			
Cash and balances with central banks		655.254	1.242.705
Placements with banks		1.553.587	2.425.778
Reverse repurchase agreements		-	215.936
Investments	3	1.093.961	2.566.223
Investments pledged as collateral	3	734.747	938.070
Derivative financial assets		26.785	193.734
Loans and advances to customers		20.873.053	24.145.674
Bank accounts of Group Companies		2.033.776	3.321.270
Investments in Group Companies		864.930	938.567
Investments in associates and joint ventures		8.009	7.722
Property and equipment		287.169	322.226
Intangible assets		16.339	18.266
Other assets		185.606	314.930
Total assets		28.333.216	36.651.101
Liabilities			
Obligations to central banks and amounts due to banks		256.831	2.999.470
Repurchase agreements		607.773	785.993
Derivative financial liabilities		183.802	488.102
Customer deposits		25.880.056	28.223.101
Bank accounts of Group Companies		759.467	1.503.851
Debt securities in issue		15.389	20.319
Other liabilities	4	244.081	251.509
Subordinated loan stock		126.372	121.452
Total liabilities		28.073.771	34.393.797
Equity			
Share capital		1.795.141	899.528
Share premium		428.271	1.164.903
Convertible Enhanced Capital Securities		428.835	862.233
Revaluation and other reserves		147.719	46.155
Accumulated losses		(2.540.521)	(715.515)
Total equity		259.445	2.257.304
Total liabilities and equity		28.333.216	36.651.101

BANK OF CYPRUS PUBLIC COMPANY LTD
Extracts from the Statement of Changes in Equity
for the year ended 31 December 2012

	2012	2012
	€000	€000
Total equity at 1 January	2.257.304	2.733.407
Change of accounting policy	-	(95.372)
Total equity at 1 January (restated)	2.257.304	2.638.035
Loss for the year	(2.215.931)	(1.368.930)
Other comprehensive income after tax	125.204	200.115
Purchase of shares of the Company	(38.060)	(822)
Disposal of shares of the Company	2.192	-
Cost of share-based payments	-	2.461
Dividend paid and reinvested	-	(18.463)
Defence contribution on deemed dividend distribution	(28.498)	(2.191)
Issue of Convertible Enhanced Capital Securities (CECS)	-	857.084
Conversion of Convertible Bonds and Convertible Capital Securities	-	6
Exchange of Convertible Capital Securities and Capital Securities with CECS	-	(13.902)
Issue costs of CECS	-	(1.458)
Interest on CECS	-	(34.631)
Issue of shares	159.683	-
Issue costs	(2.449)	-
Total equity at 31 December	259.445	2.257.304

BANK OF CYPRUS PUBLIC COMPANY LTD
Extracts from the Statement of Comprehensive Income
for the year ended 31 December 2012

	2012	2011 (restated)
	€000	€000
Loss after tax	(2.215.931)	(1.368.930)
Foreign currency translation reserve	3.918	266
Available-for-sale investments	136.297	134.578
Investments in Group Companies	5.639	28.130
Cash flow hedges	-	(1.361)
Actuarial loss for the defined benefit plans	(11.212)	(1.979)
Property revaluation	(9.438)	40.481
Total comprehensive expenses for the year	(2.090.727)	(1.168.815)

BANK OF CYPRUS PUBLIC COMPANY LTD
Extracts from the Statement of Cash Flows
for the year ended 31 December 2012

	2012	2011 (restated)
	€000	€000
Net cash flow from/(used in) operating activities	(3.478.702)	(3.725.976)
Net cash flow from investing activities	1.925.853	539.471
Net cash flow from/(used in) financing activities	110.412	(42.456)
Net increase/(decrease) in cash and cash equivalents for the year	(1.442.437)	(3.228.961)
Exchange adjustments	438	24.304
Total cash inflow/(outflow) for the year	(1.441.999)	(2.859.118)
Cash and cash equivalents at 1 January	2.435.409	5.640.066
Cash and cash equivalents at 31 December	993.410	2.435.409

1. The consolidated financial statements for the year ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113
2. The accounting policies adopted are consistent with those of the previous financial year except for the change in accounting policy as of 1 January 2012 in respect of the recognition of actuarial gains or losses on the defined benefit pension plans and the adoption of new and amended standards and interpretations as explained below.

The Group has adopted the following new standards, amendments and interpretations which did not have any material impact on the Group's financial statements.

- IAS 12 'Income Taxes' (amended) – Deferred tax: Recovery of Underlying Assets.
- IFRS 7 'Financial Instruments: Disclosures' (amended) - Enhanced Derecognition Disclosure Requirements.
- IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters' (amended).

The adoption of the above did not have any impact on the financial statements of the Group.

2.1 Change in accounting policy for employee retirement benefits

The Group has changed its accounting policy with respect to IAS 19 'Employee Benefits' and the recognition of actuarial gains or losses arising from defined benefit plans. The Group previously recognised these gains or losses as income or expense only when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded 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. As a consequence, the balance sheet did not reflect unrecognised actuarial gains and losses.

As from 1 January 2012, actuarial gains or losses are recognised in full in the period in which they occur, in the consolidated statement of comprehensive income.

The Group has decided to change this accounting policy as it considers that the revised policy provides more relevant information about the effect of employee benefits and their impact on the Group's financial position and performance. In addition, the new policy conforms with the provisions of the amended IAS 19, which will be applied as from 1 January 2013.

The aforementioned change in accounting policy has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in the restatement of financial information for prior periods.

2.1 Change in accounting policy for employee retirement benefits *(continued)*

As a result of the accounting policy change, the following adjustments were made to the financial results and position of the Group:

Consolidated Income Statement	31 December 2011
Loss after tax	€000
Before the change in accounting policy	(1.377.844)
Reversal of amortisation of actuarial losses	11.431
After the change in accounting policy	(1.366.413)

	31 December 2011	31 December 2010
Consolidated statement of changes in equity	€000	€000
Before the change in accounting policy	2.429.079	2.828.349
Recognition of net actuarial losses in equity	(86.374)	(97.347)
After the change in accounting policy	2.342.705	2.731.002

Consolidated Balance Sheet	31 December 2011
Other assets	€000
Before the change in accounting policy	675.343
Impact of the recognition in full of net actuarial losses	(3.658)
Change in deferred tax assets	2.754
After the change in accounting policy	674.439

Other liabilities	
Before the change in accounting policy	262.227
Impact of the recognition in full of net actuarial losses	85.028
Change in deferred tax liabilities	442
After the change in accounting policy	347.697

The impact on earnings per share for the nine and the three months ended 31 December 2011 as a result of the restatement was lower than €0,01.

If the accounting policy had not been changed, the profit after tax for the year ended 31 December 2012 would have included an one-off cost of €53.869 thousand as a result of the termination of the main defined benefit plan for the Group's employees in Cyprus in January 2012. Also, profit after tax for the nine months, would not have included the positive impact amounting to €16.727 thousand which represents the difference between the value of the retirement plan obligations as at 31 December 2011 and the final cost of termination of the plan.

3. Investments of the Group and the Company are analysed as follows:

	31 December 2012	31 December 2011
Group	€000	€000
Investments		
Investments at fair value through profit or loss	21.818	26.345
Investments available-for-sale	402.547	534.803
Investments held-to-maturity	-	1.055.406
Investments classified as loans and receivables	710.968	1.012.570
	1.135.333	2.629.124
Investments pledged as collateral		
Investments at fair value through profit or loss	-	26.544
Investments available-for-sale	694.287	718.719
Investments held-to-maturity	-	148.698
Investments classified as loans and receivables	40.460	44.109
	734.747	938.070
	1.870.080	3.567.194

	31 December 2012	31 December 2011
Company	€000	€000
Investments		
Investments at fair value through profit or loss	14.423	18.655
Investments available-for-sale	368.742	485.929
Investments held-to-maturity	-	1.049.069
Investments classified as loans and receivables	710.796	1.012.570
	1.093.961	2.566.223
Investments pledged as collateral		
Investments at fair value through profit or loss	-	26.544
Investments available-for-sale	694.287	718.719
Investments held-to-maturity	-	148.698
Investments classified as loans and receivables	40.460	44.109
	734.747	938.070
	1.828.708	3.504.293

4. Other liabilities at 31 December 2012 include provisions for pending litigation or claims of €10.042 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. The Group's provision for pending litigation or claims at 31 December 2012 is set out in Note 39 of the consolidated financial statements. The litigation that arose after the reporting date is set out in Note 53 of the consolidated financial statements. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.
5. The number of persons employed by the Group at 31 December 2012 was 10.772 (2011: 11.326) and by the Company was 6.254 (2011: 6.531).
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 2012 were 89.362 thousand and their cost of acquisition was €62.328 thousand.

7. The Group subsidiaries, branches, associates and joint venture as at 31 December 2012 and the method of consolidation used are set out in Note 51 of consolidated financial statements.

8. Related party transactions:

- (a) Loans and other advances to members of the Board of Directors and key management personnel: €5.028 thousand for the Group and the Company.
- (b) Loans and other advances to other connected persons: €29.053 thousand for the Group and €2.062.828 thousand for the Company.
- (c) Contingent liabilities and commitments (mainly documentary credits, guarantees and commitments to lend): €16.201 thousand for the Group and the Company.
- (d) Deposits by members of the Board of Directors and key management personnel: €19.260 thousand for the Group and the Company.
- (e) Deposits by other connected persons: €21.948 thousand for the Group and €781.415 thousand for the Company.
- (f) Interest income: €9.511 thousand for the Group and €100.067 thousand for the Company.
- (g) Interest expense: €3.452 thousand for the Group and €17.840 thousand for the Company.
- (h) Remuneration and other transactions of members of the Board of Directors, key management personnel and connected persons: €4.469 thousand for the Group and €4.076 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: €56 thousand for the Group and the Company.
- (j) Debt securities in issue, subordinated loan stock and CECS to other connected persons: €2 thousand for the Group and the Company.

9. Other information

The total capital expenditure of the Group for the year ended 31 December 2012 amounted to €12.264 thousand (2011: €31.266 thousand) and for the Company €8.314 thousand (2011: €9.845 thousand) .

10. Events after the balance sheet date

In March 2013, Cyprus and the Eurogroup reached an agreement on a package of measures which, inter alia, included the restructuring of the banking sector. The Group restructuring included the sale of the Greek operations and the acquisition of the Cyprus operations of Laiki Bank, thus significantly altering the profile of the Group.

Details of the events after the reporting date are disclosed in Note 53 of the consolidated financial statements.

<u>Date</u>	<u>Announcement</u>	<u>Electronic Address</u>
04 Jan 2013	Bank of Cyprus Group Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130104CapitalSecuritiesENG.pdf
10 Jan 2013	Resignation of Board Members	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130110DirectorsResignationENG.pdf
16 Jan 2013	Review and setting of the interest rate on Bank of Cyprus Public Company Ltd Convertible Bonds 2013/2018	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130116ConvBondsInterestENG.pdf
30 Jan 2013	Bank of Cyprus Group Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130130AnnouncementENG.pdf
31 Jan 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130131ResignationConstantinidesGR.pdf
28 Feb 2013	Preliminary Results for the year 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228PrelimResults2012ReleaseDateENG.pdf
28 Feb 2013	Appointment of New Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228NewDirectorsENG.pdf
28 Feb 2013	Period and Procedure for the exercise of the Right for the Voluntary Conversion of Securities	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130228ConversionPeriodsENG.pdf
11 Mar 2013	Notice of Deferral of coupon payment on Capital Securities 12/2007	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130311CapitalSecInterestDeferralENG.pdf
26 Mar 2013	Resignation of the Chairman and members of the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130326ResignationChairmanENG.pdf
29 Mar 2013	Resignation of Group Chief Executive Officer	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130329CEOResignationENG.pdf
01 Apr 2013	Restructuring and Recapitalisation of Bank of Cyprus	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130401BOCRecapENG.pdf
02 Apr 2013	Bank of Cyprus operations in the UK and in Romania	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130402UKOperationsENG.pdf
02 Apr 2013	Resignation of members of the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130402ResignationBoardENG.pdf
26 Apr 2013	Operations in Romania	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130426RomaniaENG.pdf

26 Apr 2013	Appointment of members of Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130426BoDENG.pdf
29 Apr 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130429Conversion%ce%91ENG.pdf
30 Apr 2013	Election of Chairman and Vice-Chairman	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130430%ce%9dewChairmanENG.pdf
10 May 2013	Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130510BoardCommitENG.pdf
13 May 2013	Appointment of New Director	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130513AppointmentArapoglouENG.pdf
23 May 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130523CEOProposalENG.pdf
30 May 2013	Appointment of Interim Group Chief Executive Officer	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130530CEOAppointmentENG.pdf
14 Jun 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130614UkraineENG.pdf
18 Jun 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130618SpecialAdministratorENG.pdf
03 Jul 2013	Resignation of Board Member	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130702DirectorResignationENG.pdf
03 Jul 2013	Revised Board Committees	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130702BoardCommitENG.pdf
22 Jul 2013	Sale of Kyprou Asset Management M.F.M.C.	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130722AEDAKENG.pdf
26 Jul 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130726AnnouncementSplitENG.pdf
31 Jul 2013	Recapitalisation through Bail-in and Resolution Exit Bank of Cyprus Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_RecapENG.pdf
31 Jul 2013	Notice to holders of ordinary shares of Bank of Cyprus as of 29 March 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_NotifyShareholdersENG.pdf

31 Jul 2013	Notice to holders of debt securities of Bank of Cyprus as of 29 March 2013	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/201330731_NoticeDebtSecuritiesENG.pdf
01 Aug 2013	Bank of Cyprus reinstated as an eligible counterparty by ECB	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130801ECBeligibilityENG.pdf
02 Aug 2013	Voluntary Retirement Scheme	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130802VRSENG.pdf
08 Aug 2013	Form of proxy	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/BOC%20PROXY_GR.pdf
08 Aug 2013	Notice to Annual General Meeting	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130808AGMInvitationENG.pdf
29 Aug 2013	Announcement	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130829UkraineSubENG.pdf
03 Sep 2013	Audited Group Financial Results for the year ended 31 December 2012	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130903AnnouncementDateFY2012ENG.pdf
03 Sep 2013	Share Capital	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130903AnnouncementSharesENG.pdf
05 Sep 2013	Candidates for election to the Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130905AnnouncementNominationsENG.pdf
10 Sep 2013	Resolutions of the shareholders' AGM	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130910AGMAnnouncementENG.pdf
10 Sep 2013	Announcement according to Cyprus Law L. 190(I)/2007	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130910AGMProxies_CV_ENG.pdf
24 Sep 2013	Board of Directors	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130924BoardENG.pdf
25 Sep 2013	ANNOUNCEMENT TO HOLDERS OF CAPITAL GUARANTEED STRUCTURED DEPOSIT PRODUCTS AND/OR INVESTMENT PRODUCTS (AS SUCH TERMS ARE USED IN THE BAILING-IN OF BANK OF CYPRUS PUBLIC COMPANY LIMITED DECREES OF 2013 UP TO (NO. 3) OF 2013)	http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20130925AnnouncementStructuredENG.pdf