



Interim Condensed Consolidated Financial Statements  
for the three months ended

**31 March 2014**

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BANK OF CYPRUS GROUP  
Interim Condensed Consolidated Financial Statements  
for the three months ended 31 March 2014

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**BANK OF CYPRUS GROUP**  
**Interim Condensed Consolidated Financial Statements**  
for the three months ended 31 March 2014

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**BANK OF CYPRUS GROUP**  
**Interim Consolidated Income Statement**  
for the three months ended 31 March 2014

|                                                                            |       | Three months ended<br>31 March<br>2014 |
|----------------------------------------------------------------------------|-------|----------------------------------------|
|                                                                            |       | €000                                   |
|                                                                            | Notes |                                        |
| <b>Continuing operations</b>                                               |       |                                        |
| Turnover                                                                   |       | 480.026                                |
| Interest income                                                            |       | 392.716                                |
| Interest expense                                                           |       | (125.758)                              |
| Net interest income                                                        |       | 266.958                                |
| Fee and commission income                                                  |       | 48.180                                 |
| Fee and commission expense                                                 |       | (2.901)                                |
| Net foreign exchange losses                                                |       | (5.571)                                |
| Net gains on financial instrument transactions                             |       | 19.570                                 |
| Insurance income net of claims and commissions                             |       | 13.126                                 |
| Other income                                                               | 8     | 491                                    |
|                                                                            |       | 339.853                                |
| Staff costs                                                                | 8     | (67.456)                               |
| Other operating expenses                                                   | 8     | (61.043)                               |
| Profit before impairment of loans and advances                             |       | 211.354                                |
| Provisions for impairment of loans and advances                            | 25    | (146.465)                              |
| <b>Profit before share of profit from associates and joint ventures</b>    |       | 64.889                                 |
| Share of profit from associates and joint ventures                         |       | 2.135                                  |
| <b>Profit before tax</b>                                                   |       | 67.024                                 |
| Tax                                                                        | 9     | (2.232)                                |
| <b>Profit after tax</b>                                                    |       | 64.792                                 |
| <b>Discontinued operations</b>                                             |       |                                        |
| Loss after tax from discontinued operations                                | 7     | (35.987)                               |
| <b>Profit for the period</b>                                               |       | 28.805                                 |
| <b>Attributable to:</b>                                                    |       |                                        |
| Owners of the Company - continuing operations                              | 7     | 67.257                                 |
| Owners of the Company - discontinued operations                            | 7     | (35.948)                               |
| Total profit attributable to the owners of the Company                     |       | 31.309                                 |
| Non-controlling interests - continuing operations                          | 7     | (2.465)                                |
| Non-controlling interests - discontinued operations                        | 7     | (39)                                   |
| <b>Profit for the period</b>                                               |       | 28.805                                 |
| <b>Basic and diluted earnings per share (cent) – continuing operations</b> | 10    | 1,4                                    |
| <b>Basic and diluted earnings per share (cent)</b>                         | 10    | 0,7                                    |

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

BANK OF CYPRUS GROUP  
Interim Consolidated Statement of Comprehensive Income  
for the three months ended 31 March 2014

|                                                                                              | Three months ended<br>31 March |
|----------------------------------------------------------------------------------------------|--------------------------------|
|                                                                                              | 2014                           |
|                                                                                              | €000                           |
| <b>Profit for the period</b>                                                                 | <b>28.805</b>                  |
| <b>Other comprehensive income (OCI)</b>                                                      |                                |
| <i>OCI to be reclassified in the consolidated income statement in subsequent periods</i>     |                                |
| <b>Foreign currency translation reserve</b>                                                  |                                |
| Loss on translation of net investment in overseas subsidiaries and branches                  | (21.893)                       |
| Profit on hedging of net investments                                                         | 7.630                          |
|                                                                                              | (14.263)                       |
| <b>Available-for-sale investments</b>                                                        |                                |
| Gains on revaluation before tax                                                              | 9.218                          |
| Transfer to the consolidated income statement on impairment                                  | 215                            |
| Transfer to the consolidated income statement on sale                                        | (2.148)                        |
| Tax                                                                                          | 7                              |
|                                                                                              | 7.292                          |
|                                                                                              | (6.971)                        |
| <i>OCI not to be reclassified in the consolidated income statement in subsequent periods</i> |                                |
| <b>Property revaluation</b>                                                                  |                                |
| Tax                                                                                          | 10                             |
|                                                                                              | 10                             |
| <b>Other comprehensive loss after tax</b>                                                    | <b>(6.961)</b>                 |
| <b>Total comprehensive income for the period</b>                                             | <b>21.844</b>                  |
| <b>Attributable to:</b>                                                                      |                                |
| Owners of the Company                                                                        | 25.962                         |
| Non-controlling interests                                                                    | (4.118)                        |
| <b>Total comprehensive income for the period</b>                                             | <b>21.844</b>                  |

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

BANK OF CYPRUS GROUP  
Interim Consolidated Balance Sheet  
as at 31 March 2014

|                                                              |              | <b>31 March<br/>2014</b> | 31 December<br>2013<br>(restated) |
|--------------------------------------------------------------|--------------|--------------------------|-----------------------------------|
|                                                              | <i>Notes</i> | <b>€000</b>              | €000                              |
| <b>Assets</b>                                                |              |                          |                                   |
| Cash and balances with central banks                         |              | <b>963.963</b>           | 1.240.043                         |
| Placements with banks                                        |              | <b>1.141.169</b>         | 1.290.102                         |
| Investments                                                  | 11           | <b>2.809.356</b>         | 2.759.855                         |
| Investments pledged as collateral                            | 11           | <b>665.382</b>           | 672.809                           |
| Derivative financial assets                                  | 12           | <b>27.877</b>            | 28.765                            |
| Loans and advances to customers                              | 14           | <b>21.233.958</b>        | 21.764.338                        |
| Life insurance business assets attributable to policyholders |              | <b>449.907</b>           | 443.579                           |
| Property and equipment                                       |              | <b>403.424</b>           | 414.404                           |
| Intangible assets                                            |              | <b>129.967</b>           | 130.580                           |
| Other assets                                                 | 15           | <b>1.347.334</b>         | 1.401.833                         |
| Investments in associates and joint ventures                 | 33           | <b>205.932</b>           | 203.131                           |
| <b>Total assets</b>                                          |              | <b>29.378.269</b>        | 30.349.439                        |
| <b>Liabilities</b>                                           |              |                          |                                   |
| Amounts due to banks                                         | 16           | <b>171.236</b>           | 196.422                           |
| Funding from central banks                                   | 17           | <b>10.905.788</b>        | 10.956.277                        |
| Repurchase agreements                                        |              | <b>582.489</b>           | 594.004                           |
| Derivative financial liabilities                             | 12           | <b>77.662</b>            | 83.894                            |
| Customer deposits                                            |              | <b>14.065.675</b>        | 14.971.167                        |
| Insurance liabilities                                        |              | <b>556.143</b>           | 551.829                           |
| Debt securities in issue                                     | 18           | <b>1.493</b>             | 1.515                             |
| Other liabilities                                            | 19           | <b>253.482</b>           | 251.979                           |
| Subordinated loan stock                                      | 20           | <b>4.743</b>             | 4.676                             |
| <b>Total liabilities</b>                                     |              | <b>26.618.711</b>        | 27.611.763                        |
| <b>Equity</b>                                                |              |                          |                                   |
| Share capital                                                | 21           | <b>4.699.503</b>         | 4.683.985                         |
| Shares subject to interim orders                             | 21           | <b>46.244</b>            | 58.922                            |
| Revaluation and other reserves                               |              | <b>67.099</b>            | 72.251                            |
| Accumulated losses                                           |              | <b>(2.123.523)</b>       | (2.151.835)                       |
| <b>Equity attributable to owners of the Company</b>          |              | <b>2.689.323</b>         | 2.663.323                         |
| <b>Non-controlling interests</b>                             |              | <b>70.235</b>            | 74.353                            |
| <b>Total equity</b>                                          |              | <b>2.759.558</b>         | 2.737.676                         |
| <b>Total liabilities and equity</b>                          |              | <b>29.378.269</b>        | 30.349.439                        |

**Chr. Hassapis**  
**V. Strzhalkovskiy**  
**I. Zographakis**  
**J. P. Hourican**  
**Chr. Patsalides**  
**E. Livadiotou**

Chairman  
Vice-Chairman  
Director  
Chief Executive Officer  
Finance Director  
Chief Financial Officer

**BANK OF CYPRUS GROUP**  
**Interim Consolidated Statement of Changes in Equity**  
for the three months ended 31 March 2014

|                                                                 |                            | Attributable to the owners of the Company     |                    |                              |                                                       |                |                                          |                                      |                 |                  |                          |                  |
|-----------------------------------------------------------------|----------------------------|-----------------------------------------------|--------------------|------------------------------|-------------------------------------------------------|----------------|------------------------------------------|--------------------------------------|-----------------|------------------|--------------------------|------------------|
|                                                                 | Share capital<br>(Note 21) | Shares subject to interim orders<br>(Note 21) | Accumulated losses | Property revaluation reserve | Revaluation reserve of available-for-sale investments | Other reserves | Life insurance in-force business reserve | Foreign currency translation reserve | Treasury Shares | Total            | Non-controlling interest | Total equity     |
|                                                                 | €000                       | €000                                          | €000               | €000                         | €000                                                  | €000           | €000                                     | €000                                 | €000            | €000             | €000                     | €000             |
| <b>1 January 2014</b>                                           | <b>4.683.985</b>           | <b>58.922</b>                                 | <b>(2.152.330)</b> | <b>115.958</b>               | <b>35.863</b>                                         | <b>6.059</b>   | <b>92.297</b>                            | <b>(96.462)</b>                      | <b>(88.051)</b> | <b>2.656.241</b> | <b>74.353</b>            | <b>2.730.594</b> |
| Finalisation of accounting for Laiki Bank acquisition (Note 32) | -                          | -                                             | 495                | -                            | 6.587                                                 | -              | -                                        | -                                    | -               | 7.082            | -                        | 7.082            |
| <b>1 January 2014 (restated)</b>                                | <b>4.683.985</b>           | <b>58.922</b>                                 | <b>(2.151.835)</b> | <b>115.958</b>               | <b>42.450</b>                                         | <b>6.059</b>   | <b>92.297</b>                            | <b>(96.462)</b>                      | <b>(88.051)</b> | <b>2.663.323</b> | <b>74.353</b>            | <b>2.737.676</b> |
| Profit/(loss) for the period                                    | -                          | -                                             | 31.309             | -                            | -                                                     | -              | -                                        | -                                    | -               | 31.309           | (2.504)                  | 28.805           |
| Other comprehensive income/(loss) for the period                | -                          | -                                             | -                  | 9                            | 7.256                                                 | -              | -                                        | (12.612)                             | -               | (5.347)          | (1.614)                  | (6.961)          |
| Total comprehensive income/(loss) for the period                | -                          | -                                             | 31.309             | 9                            | 7.256                                                 | -              | -                                        | (12.612)                             | -               | 25.962           | (4.118)                  | 21.844           |
| Bail-in of deposits and structured products                     | 38                         | -                                             | -                  | -                            | -                                                     | -              | -                                        | -                                    | -               | 38               | -                        | 38               |
| Shares subject to interim orders                                | 12.678                     | (12.678)                                      | -                  | -                            | -                                                     | -              | -                                        | -                                    | -               | -                | -                        | -                |
| Acquisitions (Note 32)                                          | 2.802                      | -                                             | (2.802)            | -                            | -                                                     | -              | -                                        | -                                    | -               | -                | -                        | -                |
| Transfer of realised profits on sale of property                | -                          | -                                             | 54                 | (54)                         | -                                                     | -              | -                                        | -                                    | -               | -                | -                        | -                |
| Increase in value of in-force life insurance business           | -                          | -                                             | (244)              | -                            | -                                                     | -              | 244                                      | -                                    | -               | -                | -                        | -                |
| Tax on increase in value of in-force life insurance business    | -                          | -                                             | (5)                | -                            | -                                                     | -              | 5                                        | -                                    | -               | -                | -                        | -                |
| <b>31 March 2014</b>                                            | <b>4.699.503</b>           | <b>46.244</b>                                 | <b>(2.123.523)</b> | <b>115.913</b>               | <b>49.706</b>                                         | <b>6.059</b>   | <b>92.546</b>                            | <b>(109.074)</b>                     | <b>(88.051)</b> | <b>2.689.323</b> | <b>70.235</b>            | <b>2.759.558</b> |

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.

**BANK OF CYPRUS GROUP**  
**Interim Consolidated Statement of Cash Flows**  
for the three months ended 31 March 2014

|                                                                                                                                                                        |             | <b>Three months<br/>ended 31 March<br/>2014<br/>€000</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----------------------------------------------------------|
|                                                                                                                                                                        | <i>Note</i> |                                                          |
| <b>Net cash flows from operating activities</b>                                                                                                                        |             |                                                          |
| Profit before tax from continuing operations                                                                                                                           |             | <b>67.024</b>                                            |
| Loss before tax from discontinued operations                                                                                                                           |             | <b>(36.641)</b>                                          |
| Share of profit from associates and joint ventures                                                                                                                     |             | <b>(2.135)</b>                                           |
| Provisions for impairment of loans and advances                                                                                                                        |             | <b>184.993</b>                                           |
| Depreciation of property and equipment and amortisation of intangible assets                                                                                           |             | <b>6.883</b>                                             |
| Increase in value of in-force life insurance policies                                                                                                                  |             | <b>(244)</b>                                             |
| Amortisation of discounts/premiums of debt securities                                                                                                                  |             | <b>(46.940)</b>                                          |
| Income from investments and disposals of property, equipment and intangible assets less interest on subordinated loan stock and interest on funding from central banks |             | <b>(17.426)</b>                                          |
|                                                                                                                                                                        |             | <b>155.514</b>                                           |
| Net decrease in loans and advances to customers and other accounts                                                                                                     |             | <b>845.246</b>                                           |
| Net decrease in customer deposits and other accounts                                                                                                                   |             | <b>(944.448)</b>                                         |
|                                                                                                                                                                        |             | <b>56.312</b>                                            |
| Tax paid                                                                                                                                                               |             | <b>-</b>                                                 |
| <b>Net cash flow from operating activities</b>                                                                                                                         |             | <b>56.312</b>                                            |
| <b>Cash flows from investing activities</b>                                                                                                                            |             |                                                          |
| Proceeds on disposal/redemption of investments                                                                                                                         |             | <b>23.151</b>                                            |
| Interest received from debt securities and treasury bills                                                                                                              |             | <b>53.232</b>                                            |
| Dividend income from equity securities                                                                                                                                 |             | <b>42</b>                                                |
| Proceeds on disposal of subsidiaries                                                                                                                                   |             | <b>17.500</b>                                            |
| Purchase of property and equipment                                                                                                                                     |             | <b>(1.905)</b>                                           |
| Proceeds on disposal of property and equipment                                                                                                                         |             | <b>567</b>                                               |
| Purchase of intangible assets                                                                                                                                          |             | <b>(2.606)</b>                                           |
| Proceeds on disposal of investment property                                                                                                                            |             | <b>7.119</b>                                             |
| <b>Net cash flow from investing activities</b>                                                                                                                         |             | <b>97.100</b>                                            |
| <b>Cash flows from financing activities</b>                                                                                                                            |             |                                                          |
| Funding from central banks                                                                                                                                             |             | <b>(50.489)</b>                                          |
| Interest on subordinated loan stock                                                                                                                                    |             | <b>(21)</b>                                              |
| Interest on funding from central banks                                                                                                                                 |             | <b>(42.593)</b>                                          |
| <b>Net cash flow used in financing activities</b>                                                                                                                      |             | <b>(93.103)</b>                                          |
| <b>Net increase in cash and cash equivalents for the period</b>                                                                                                        |             | <b>60.309</b>                                            |
| <b>Cash and cash equivalents</b>                                                                                                                                       |             |                                                          |
| 1 January                                                                                                                                                              |             | <b>1.463.243</b>                                         |
| Exchange adjustments                                                                                                                                                   |             | <b>27.089</b>                                            |
| Net increase in cash and cash equivalents for the period                                                                                                               |             | <b>60.309</b>                                            |
| <b>31 March</b>                                                                                                                                                        | <b>23</b>   | <b>1.550.641</b>                                         |

No comparative information has been presented since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events in March 2013.



## 1. Corporate information

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

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

### *Interim Condensed Consolidated Financial Statements*

The Interim Condensed Consolidated Financial Statements include the financial statements of the Company and its subsidiaries and were authorised for issue by a resolution of the Board of Directors on 30 May 2014.

## 2. Cyprus – Eurogroup agreement and the operating environment thereafter

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

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

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

Although the economic situation in Cyprus remains challenging, the economic recession has been less severe than expected and the economy is proving relatively resilient. The fourth quarterly review mission of Troika has concluded that the Cyprus adjustment programme remains on track. All fiscal targets were met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution and a less severe deterioration of economic activity than originally projected. Furthermore, there has been significant progress towards the recapitalisation and restructuring of the financial sector and banks are advancing with their restructuring plans. This has allowed for a significant liberalisation of domestic payment restrictions, in line with the government's roadmap.

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

### 2.1 Restructuring of the financial sector

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

- Based on a decision by the Central Bank of Cyprus ('CBC') in its capacity as Resolution Authority and in compliance with Cyprus' adopted Bank Resolution Framework, Cyprus Popular Bank Public Co Ltd ('Laiki Bank') was subjected to immediate resolution. Laiki Bank, including mostly uninsured depositors and assets outside Cyprus, is expected to be run down over time. The assets of Laiki Bank in Cyprus, the majority of Laiki Bank liabilities, mainly the insured deposits, €9 billion of Emergency Liquidity Assistance ('ELA') funding, and certain assets and liabilities of the UK and Greek operations of Laiki Bank were acquired by the Group. Additional information is presented in Note 32.
- The Company was recapitalised through a deposit-to-equity conversion of 47,5% of deposits subject to bail-in in accordance with the relevant decrees issued by the Resolution Authority ('uninsured deposits') with full contribution of equity shareholders and debt holders.

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

**2.1. Restructuring of the financial sector** (continued)

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

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

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

**2.2 Tax and other fiscal measures**

Pursuant to the implementation of the decisions of the Eurogroup, the House of Representatives of Cyprus voted a number of amending bills regarding direct and indirect taxes.

**2.3 Temporary restrictions on money transfers**

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

Since their introduction, these restrictive measures are gradually relaxed and the government has published a roadmap for their full abolition, taking into account investor confidence and financial stability indicators.

**2.4 Restructuring of the Group as a result of the programme**

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

*Sale of the Group's Greek operations to Piraeus Bank*

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

*Acquisition of certain operations of Laiki Bank*

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

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

*Laiki UK operations*

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

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

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

*Romanian operations*

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

**2.5 Recapitalisation of the Company**

Pursuant to the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decree' of 2013 and subsequent amendments to it, the Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits and structured products. The holders of ordinary shares and subordinated loan stock in issue as of 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses by a reduction of the nominal value of shares and the conversion into shares respectively. The debt securities in issue by the Company were also bailed-in via conversion into shares. A detailed description of these measures is set out in the Notes to the Consolidated Financial Statements for the year ended 31 December 2013.

**2.6 Release of six-month and nine-month time deposits**

On 31 January 2014 and 30 April 2014 the Company, after witnessing improving liquidity and stabilising signs of its deposit base, released the six-month and nine-month time deposits maturing on 31 January 2014 and 30 April 2014 respectively. The six-month time deposits were fully released on 31 January 2014. The nine-month time deposits will be released in three equal tranches on 30 April, 31 July and 31 October 2014. These deposits were blocked as per the decrees relating to the recapitalisation of the Company issued in July 2013. The released funds are subject to the general restrictive measures currently applicable in the Cypriot banking system.

**3. Unaudited financial statements**

The Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 have not been audited by the Group's external auditors.

**4. Basis of preparation**

The Interim Condensed Consolidated Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

**4.1 Statement of compliance**

The Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 have not been prepared in accordance with the International Accounting Standard applicable to interim financial reporting as adopted by the European Union ('IAS 34'), since the Group has not presented comparative information as no information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes prevailing at the time of the Eurogroup events of March 2013.

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2013.

**5. Accounting policies**

**5.1 New and amended standards and interpretations**

The accounting policies adopted for the preparation of the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2014 are consistent with those followed for the preparation of the annual Consolidated Financial Statements for the year ended 31 December 2013. In addition, the Group has adopted the following new standards, amendments and interpretations, which did not have a material impact on the Interim Condensed Consolidated Financial Statements:

**5. Accounting policies (continued)**

**5.1 New and amended standards and interpretations (continued)**

- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Involvement with Other Entities
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Comparatives have been re-presented to conform with changes in the presentation in the current period and to reflect the reclassification of the Ukrainian operations disposed on 18 April 2014, from continuing to discontinued operations.

**6. Significant judgements, estimates and assumptions**

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

The key assumptions concerning the future and other key sources of estimation of uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described in the Consolidated Financial Statements for the year ended 31 December 2013.

The critical judgements, estimates and assumptions are set out below, updated for current developments.

**6.1 Going concern**

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

The conditions that existed during the three months ended 31 March 2014 and the developments up to the date of approval of these interim condensed consolidated financial statements that have been considered in management's going concern assessment, include amongst others, the following:

**6.1.1 Restructuring Plan**

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

The Plan defines the strategic objectives and actions the Group should take to create a safer, smaller, more focused institution capable of supporting the prosperity of the Cypriot economy by:

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

**6. Significant judgements, estimates and assumptions (continued)**

**6.1 Going concern (continued)**

**6.1.1 Restructuring Plan (continued)**

- Enhancing the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

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

**6.1.2 Macroeconomic environment in Cyprus**

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

The Troika has recently concluded the forth quarterly review of Cyprus' economic programme. The Troika has commented that the Cyprus programme is on track. All fiscal targets have been met with considerable margins, reflecting the better-than-projected revenue performance, prudent budget execution, and a less severe deterioration of economic activity than originally projected. Furthermore, since the last review, there has been significant progress toward the recapitalisation and restructuring of the financial sector and the banks are advancing with their restructuring plans. This has allowed for a significant liberalisation of domestic payment restrictions, in line with the government's milestone-based roadmap. The Troika noted that the authorities have also taken steps toward implementing the structural reform agenda.

The Troika also noted that while the recession in 2014 is expected to be somewhat less severe than anticipated, the outlook remains challenging. The contraction of output for 2014 has been revised down to 4,2% from 4,8%, given the better-than-expected outturn for 2013 and other recent indicators pointing to gains in confidence. Unemployment remains very high, and large non-performing loans are constraining the ability of banks to supply credit to the economy. As a result, the recovery is now expected to be more subdued than previously forecast, with growth projected at 0,4% in 2015 and gradually improving thereafter, as domestic demand is weighed down by the need to reduce very high levels of indebtedness.

**6.1.3 Regulatory capital ratios**

The Core Tier 1 ratio of the Group at 31 March 2014 stands at 10,4%. Going forward, the Group aims to preserve its capital adequacy by retaining internally-generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

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

**6.1.4 Liquidity**

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

**6. Significant judgements, estimates and assumptions (continued)**

**6.1 Going concern (continued)**

**6.1.4 Liquidity (continued)**

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

The Group has been gradually repaying the ELA funding. The level of central bank funding (ELA and ECB funding) of the Group as at 31 March 2014 amounts to €10,91 billion, comprising €1,40 billion of ECB funding and €9,51 billion of ELA funding. The level of ELA funding has been further reduced in the period since 31 March 2014 by €270 million as a result of the deleveraging actions of the Group.

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

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

**6.1.5 Litigation and claims**

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

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

**6.1.6 Profitability**

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

The Group's strategy is to address these challenges through the set up of independent, centralised and specialised restructuring and recovery units to manage large or distressed exposures, through which the Group aims to proactively and efficiently manage problem loans in order to contain the provisions for impairment expected to arise from the ongoing economic slowdown.

As part of the Group's new organisational structure, the Restructuring and Recoveries Division aims to manage arrears across all portfolios. The Division handles all activity relating to exposures greater than €100,000 thousand, debt restructuring and debt collection and recovery of non-performing loans across all customer segments. The creation of this Division is a major step in the Group's recovery path, as swiftly and professionally addressing problem lending is absolutely critical.



**6. Significant judgements, estimates and assumptions (continued)**

**6.1 Going concern (continued)**

**6.1.7 ECB Comprehensive Assessment**

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

**6.1.8 Uncertainties**

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

However, the ability of the Group to continue as a going concern is dependent on:

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

**6.1.9 Going concern assessment**

The Company's management and Board of Directors, taking into consideration the above factors and the measures taken to support the Cyprus economy and the realised and planned actions as detailed in its Restructuring Plan, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:

- The Group has been successfully recapitalised.
- The Troika is expected to continue to provide the required financial support to Cyprus as per the MoU.
- The implementation of additional actions as per the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The additional liquidity support from the Cyprus government in issuing additional government guarantees as contingency collateral in case of need.
- The expectation that the Cyprus government will maintain certain temporary restrictive measures and capital controls with respect to banking and cash transactions for as long as required to ensure the stability of the Cyprus banking system.

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

**6.2 Provision for impairment of loans and advances to customers**

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

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

**6. Significant judgements, estimates and assumptions (continued)**

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

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by Recoveries Division for more than 3 years, and 4 years for customers that have been managed by Recoveries Division for less than 3 years. For all other loans a maximum expected recovery period of 5 years is assumed.

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

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

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

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

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

**6.3 Tax**

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



**6. Significant judgements, estimates and assumptions (continued)**

**6.3 Tax (continued)**

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

**6.4 Fair value of properties held for own use and investment properties**

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

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

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

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

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

**6.5 Impairment of available-for-sale investments**

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

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

**6. Significant judgements, estimates and assumptions (continued)**

**6.6 Investments in associates and joint ventures**

The Group's investments in joint venture comprises of Byron Capital Partners Ltd (BCP) and Marfin Diversified Strategy Fund Plc (MDFS) acquired by the Group as part of the acquisition of certain operations of Laiki Bank. The Group is a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulates a number of matters which require consent by both shareholders. The management of the shares of the MDFS are 100% owned by BCP. The Group considers that it jointly controls Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc.

**7. Segmental analysis**

The Group is organised into operating segments based on the geographic location of each unit.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group as described in Note 35. As a result, the Ukrainian operations are presented as discontinued.

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

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

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

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

## 7. Segmental analysis (continued)

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

|                                                                            | Cyprus        | Russia          | Other countries | Total continuing operations | Discontinued operations |
|----------------------------------------------------------------------------|---------------|-----------------|-----------------|-----------------------------|-------------------------|
| Three months ended 31 March 2014                                           | €000          | €000            | €000            | €000                        | €000                    |
| Net interest income                                                        | 235.739       | 18.675          | 12.544          | 266.958                     | 4.064                   |
| Net fee and commission income                                              | 39.681        | 4.157           | 1.441           | 45.279                      | 270                     |
| Net foreign exchange (losses)/gains                                        | (6.535)       | 680             | 284             | (5.571)                     | 617                     |
| Net gains on financial instrument transactions                             | 19.474        | -               | 96              | 19.570                      | -                       |
| Insurance income net of claims and commissions                             | 11.905        | -               | 1.221           | 13.126                      | -                       |
| Other (expenses)/income                                                    | (811)         | 177             | 1.125           | 491                         | 1.051                   |
|                                                                            | 299.453       | 23.689          | 16.711          | 339.853                     | 6.002                   |
| Staff costs                                                                | (54.770)      | (9.389)         | (3.297)         | (67.456)                    | (1.233)                 |
| Other operating expenses                                                   | (35.573)      | (9.505)         | (11.376)        | (56.454)                    | (2.882)                 |
| Restructuring costs (Note 8)                                               | (4.589)       | -               | -               | (4.589)                     | -                       |
| Profit before impairment of loans and advances                             | 204.521       | 4.795           | 2.038           | 211.354                     | 1.887                   |
| Provisions for impairment of loans and advances                            | (108.531)     | (17.557)        | (20.377)        | (146.465)                   | (38.528)                |
| Share of profit from associates and joint ventures                         | 2.135         | -               | -               | 2.135                       | -                       |
| <b>Profit / (loss) before tax</b>                                          | <b>98.125</b> | <b>(12.762)</b> | <b>(18.339)</b> | <b>67.024</b>               | <b>(36.641)</b>         |
| Tax                                                                        | (1.007)       | 15              | (1.240)         | (2.232)                     | 654                     |
| <b>Profit / (loss) after tax</b>                                           | <b>97.118</b> | <b>(12.747)</b> | <b>(19.579)</b> | <b>64.792</b>               | <b>(35.987)</b>         |
| Non-controlling interests (profit)/loss                                    | (38)          | 2.503           | -               | 2.465                       | 39                      |
| <b>Profit / (loss) after tax attributable to the owners of the Company</b> | <b>97.080</b> | <b>(10.244)</b> | <b>(19.579)</b> | <b>67.257</b>               | <b>(35.948)</b>         |

## Analysis of total revenue

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

|                                  | Cyprus         | Russia        | Other countries | Total continuing operations | Discontinued operations |
|----------------------------------|----------------|---------------|-----------------|-----------------------------|-------------------------|
| Three months ended 31 March 2014 | €000           | €000          | €000            | €000                        | €000                    |
| Banking and financial services   | 280.970        | 28.291        | 16.793          | 326.054                     | 6.351                   |
| Insurance services               | 12.276         | -             | 1.368           | 13.644                      | -                       |
| Property and hotel business      | (115)          | -             | (79)            | (194)                       | -                       |
| Total revenue from third parties | 293.131        | 28.291        | 18.082          | 339.504                     | 6.351                   |
| Inter-segment revenue/(expense)  | 6.322          | (4.602)       | (1.371)         | 349                         | (349)                   |
| <b>Total revenue</b>             | <b>299.453</b> | <b>23.689</b> | <b>16.711</b>   | <b>339.853</b>              | <b>6.002</b>            |

**7. Segmental analysis (continued)**

**Analysis of assets**

|                         | Cyprus     | Russia    | Other countries | Total             |
|-------------------------|------------|-----------|-----------------|-------------------|
| <b>31 March 2014</b>    | €000       | €000      | €000            | <b>€000</b>       |
| <b>Assets</b>           | 27.957.658 | 1.112.392 | 1.984.991       | 31.055.041        |
| Inter-segment assets    |            |           |                 | (1.676.772)       |
| <b>Total assets</b>     |            |           |                 | <b>29.378.269</b> |
| <b>31 December 2013</b> |            |           |                 |                   |
| <b>Assets</b>           | 28.663.107 | 1.316.068 | 2.044.721       | 32.023.896        |
| Inter-segment assets    |            |           |                 | (1.674.457)       |
| <b>Total assets</b>     |            |           |                 | <b>30.349.439</b> |

**Analysis of liabilities**

|                           | Cyprus     | Russia    | Other countries | Total             |
|---------------------------|------------|-----------|-----------------|-------------------|
| <b>31 March 2014</b>      | €000       | €000      | €000            | <b>€000</b>       |
| <b>Liabilities</b>        | 24.445.882 | 1.198.384 | 2.653.402       | 28.297.668        |
| Inter-segment liabilities |            |           |                 | (1.678.957)       |
| <b>Total liabilities</b>  |            |           |                 | <b>26.618.711</b> |
| <b>31 December 2013</b>   |            |           |                 |                   |
| <b>Liabilities</b>        | 25.183.780 | 1.380.412 | 2.724.213       | 29.288.405        |
| Inter-segment liabilities |            |           |                 | (1.676.642)       |
| <b>Total liabilities</b>  |            |           |                 | <b>27.611.763</b> |

**8. Other income, staff costs and other operating expenses**

**Other income**

|                                                                              | Three months<br>ended<br>31 March |
|------------------------------------------------------------------------------|-----------------------------------|
|                                                                              | 2014                              |
|                                                                              | €000                              |
| Dividend income                                                              | 42                                |
| Losses on sale of stock of property held for sale                            | (70)                              |
| Losses on sale and write-off of property and equipment and intangible assets | (1.101)                           |
| Rental income from investment properties                                     | 852                               |
| Losses from revaluation of investment properties                             | (2.870)                           |
| Losses from hotel activities                                                 | (291)                             |
| Other income                                                                 | 3.929                             |
|                                                                              | <b>491</b>                        |

**Staff costs**

|                                                                      | Three months<br>ended<br>31 March |
|----------------------------------------------------------------------|-----------------------------------|
|                                                                      | 2014                              |
|                                                                      | €000                              |
| Salaries                                                             | 53.514                            |
| Employer's contributions to state social insurance and pension funds | 8.492                             |
| Retirement benefit plan costs                                        | 5.450                             |
|                                                                      | <b>67.456</b>                     |

The number of persons employed by the Group as at 31 March 2014 was 7.400 (31 December 2013: 7.752).

**8. Other income, staff costs and other operating expenses (continued)**

**Other operating expenses**

|                                                     | Three months ended<br>31 March |
|-----------------------------------------------------|--------------------------------|
|                                                     | 2014                           |
|                                                     | €000                           |
| Operating lease rentals for property and equipment  | 5.811                          |
| Advertising and marketing                           | 2.353                          |
| Repairs and maintenance of property and equipment   | 5.654                          |
| Other property-related costs                        | 2.939                          |
| Communication expenses                              | 3.045                          |
| Printing and stationery                             | 952                            |
| Depreciation of property and equipment              | 4.537                          |
| Amortisation of intangible assets                   | 1.808                          |
| Contributions to depositor protection schemes       | 725                            |
| Special tax levy on credit institutions             | 4.805                          |
| Provisions and settlements of litigations or claims | 11.170                         |
| Other operating expenses                            | 12.655                         |
|                                                     | 56.454                         |
| Advisory and other restructuring costs              | 4.589                          |
|                                                     | 61.043                         |

The special tax levy on credit institutions is imposed at the rate of 0,15% on deposits as at the end of the previous year and is payable in equal quarterly instalments.

Advisory and other restructuring costs comprise mainly costs of implementing the restructuring plan of the Group.

**9. Tax**

|                             | Three months ended<br>31 March |
|-----------------------------|--------------------------------|
|                             | 2014                           |
|                             | €000                           |
| Current tax:                |                                |
| - Cyprus                    | 790                            |
| - overseas                  | 1.415                          |
| Cyprus defence contribution | 29                             |
| Deferred tax                | 105                            |
| Prior year tax adjustments  | (107)                          |
|                             | 2.232                          |

**10. Earnings per share**

|                                                                                                                          | <b>Three months ended 31 March 2014</b> |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| <b>Basic and diluted earnings per share</b>                                                                              |                                         |
| Profit after tax attributable to the owners of the Company (€ thousand)                                                  | <b>31.309</b>                           |
| Weighted average number of shares in issue during the period excluding treasury shares (thousand)                        | <b>4.678.967</b>                        |
| Basic and diluted earnings per share (€ cent)                                                                            | <b>0,7</b>                              |
| <b>Basic and diluted earnings per share – continuing operations</b>                                                      |                                         |
| Profit after tax attributable to the owners of the Company – continuing operations (€ thousand)                          | <b>67.257</b>                           |
| Weighted average number of shares in issue during the period, excluding treasury shares-continuing operations (thousand) | <b>4.678.967</b>                        |
| Basic and diluted profits per share – continuing operations (€ cent)                                                     | <b>1,4</b>                              |

**11. Investments**

|                                                  | <b>31 March 2014</b> | 31 December 2013 |
|--------------------------------------------------|----------------------|------------------|
| <b>Investments</b>                               | <b>€000</b>          | €000             |
| Investments at fair value through profit or loss | <b>27.178</b>        | 25.160           |
| Investments available-for-sale                   | <b>163.273</b>       | 161.258          |
| Investments classified as loans and receivables  | <b>2.618.905</b>     | 2.573.437        |
|                                                  | <b>2.809.356</b>     | 2.759.855        |

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

|                                          | <b>31 March 2014</b> | 31 December 2013 |
|------------------------------------------|----------------------|------------------|
| <b>Investments pledged as collateral</b> | <b>€000</b>          | €000             |
| Investments available-for-sale           | <b>665.382</b>       | 672.809          |

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

**11. Investments** (continued)

**Reclassification of investments**

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

|                                                               | Reclassification date | Carrying and fair value on reclassification date | 31 March 2014  |            | 31 December 2013 |            | Three months ended 31 March 2014                                                        |                                                                                             | Effective interest rate on reclassification date |
|---------------------------------------------------------------|-----------------------|--------------------------------------------------|----------------|------------|------------------|------------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------|
|                                                               |                       |                                                  | Carrying value | Fair value | Carrying value   | Fair value | Additional income in the income statement had the debt securities not been reclassified | Additional loss in other comprehensive income had the debt securities not been reclassified |                                                  |
|                                                               |                       | €000                                             | €000           | €000       | €000             | €000       | €000                                                                                    | €000                                                                                        |                                                  |
| <b>Reclassification of trading investments to:</b>            |                       |                                                  |                |            |                  |            |                                                                                         |                                                                                             |                                                  |
| - loans and receivables                                       | 1 April 2010          | 34.810                                           | 37.390         | 33.603     | 38.059           | 32.204     | 1.400                                                                                   | -                                                                                           | 1,2%-4,4%                                        |
| <b>Reclassification of available-for-sale investments to:</b> |                       |                                                  |                |            |                  |            |                                                                                         |                                                                                             |                                                  |
| - loans and receivables                                       | 1 October 2008        | 163.407                                          | 166.316        | 159.677    | 164.875          | 145.171    | -                                                                                       | (6.639)                                                                                     | 4,6%-4,7%                                        |
| - loans and receivables                                       | 30 June 2011          | 164.035                                          | 186.353        | 170.481    | 185.666          | 158.170    | -                                                                                       | (15.872)                                                                                    | 2,8%-6,3%                                        |
| <b>Reclassification of held-to-maturity investments to:</b>   |                       |                                                  |                |            |                  |            |                                                                                         |                                                                                             |                                                  |
| - available-for-sale                                          | 1 November 2012       | 87.725                                           | 90.539         | 90.539     | 90.114           | 90.114     | -                                                                                       | -                                                                                           | 0,4%-3,1%                                        |



## 12. Derivative financial instruments

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

|                                                                 | 31 March 2014    |               |               | 31 December 2013 |               |               |
|-----------------------------------------------------------------|------------------|---------------|---------------|------------------|---------------|---------------|
|                                                                 | Contract amount  | Fair value    |               | Contract amount  | Fair value    |               |
|                                                                 |                  | Assets        | Liabilities   |                  | Assets        | Liabilities   |
|                                                                 | €000             | €000          | €000          | €000             | €000          | €000          |
| <b>Trading derivatives</b>                                      |                  |               |               |                  |               |               |
| Forward exchange rate contracts                                 | 289.506          | 4.498         | 562           | 139.847          | 109           | 2.674         |
| Currency swaps                                                  | 1.816.697        | 5.799         | 11.161        | 1.723.306        | 3.778         | 15.465        |
| Interest rate swaps                                             | 457.928          | 7.352         | 9.886         | 517.264          | 4.203         | 11.407        |
| Currency options                                                | 239.382          | 5.191         | -             | -                | -             | -             |
| Equity options                                                  | 9.408            | 1.505         | 1.371         | 4.295            | 1.591         | 1.485         |
| Interest rate caps/floors                                       | 6.520            | 10            | 227           | 6.574            | 11            | 250           |
| GDP warrant securities                                          | 2.581            | 83            | -             | 1.622.997        | 19.073        | -             |
|                                                                 | 2.822.022        | 24.438        | 23.207        | 4.014.283        | 28.765        | 31.281        |
| <b>Derivatives qualifying for hedge accounting</b>              |                  |               |               |                  |               |               |
| Fair value hedges - interest rate swaps                         | 674.888          | -             | 54.455        | 674.888          | -             | 47.090        |
| Fair value of net investments – forward exchange rate contracts | 71.341           | 3.439         | -             | 126.936          | -             | 5.523         |
|                                                                 | 746.229          | 3.439         | 54.455        | 801.824          | -             | 52.613        |
| <b>Total</b>                                                    | <b>3.568.251</b> | <b>27.877</b> | <b>77.662</b> | <b>4.816.107</b> | <b>28.765</b> | <b>83.894</b> |

### Hedge accounting

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

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

### Fair value hedges

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

## 12. Derivative financial instruments (continued)

### Hedge accounting (continued)

#### Hedges of net investments

The Group's consolidated balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches and forward exchange contracts. As at 31 March 2014, deposits and forward exchange rate contracts amounting to €209.216 thousand (31 December 2013: €346.725 thousand) have been designated as hedging instruments and have given rise to a gain of €7.630 thousand (31 December 2013: gain of €25.917 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

## 13. Fair value measurement

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

|                                                               | 31 March 2014  |            | 31 December 2013 |            |
|---------------------------------------------------------------|----------------|------------|------------------|------------|
|                                                               | Carrying value | Fair value | Carrying value   | Fair value |
|                                                               | €000           | €000       | €000             | €000       |
| <b>Financial assets</b>                                       |                |            |                  |            |
| Cash and balances with central banks                          | 963.963        | 963.963    | 1.240.043        | 1.240.043  |
| Placements with banks                                         | 1.141.169      | 1.124.471  | 1.290.102        | 1.192.513  |
| Investments at fair value through profit or loss              | 27.178         | 27.178     | 25.160           | 25.160     |
| Investments available-for-sale                                | 828.655        | 828.655    | 834.067          | 834.067    |
| Investments classified as loans and receivables               | 2.618.905      | 2.762.605  | 2.573.437        | 2.593.941  |
| Derivative financial assets                                   | 27.877         | 27.877     | 28.765           | 28.765     |
| Loans and advances to customers                               | 21.233.958     | 20.108.438 | 21.764.338       | 20.888.492 |
| Life insurance business assets attributable to policy holders | 436.447        | 436.447    | 430.119          | 430.119    |
| Other assets                                                  | 115.220        | 143.062    | 113.175          | 113.175    |
|                                                               | 27.393.372     | 26.422.696 | 28.299.206       | 27.346.275 |
| <b>Financial liabilities</b>                                  |                |            |                  |            |
| Funding from central banks and amounts due to banks           | 11.077.024     | 11.077.024 | 11.152.699       | 11.152.699 |
| Repurchase agreements                                         | 582.489        | 586.321    | 594.004          | 596.006    |
| Derivative financial liabilities                              | 77.662         | 77.662     | 83.894           | 83.894     |
| Customer deposits                                             | 14.065.675     | 14.061.220 | 14.971.167       | 14.895.350 |
| Debt securities in issue                                      | 1.493          | 1.156      | 1.515            | 1.515      |
| Subordinated loan stock                                       | 4.743          | 4.471      | 4.676            | 4.101      |
| Other liabilities                                             | 83.038         | 79.008     | 66.491           | 66.491     |
|                                                               | 25.892.124     | 25.886.862 | 26.874.446       | 26.800.056 |

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

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

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

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

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

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

The following is a description of the determination of fair value for assets which are recorded at fair value on a recurring and on a non-recurring basis. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

*Derivative financial instruments*

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

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

*Investments available-for-sale and other investments at fair value through profit or loss*

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

*Loans to customers*

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

*Customer deposits*

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

*Repurchase agreements*

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

*Placements with banks*

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

*Model inputs for valuation*

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

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

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

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

|                                                         | Level 1 | Level 2 | Level 3 | Total          |
|---------------------------------------------------------|---------|---------|---------|----------------|
| <b>31 March 2014</b>                                    | €000    | €000    | €000    | €000           |
| <b>Financial assets</b>                                 |         |         |         |                |
| <i>Trading derivatives</i>                              |         |         |         |                |
| Forward exchange rate contracts                         | -       | 4.498   | -       | <b>4.498</b>   |
| Currency swaps                                          | -       | 5.799   | -       | <b>5.799</b>   |
| Interest rate swaps                                     | -       | 7.352   | -       | <b>7.352</b>   |
| Currency rate options                                   | -       | 5.191   | -       | <b>5.191</b>   |
| Equity options                                          | -       | 1.505   | -       | <b>1.505</b>   |
| Interest rate caps/floors                               | -       | 10      | -       | <b>10</b>      |
| GDP warrant securities                                  | -       | 83      | -       | <b>83</b>      |
|                                                         | -       | 24.438  | -       | <b>24.438</b>  |
| <i>Derivatives for fair value of net investments</i>    |         |         |         |                |
| Forward exchange rate contracts                         | -       | 3.439   | -       | <b>3.439</b>   |
| <i>Investments at fair value through profit or loss</i> |         |         |         |                |
| Trading investments                                     | 3.811   | 6.903   | -       | <b>10.714</b>  |
| Other investments at fair value through profit or loss  | 7       | 16.457  | -       | <b>16.464</b>  |
|                                                         | 3.818   | 23.360  | -       | <b>27.178</b>  |
| <i>Investments available-for-sale</i>                   | 823.653 | 1.526   | 3.476   | <b>828.655</b> |
|                                                         | 827.471 | 52.763  | 3.476   | <b>883.710</b> |

|                                                    |   |        |   |               |
|----------------------------------------------------|---|--------|---|---------------|
| <b>31 March 2014</b>                               |   |        |   |               |
| <b>Financial liabilities</b>                       |   |        |   |               |
| <i>Trading derivatives</i>                         |   |        |   |               |
| Forward exchange rate contracts                    | - | 562    | - | <b>562</b>    |
| Currency swaps                                     | - | 11.161 | - | <b>11.161</b> |
| Interest rate swaps                                | - | 9.886  | - | <b>9.886</b>  |
| Equity options                                     | - | 1.371  | - | <b>1.371</b>  |
| Interest rate caps/floors                          | - | 227    | - | <b>227</b>    |
|                                                    | - | 23.207 | - | <b>23.207</b> |
| <i>Derivatives designated as fair value hedges</i> |   |        |   |               |
| Interest rate swaps                                | - | 54.455 | - | <b>54.455</b> |
|                                                    | - | 77.662 | - | <b>77.662</b> |

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

|                                                         | Level 1 | Level 2 | Level 3 | Total          |
|---------------------------------------------------------|---------|---------|---------|----------------|
| <b>31 December 2013</b>                                 | €000    | €000    | €000    | €000           |
| <b>Financial assets</b>                                 |         |         |         |                |
| <i>Trading derivatives</i>                              |         |         |         |                |
| Forward exchange rate contracts                         | -       | 109     | -       | <b>109</b>     |
| Currency swaps                                          | -       | 3.778   | -       | <b>3.778</b>   |
| Interest rate swaps                                     | -       | 4.203   | -       | <b>4.203</b>   |
| Equity options                                          | -       | 1.591   | -       | <b>1.591</b>   |
| Interest rate caps/floors                               | -       | 11      | -       | <b>11</b>      |
| GDP warrant securities                                  | -       | 19.073  | -       | <b>19.073</b>  |
|                                                         | -       | 28.765  | -       | <b>28.765</b>  |
| <i>Investments at fair value through profit or loss</i> |         |         |         |                |
| Trading investments                                     | 2.941   | 6.670   | -       | <b>9.611</b>   |
| Other investments at fair value through profit or loss  | 136     | 15.413  | -       | <b>15.549</b>  |
|                                                         | 3.077   | 22.083  | -       | <b>25.160</b>  |
| <i>Investments available-for-sale</i>                   | 827.045 | 2.714   | 4.308   | <b>834.067</b> |
|                                                         | 830.122 | 53.562  | 4.308   | <b>887.992</b> |

|                                                      |   |        |   |               |
|------------------------------------------------------|---|--------|---|---------------|
| <b>31 December 2013</b>                              |   |        |   |               |
| <b>Financial liabilities</b>                         |   |        |   |               |
| <i>Trading derivatives</i>                           |   |        |   |               |
| Forward exchange rate contracts                      | - | 2.674  | - | <b>2.674</b>  |
| Currency swaps                                       | - | 15.465 | - | <b>15.465</b> |
| Interest rate swaps                                  | - | 11.407 | - | <b>11.407</b> |
| Equity options                                       | - | 1.485  | - | <b>1.485</b>  |
| Interest rate caps/floors                            | - | 250    | - | <b>250</b>    |
|                                                      | - | 31.281 | - | <b>31.281</b> |
| <i>Derivatives designated as fair value hedges</i>   |   |        |   |               |
| Interest rate swaps                                  | - | 47.090 | - | <b>47.090</b> |
| <i>Derivatives for fair value of net investments</i> |   |        |   |               |
| Forward exchange rate contracts                      | - | 5.523  | - | <b>5.523</b>  |
|                                                      | - | 52.613 | - | <b>52.613</b> |
|                                                      | - | 83.894 | - | <b>83.894</b> |

### 13. Fair value measurement (continued)

During the three months ended 31 March 2014 and during the year 2013 there were no significant transfers from Level 1 to Level 2.

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

|                                                                                    | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|------------------------------------------------------------------------------------|--------------------------|---------------------|
|                                                                                    | <b>€000</b>              | €000                |
| 1 January                                                                          | <b>4.308</b>             | 496                 |
| Acquired through business combinations                                             | -                        | 5.314               |
| Disposals                                                                          | <b>(167)</b>             | (104)               |
| Unrealised losses recognised in the consolidated statement of comprehensive income | <b>(665)</b>             | (603)               |
| Realised losses recognised in the consolidated income statement                    | -                        | (795)               |
| <b>31 March 2014 / 31 December 2013</b>                                            | <b>3.476</b>             | 4.308               |

### Level 3 valuation policy and sensitivity analysis

#### *Financial instruments*

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

The Group's model for the Level 3 available-for-sale investments utilises the net asset value of the investee entity and a liquidity discount rate of 10%. An increase in the liquidity discount rate of the available-for-sale investments to 15% would lead to a fall in the carrying value of the investment by €521 thousand, with the relevant change in value reflected in the consolidated statement of comprehensive income.

### 14. Loans and advances to customers

|                                                                        | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|------------------------------------------------------------------------|--------------------------|---------------------|
|                                                                        | <b>€000</b>              | €000                |
| Loans and advances to customers                                        | <b>23.990.156</b>        | 24.294.680          |
| Hire purchase and finance lease debtors                                | <b>459.868</b>           | 545.928             |
| Gross loans and advances to customers                                  | <b>24.450.024</b>        | 24.840.608          |
| Provisions for impairment of loans and advances to customers (Note 25) | <b>(3.216.066)</b>       | (3.076.270)         |
|                                                                        | <b>21.233.958</b>        | 21.764.338          |

Further analyses with respect to credit risk of loans and advances to customers and provisions for impairment are presented in Note 25.

At 31 March 2014, loans and advances to customers include loans of a carrying amount of €250.076 thousand (31 December 2013: €305.507 thousand), which are part of the Ukrainian operations of the Group classified as a disposal group held for sale (Note 32.4).

**15. Other assets**

|                                                                 | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|-----------------------------------------------------------------|--------------------------|---------------------|
|                                                                 | <b>€000</b>              | €000                |
| Debtors                                                         | <b>24.809</b>            | 22.956              |
| Stock of property held for sale                                 | <b>13.611</b>            | 14.110              |
| Investment properties                                           | <b>473.700</b>           | 495.658             |
| Taxes refundable                                                | <b>48.282</b>            | 48.544              |
| Deferred tax asset                                              | <b>477.627</b>           | 479.060             |
| Retirement benefit plan assets                                  | <b>1.497</b>             | 1.319               |
| Reinsurers' share of insurance contract liabilities             | <b>66.362</b>            | 68.387              |
| Prepaid expenses                                                | <b>4.349</b>             | 2.840               |
| Receivable relating to acquisitions and disposals of operations | <b>90.411</b>            | 90.219              |
| Other assets                                                    | <b>146.686</b>           | 178.740             |
|                                                                 | <b>1.347.334</b>         | 1.401.833           |

At 31 March 2014, investment property includes property amounting to €34.395 thousand (31 December 2013: €49.430 thousand) which are part of the Ukrainian operations of the Group, classified as a disposal group held for sale.

**16. Amounts due to banks**

|                      | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|----------------------|--------------------------|---------------------|
|                      | <b>€000</b>              | €000                |
| Amounts due to banks | <b>171.236</b>           | 196.422             |

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

**17. Funding from central banks**

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

|                                | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|--------------------------------|--------------------------|---------------------|
|                                | <b>€000</b>              | €000                |
| Emergency Liquidity Assistance | <b>9.505.542</b>         | 9.556.035           |
| Monetary policy operations     | <b>1.400.246</b>         | 1.400.242           |
|                                | <b>10.905.788</b>        | 10.956.277          |

The amount of ELA funding as at 31 March 2014 includes €9,1 billion ELA funding which was acquired as part of the transferred assets and liabilities of Laiki Bank as at 29 March 2013 following a decision by the Resolution Authority. This ELA funding of Laiki Bank of €9,1 billion was effectively lower by €1,2 billion as Laiki Bank had advanced to the Company on 26 March 2013 an amount of €1,2 billion to finance the sale of the Group's Greek operations.

#### 17. Funding from central banks (continued)

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

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

#### 18. Debt securities in issue

|                                                          | Contractual<br>interest rate | 31 March<br>2014<br>€000 | 31 December<br>2013<br>€000 |
|----------------------------------------------------------|------------------------------|--------------------------|-----------------------------|
| <b>Medium term senior debt</b>                           |                              |                          |                             |
| €2 million 2010/2016                                     | DJ EUROSTOXX 50<br>index     | 531                      | 531                         |
| USD 2 million 2010/2016                                  | S&P 500 index                | 143                      | 143                         |
|                                                          |                              | 674                      | 674                         |
| <b>Other debt securities in issue</b>                    |                              |                          |                             |
| RUB Certificates of Deposit and<br>Promissory Notes      | 11%                          | 327                      | 349                         |
| Interest-free loan from the European<br>Development Bank | -                            | 492                      | 492                         |
|                                                          |                              | 819                      | 841                         |
|                                                          |                              | 1.493                    | 1.515                       |

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

##### Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2013: €4.000 million).

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company were bailed in and were thus converted into ordinary shares. The debt securities in issue outstanding at the balance sheet date represent the residual holding of the products following the bail-in, as described under the Establishment and Operation of an Investor Compensation Fund for Clients of Banks Regulations of 2004 to 2007.

##### Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (31 December 2013: €1.000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted. No commercial paper is currently in issue.

##### Other debt securities in issue

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



## **18. Debt securities in issue (continued)**

### **Covered Bonds**

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

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

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

Loans and advances pledged as collateral for covered bonds are disclosed in Note 26.

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

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

### **Bonds guaranteed by the Cyprus Government**

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

## **19. Other liabilities**

Other liabilities at 31 March 2014 include deferred tax liabilities of €49.289 thousand (31 December 2013: €49.937 thousand) and retirement benefit plan liabilities of €11.484 thousand (31 December 2013: €9.139 thousand).

In addition, a negative amount of €46.244 thousand representing shares subject to interim orders (31 December 2013: negative liabilities of €58.922 thousand) is included within other liabilities.

### **19.1 Pending litigation and claims**

Other liabilities at 31 March 2014 include provisions for pending litigation or claims of €63.138 thousand (31 December 2013: €52.312 thousand).

The Group faces legal and regulatory challenges, many of which are beyond its control. The extent of the impact of these matters, in which the Group is or may in the future become involved, cannot always be predicted with certainty but may materially impact its operations, financial results and condition and prospects.

The recognition of provisions for litigation and claims is determined in accordance with the accounting policies set out in Note 3.33 of the Consolidated Financial Statements for the year ended 31 December 2013.

Apart from what is described below, the Group considers that none of these matters are material, either individually or in aggregate. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

**19. Other liabilities (continued)**

**19.1 Pending litigation and claims (continued)**

While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 March 2014. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

*Investigations and litigation on securities issued by the Company*

A number of customers have filed actions against the Company alleging that they were misled into purchasing bonds and capital securities and claim various remedies including the return of the money they have paid. The Company is contesting the said claims, which are pending before the Courts in Cyprus and Greece.

The Company considers the likelihood of the claims brought by holders of Capital Securities being successful to be low, particularly with respect to institutional holders. However, the resolution of the claims brought in the courts of Cyprus and Greece could take a number of years and there can be no assurance that the Company will be successful in defending these claims and, if the Company is obligated to refund to investors the purchase price in respect of the Capital Securities, it could have a material impact on the financial condition of the Company as well as the reputation of the Company in the market.

In another development, the CBC has conducted an investigation and concluded that the Company breached certain regulatory requirements concerning the 2009 issue of Convertible Capital Securities, but not any regulatory requirements concerning the 2011 issue of Convertible Enhanced Capital Securities (CECS). The CBC imposed upon the Company a fine of €4 thousand. The Company has filed a recourse before the Supreme Court against the ruling and the imposition of a fine by the CBC.

*Hellenic Capital Market Commission investigations (HCMC)*

The Company is currently under investigation in Greece by the HCMC in relation to the 2009 issuance of Convertible Capital Securities (CCS) and the 2011 issuance of CECS. The HCMC is investigating whether the Company violated certain provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test.

The HCMC may impose a fine of up to €3.000 thousand or an amount equal to double the amount of any benefit accrued to the Company, whichever is greater. The notice provided by the HCMC does not identify any alleged benefit accrued to the Company. If the HCMC fines the Company, the Company has the right to judicial review in the administrative courts in Greece.

*Cyprus Securities and Exchange Commission (CySEC) investigation for non-disclosure of information*

The CySEC has conducted an investigation into Company concerning alleged non-disclosure of material information in relation to the amount of the capital shortfall as determined by the European Banking Authority and the amount of requested state aid in June 2012. It was held that the Company was in breach of the law and the Commission has imposed an administrative fine upon the Company of €230 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company has filed a recourse before the Supreme Court against the Commission's decision and the fine imposed upon it.

*Bail-in related litigation*

Following the issue of the Decrees in respect of the bailed-in depositors, a number of the affected depositors filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the 'Resolution of Credit and Other Institutions Law of 2013' and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights. Actions on the part of affected depositors have been filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by the depositors as a result of the Law and the Decrees issued thereafter. In some of the actions interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The Company is taking active steps to obtain the discharge and cancellation of the said interim orders and is defending the actions of depositors vigorously. The said actions are being contested by the Company and are pending before the District Courts.

**19. Other liabilities (continued)**

**19.1 Pending litigation and claims (continued)**

*Bail-in related litigation (continued)*

The position of the Company is that the Resolution Law and the Decrees take precedence over all other Laws and management assesses that it is probable that the interim orders issued will be lifted and the said deposits will be eventually converted into equity.

There are also numerous claims filed by shareholders and holders of debt securities as of 29 March 2013 whose shares were applied for the absorption of losses of the Company. Such proceedings have been filed before the Supreme Court of Cyprus. The objective of these proceedings before the Supreme Court is to obtain the annulment (i.e. cancellation and setting aside) of the Decrees of the Resolution Authority as unconstitutional and/or unlawful and/or irregular. These proceedings are still at an early stage. The Company is appearing in these proceedings as an interested party. Both the Government of the Republic and the Resolution Authority are taking the view that the relevant Law and Decrees are lawful and constitutional. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by a Court of Law.

*Laiki Bank depositors and shareholders*

The Company has been joined as a defendant to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above and the Company is of the view that the likelihood of the claims brought by these depositors being successful is low.

*Claims based on set-off*

Certain claims have been filed by customers against the Company. These claims allege that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company is of the view that the likelihood of the claims brought by these depositors being successful is low.

*Bail-in related litigation - Ukraine*

In May 2013, a bailed-in depositor had assigned his rights arising from the deposit to a third party which filed a claim in the Commercial Court of Kiev against the Company and its subsidiary in Ukraine. A judgement was issued against the Company and its subsidiary in Ukraine by the Court of first instance for the amount of €11.000 thousand. The Group had filed an Appeal against this judgement, which however has been rejected and dismissed.

On 9 December 2013 the Supreme Commercial Court of Ukraine annulled the lower court's decisions and terminated the proceedings against the Group for lack of jurisdiction and also lifted the injunctive relief measures.

Another case on collection of funds from a deposit account of the Company was pending at the Desnyanskiy District Court of Kiev. The claimant claimed USD 7.000 thousand. On 10 July 2013 the District Court issued injunctive relief measures and arrested all movable property of the Company as well as the shares of its Ukrainian subsidiary. The Company appealed and on 25 December 2013, the Court received a written motion of the claimant regarding the abandonment of his claims and closing of proceedings in the case. The court granted claimant's motion, dismissed the proceedings and also lifted the injunctive relief.

**19. Other liabilities (continued)**

**19.1 Pending litigation and claims (continued)**

*CySEC ongoing investigations*

The CySEC is carrying out investigations in respect of:

- The Group's exposure to Greek Government bonds. In this respect, the Commission has issued its decision for part of its investigation where it held that the Company was in breach of the law and it has imposed an administrative fine upon the Company of €160 thousand. It has also imposed fines upon certain of the then members of the Board of Directors. The Company has filed a recourse before the Supreme Court against the fine imposed upon it.
- The fact that the Group has not published its Annual Financial Statements for the year 2012 within the legally prescribed time limits.
- The increase of the share capital of CB Uniastrum Bank LLC in 2008.
- The goodwill impairment of CB Uniastrum Bank LLC.
- The assets pledged for eurosystem funding.
- Preliminary investigations on the adequacy of provisions in the year 2011 and 2012.

The above investigations are in progress and it is not practical at this stage for the Company to estimate reliably possible liability that might arise.

*Commission for the Protection of Competition Investigation (CPC)*

Following an investigation, which began in 2010, the Cypriot Commission for the CPC in April 2014 issued its preliminary findings alleging violations of Cypriot and EU Competition Law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company. The CPC has alleged that the market conduct of JCC Payment Systems Ltd ('JCC'), a card-processing business, in which the Company holds 75% is common conduct serving the interests of JCC and its shareholders, in violation of applicable competition regulations. In particular, the CPC has alleged that JCC and its shareholders, including the Company, fix the price of the interchange fees at artificially low levels that create barriers to entry in the market for new entrants.

The CPC has requested all interested parties to provide their written response to the allegations raised. The Company, and the other interest parties, namely JCC and the other shareholders of JCC, are contesting the CPC's findings. A fine, if any, could be imposed as a percentage of the turnover of the Company.

*Other*

The Group is involved in a number of other litigations involving legal cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece. For one of these cases relating to the discontinued operations in Greece a provision of €38.300 thousand has been recognised.

**20. Subordinated loan stock**

|                                     | <b>Contractual<br/>interest rate</b> | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|-------------------------------------|--------------------------------------|--------------------------|---------------------|
|                                     |                                      | <b>€000</b>              | €000                |
| Subordinated Bonds in USD 2014/2015 | 2,50%                                | <b>4.743</b>             | 4.676               |

The subordinated bonds were issued by CB Uniastrum Bank LLC and denominated in USD.

**20. Subordinated loan stock (continued)**

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2013: €4.000 million). As at 31 March 2014, the Company does not have any subordinated loan stock in issue under the EMTN Programme.

**21. Share capital**

|                                                                                                             | 31 March 2014        |                  | 31 December 2013     |             |
|-------------------------------------------------------------------------------------------------------------|----------------------|------------------|----------------------|-------------|
|                                                                                                             | Shares<br>(thousand) | €000             | Shares<br>(thousand) | €000        |
| <i>Issued</i>                                                                                               |                      |                  |                      |             |
| <b>1 January</b>                                                                                            | <b>4.683.985</b>     | <b>4.683.985</b> | 1.795.141            | 1.795.141   |
| Bail-in of deposits and structured products                                                                 | <b>38</b>            | <b>38</b>        | 3.814.495            | 3.814.495   |
| Shares subject to interim orders                                                                            | <b>12.678</b>        | <b>12.678</b>    | -                    | -           |
| Bail-in of Convertible Bonds 2013/2018,<br>Capital Securities 12/2007 and Convertible<br>Capital Securities | -                    | -                | 122.541              | 122.541     |
| Conversion of CECS into shares                                                                              | -                    | -                | 459.399              | 459.399     |
| Reduction in nominal value of share capital                                                                 | -                    | -                | (2.353.349)          | (2.353.349) |
| Acquisitions (Note 32)                                                                                      | <b>2.802</b>         | <b>2.802</b>     | 845.758              | 845.758     |
| <b>31 March 2014 / 31 December 2013</b>                                                                     | <b>4.699.503</b>     | <b>4.699.503</b> | 4.683.985            | 4.683.985   |

**Issued share capital**

During the three months ended 31 March 2014 the issued share capital increased by 12.678 thousand shares as a result of the cancellation of interim orders prohibiting the Company from converting deposits to shares as a result of the bail-in (Note 19.1). Consequently, 2.802 thousand shares were issued to Laiki Bank in accordance with the provisions of the decrees.

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

The recapitalisation was effected in accordance with the provisions of the 'Bail-in of Bank of Cyprus Public Company Limited Decrees of 2013' issued on 29 March 2013 and amended on 21 April 2013 and 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority.

Details of the provisions of the decrees relating to the share capital structure of the Group are described in Note 2.5 of the Consolidated Financial Statements for the year ended 31 December 2013.

All issued ordinary shares carry the same rights.

**Shares subject to interim orders**

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

## 21. Share capital (continued)

### Shares subject to interim orders (continued)

The shares which as per the bail-in Decree correspond to the deposits which are subject to these interim orders are included in equity in the consolidated balance sheet as 'Shares subject to interim orders', with an equivalent debit balance included in 'Other liabilities' within total liabilities. During the three months ended 31 March 2014 12.678 thousand ordinary shares of a nominal value of €1,00 each were transferred from the 'Shares subject to interim orders' to the share capital account. The ordinary shares which are subject to interim orders as at the balance sheet date amount to 46.244 thousand ordinary shares of a nominal value of €1,00 each.

### Treasury shares of the Company

Shares of the Company held by entities controlled by the Group and by associates are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 March 2014 was 20.767 thousand (31 December 2013: 20.767 thousand). Treasury shares include 298 thousand shares which resulted from the conversion of CECS of nominal value of €29.825 thousand, which were held by the Group. The total cost of acquisition of treasury shares was €88.051 thousand (31 December 2013: €88.051 thousand).

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

In addition, the life insurance subsidiary of the Group held, as at 31 March 2014, a total of 16.031 thousand (31 December 2013: 16.031 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €21.463 thousand (31 December 2013: €21.463 thousand).

## 22. Convertible Enhanced Capital Securities

|                                         | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|-----------------------------------------|--------------------------|---------------------|
|                                         | <b>€000</b>              | €000                |
| 1 January                               | -                        | 428.835             |
| Conversion into shares                  | -                        | (429.580)           |
| Exchange difference                     | -                        | 745                 |
| <b>31 March 2014 / 31 December 2013</b> | <b>-</b>                 | <b>-</b>            |

The CECS have contributed to the recapitalisation of the Company in 2013 through their conversion into ordinary shares in accordance with a series of decrees issued by the CBC under its capacity as Resolution Authority and pursuant to the provisions of the Resolution of Credit and Other Institutions Law, 2013.

## 23. Cash and cash equivalents

|                                                            | <b>31 March<br/>2014</b> |
|------------------------------------------------------------|--------------------------|
|                                                            | <b>€000</b>              |
| Cash and non-obligatory balances with central banks        | <b>698.013</b>           |
| Treasury bills repayable within three months               | <b>199.085</b>           |
| Placements with banks with maturity less than three months | <b>653.543</b>           |
|                                                            | <b>1.550.641</b>         |

**24. Analysis of assets and liabilities by expected maturity**

|                                                              | 31 March 2014         |                  |            | 31 December 2013      |                  |            |
|--------------------------------------------------------------|-----------------------|------------------|------------|-----------------------|------------------|------------|
|                                                              | Less than<br>one year | Over one<br>year | Total      | Less than<br>one year | Over one<br>year | Total      |
|                                                              | €000                  | €000             | €000       | €000                  | €000             | €000       |
| <b>Assets</b>                                                |                       |                  |            |                       |                  |            |
| Cash and balances with central banks                         | 737.244               | 226.719          | 963.963    | 784.128               | 455.915          | 1.240.043  |
| Placements with banks                                        | 698.894               | 442.275          | 1.141.169  | 734.578               | 555.524          | 1.290.102  |
| Investments                                                  | 438.247               | 3.036.491        | 3.474.738  | 261.731               | 3.170.933        | 3.432.664  |
| Derivative financial instruments                             | 15.016                | 12.861           | 27.877     | 25.045                | 3.720            | 28.765     |
| Life insurance business assets attributable to policyholders | 17.627                | 432.280          | 449.907    | 17.323                | 426.256          | 443.579    |
| Loans and advances to customers                              | 5.787.155             | 15.446.803       | 21.233.958 | 6.006.000             | 15.758.338       | 21.764.338 |
| Property, equipment and intangible assets                    | 8.055                 | 525.336          | 533.391    | 1.025                 | 543.959          | 544.984    |
| Other assets                                                 | 436.126               | 911.208          | 1.347.334  | 390.346               | 1.011.487        | 1.401.833  |
| Investments in associates and joint ventures                 | -                     | 205.932          | 205.932    | -                     | 203.131          | 203.131    |
|                                                              | 8.138.364             | 21.239.905       | 29.378.269 | 8.220.176             | 22.129.263       | 30.349.439 |
| <b>Liabilities</b>                                           |                       |                  |            |                       |                  |            |
| Amounts due to banks                                         | 96.288                | 74.948           | 171.236    | 117.219               | 79.203           | 196.422    |
| Funding from central banks                                   | 515.339               | 10.390.449       | 10.905.788 | 157.000               | 10.799.277       | 10.956.277 |
| Repurchase agreements                                        | 13.994                | 568.495          | 582.489    | 13.928                | 580.076          | 594.004    |
| Derivative financial instruments                             | 11.920                | 65.742           | 77.662     | 16.027                | 67.867           | 83.894     |
| Customer deposits                                            | 5.164.679             | 8.900.996        | 14.065.675 | 5.579.459             | 9.391.708        | 14.971.167 |
| Insurance liabilities                                        | 95.172                | 460.971          | 556.143    | 97.394                | 454.435          | 551.829    |
| Debt securities in issue                                     | 819                   | 674              | 1.493      | 841                   | 674              | 1.515      |
| Other liabilities                                            | 218.815               | 34.667           | 253.482    | 144.539               | 107.440          | 251.979    |
| Subordinated loan stock                                      | 2.635                 | 2.108            | 4.743      | 2.598                 | 2.078            | 4.676      |
|                                                              | 6.119.661             | 20.499.050       | 26.618.711 | 6.129.005             | 21.482.758       | 27.611.763 |

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

In accordance with the Group's approved restructuring plan, most of the funding from central banks has been included in the over one year column, since it is expected that it will continue to be required and available. It is noted however that contractual maturity is under one year.

The liquid bonds used as collateral for the ECB funding are also placed in the over one year time band, since their encumbrance will be terminated once the ECB funding is repaid.

Investments have been classified in the relevant time band based on expectations as to their realisation, taking into consideration whether investments are pledged as collateral and other conditions.



**24. Analysis of assets and liabilities by expected maturity (continued)**

Loans and advances to customers in Cyprus are classified based on the contractual repayment schedule with the exception of the overdraft accounts, which are classified in the over one year time band.

A percentage of customer deposits in Cyprus maturing within one year was transferred in the over one year time band, based on the observed actual customer behaviour given the restrictive measures.

Loans and advances to customers and customer deposits in Russia are classified based on historic behavioural data, with the exception of demand deposits which are classified in the less than one year time band. In the United Kingdom, Romania and Channel Islands they are classified on the basis of contractual maturities.

The Ukrainian operations are classified as a disposal group held for sale, therefore the related assets and liabilities are classified in the less than one year band.

Trading investments are classified in the less than one year column.

The expected maturity of all other assets and liabilities is the same as their contractual maturity.

**25. Risk management – Credit risk**

In the ordinary course of its business, the Group is exposed to credit risk which is monitored through various control mechanisms at all companies of the Group in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

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

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

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

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

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

The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in Note 3 of the consolidated financial statements for year 2013.

The Group Market Risk Management Unit assesses the credit risk relating to investments in liquid assets (mainly placements with banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the Group Assets and Liabilities Committee (ALCO) for approval.

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



**25. Risk management – Credit risk (continued)**

**Maximum exposure to credit risk and collateral and other credit enhancements**

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

|                                                                               | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|-------------------------------------------------------------------------------|--------------------------|---------------------|
|                                                                               | <b>€000</b>              | €000                |
| Balances with central banks                                                   | <b>825.899</b>           | 1.084.830           |
| Placements with banks                                                         | <b>1.141.169</b>         | 1.290.102           |
| Trading investments - debt securities                                         | <b>44</b>                | 103                 |
| Debt securities at fair value through profit or loss                          | <b>16.409</b>            | 15.549              |
| Debt securities classified as available-for-sale and loans and receivables    | <b>3.241.098</b>         | 3.207.366           |
| Derivative financial instruments                                              | <b>27.877</b>            | 28.765              |
| Loans and advances to customers                                               | <b>21.233.958</b>        | 21.764.338          |
| Debtors (Note 15)                                                             | <b>24.809</b>            | 22.956              |
| Reinsurers' share of insurance contract liabilities (Note 15)                 | <b>66.362</b>            | 68.387              |
| Other assets                                                                  | <b>237.097</b>           | 268.959             |
| <b>On-balance sheet total</b>                                                 | <b>26.814.722</b>        | 27.751.355          |
| <i>Contingent liabilities</i>                                                 |                          |                     |
| Acceptances and endorsements                                                  | <b>18.857</b>            | 20.467              |
| Guarantees                                                                    | <b>1.083.874</b>         | 1.207.501           |
| <i>Commitments</i>                                                            |                          |                     |
| Documentary credits                                                           | <b>11.205</b>            | 10.919              |
| Undrawn formal standby facilities, credit lines and other commitments to lend | <b>2.651.243</b>         | 2.903.714           |
| <b>Off-balance sheet total</b>                                                | <b>3.765.179</b>         | 4.142.601           |
| <b>Total credit risk exposure</b>                                             | <b>30.579.901</b>        | 31.893.956          |

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

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

**25. Risk management – Credit risk (continued)**

**Maximum exposure to credit risk and collateral and other credit enhancements (continued)**

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

|                                       | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|---------------------------------------|--------------------------|---------------------|
| <b>On-balance sheet</b>               | <b>€000</b>              | €000                |
| Cyprus                                | <b>22.766.788</b>        | 23.345.633          |
| Greece                                | <b>260.547</b>           | 253.996             |
| Russia                                | <b>1.081.250</b>         | 1.259.494           |
| United Kingdom                        | <b>1.830.582</b>         | 1.936.330           |
| Romania                               | <b>598.093</b>           | 619.311             |
| Ukraine                               | <b>277.462</b>           | 336.591             |
|                                       | <b>26.814.722</b>        | 27.751.355          |
| <b>Off-balance sheet</b>              |                          |                     |
| Cyprus                                | <b>3.354.453</b>         | 3.629.580           |
| Greece                                | <b>260.698</b>           | 335.073             |
| Russia                                | <b>128.204</b>           | 154.901             |
| United Kingdom                        | <b>20.387</b>            | 18.995              |
| Romania                               | <b>1.225</b>             | 3.466               |
| Ukraine                               | <b>212</b>               | 586                 |
|                                       | <b>3.765.179</b>         | 4.142.601           |
| <b>Total on and off balance sheet</b> |                          |                     |
| Cyprus                                | <b>26.121.241</b>        | 26.975.213          |
| Greece                                | <b>521.245</b>           | 589.069             |
| Russia                                | <b>1.209.454</b>         | 1.414.395           |
| United Kingdom                        | <b>1.850.969</b>         | 1.955.325           |
| Romania                               | <b>599.318</b>           | 622.777             |
| Ukraine                               | <b>277.674</b>           | 337.177             |
|                                       | <b>30.579.901</b>        | 31.893.956          |

**25. Risk management – Credit risk (continued)**

**Maximum exposure to credit risk and collateral and other credit enhancements (continued)**

*Loans and advances to customers*

The Group Credit Risk Management Unit determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

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

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

*Other financial instruments*

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

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

**Credit risk concentration**

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the CBC. According to these restrictions, the banks are prohibited from lending more than 25% of the shareholders' equity to a single customer group.

In addition to the above, the Group's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

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**25. Risk management – Credit risk (continued)**

**Credit risk concentration (continued)**

Geographical and industry concentrations of Group loans and advances to customers are presented below:

|                                           | Cyprus            | Greece         | Russia           | United Kingdom   | Romania        | Ukraine        | Total             | Fair value adjustment on initial recognition | Gross loans after fair value adjustment on initial recognition |
|-------------------------------------------|-------------------|----------------|------------------|------------------|----------------|----------------|-------------------|----------------------------------------------|----------------------------------------------------------------|
| <b>31 March 2014</b>                      | €000              | €000           | €000             | €000             | €000           | €000           | €000              | €000                                         | €000                                                           |
| <b>By economic activity</b>               |                   |                |                  |                  |                |                |                   |                                              |                                                                |
| Trade                                     | 2.495.990         | -              | 237.818          | 43.627           | 12.653         | 31.397         | <b>2.821.485</b>  | <b>(186.283)</b>                             | <b>2.635.202</b>                                               |
| Manufacturing                             | 824.229           | -              | 90.926           | 16.108           | 10.456         | 10.336         | <b>952.055</b>    | <b>(61.947)</b>                              | <b>890.108</b>                                                 |
| Hotels and catering                       | 1.612.601         | -              | -                | 130.865          | 103.998        | 6.598          | <b>1.854.062</b>  | <b>(105.038)</b>                             | <b>1.749.024</b>                                               |
| Construction                              | 4.066.627         | -              | 60.503           | 41.732           | 26.552         | 9.914          | <b>4.205.328</b>  | <b>(385.527)</b>                             | <b>3.819.801</b>                                               |
| Real estate                               | 2.825.728         | -              | 149.144          | 778.298          | 213.719        | 157.476        | <b>4.124.365</b>  | <b>(351.358)</b>                             | <b>3.773.007</b>                                               |
| Private individuals                       | 7.955.928         | 255            | 356.688          | 41.748           | 3.652          | 46.769         | <b>8.405.040</b>  | <b>(388.539)</b>                             | <b>8.016.501</b>                                               |
| Professional and other services           | 1.583.612         | -              | 368.831          | 59.580           | 71.251         | 98.913         | <b>2.182.187</b>  | <b>(104.682)</b>                             | <b>2.077.505</b>                                               |
| Other sectors                             | 1.398.141         | 171.666        | 26.034           | 82.462           | 30.085         | 9.952          | <b>1.718.340</b>  | <b>(229.464)</b>                             | <b>1.488.876</b>                                               |
|                                           | <b>22.762.856</b> | <b>171.921</b> | <b>1.289.944</b> | <b>1.194.420</b> | <b>472.366</b> | <b>371.355</b> | <b>26.262.862</b> | <b>(1.812.838)</b>                           | <b>24.450.024</b>                                              |
| <b>By customer sector</b>                 |                   |                |                  |                  |                |                |                   |                                              |                                                                |
| Corporate                                 | 9.751.752         | 171.666        | 700.635          | 559.506          | 431.140        | 318.568        | <b>11.933.267</b> | <b>(957.917)</b>                             | <b>10.975.350</b>                                              |
| Small and medium-sized enterprises (SMEs) | 5.216.228         | -              | 232.621          | 587.683          | 37.642         | 19.011         | <b>6.093.185</b>  | <b>(510.481)</b>                             | <b>5.582.704</b>                                               |
| Retail                                    |                   |                |                  |                  |                |                |                   |                                              |                                                                |
| - housing                                 | 5.227.419         | -              | 37.768           | 27.212           | 1.829          | 10.460         | <b>5.304.688</b>  | <b>(120.987)</b>                             | <b>5.183.701</b>                                               |
| - credit cards                            | 160.089           | -              | 96.298           | -                | -              | 1              | <b>256.388</b>    | <b>(20.123)</b>                              | <b>236.265</b>                                                 |
| - consumer and other                      | 2.407.368         | 255            | 222.622          | 20.019           | 1.755          | 23.315         | <b>2.675.334</b>  | <b>(203.330)</b>                             | <b>2.472.004</b>                                               |
|                                           | <b>22.762.856</b> | <b>171.921</b> | <b>1.289.944</b> | <b>1.194.420</b> | <b>472.366</b> | <b>371.355</b> | <b>26.262.862</b> | <b>(1.812.838)</b>                           | <b>24.450.024</b>                                              |

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**25. Risk management – Credit risk (continued)**

**Credit risk concentration (continued)**

|                                           | Cyprus            | Greece         | Russia           | United Kingdom   | Romania        | Ukraine        | Total             | Fair value adjustment on initial recognition | Gross loans after fair value on initial recognition |
|-------------------------------------------|-------------------|----------------|------------------|------------------|----------------|----------------|-------------------|----------------------------------------------|-----------------------------------------------------|
| <b>31 December 2013</b>                   | €000              | €000           | €000             | €000             | €000           | €000           | €000              | €000                                         | €000                                                |
| <b>By economic activity</b>               |                   |                |                  |                  |                |                |                   |                                              |                                                     |
| Trade                                     | 2.471.968         | -              | 261.518          | 48.816           | 16.239         | 34.571         | <b>2.833.112</b>  | <b>(187.369)</b>                             | <b>2.645.743</b>                                    |
| Manufacturing                             | 829.327           | -              | 99.790           | 33.608           | 22.701         | 13.631         | <b>999.057</b>    | <b>(63.157)</b>                              | <b>935.900</b>                                      |
| Hotels and catering                       | 1.610.289         | -              | -                | 165.499          | 105.434        | 6.610          | <b>1.887.832</b>  | <b>(112.051)</b>                             | <b>1.775.781</b>                                    |
| Construction                              | 4.101.528         | -              | 64.096           | 44.746           | 26.252         | 12.028         | <b>4.248.650</b>  | <b>(383.290)</b>                             | <b>3.865.360</b>                                    |
| Real estate                               | 2.846.007         | -              | 172.732          | 802.346          | 217.191        | 162.905        | <b>4.201.181</b>  | <b>(350.743)</b>                             | <b>3.850.438</b>                                    |
| Private individuals                       | 8.030.587         | 542            | 399.116          | 43.476           | 3.809          | 61.585         | <b>8.539.115</b>  | <b>(392.344)</b>                             | <b>8.146.771</b>                                    |
| Professional and other services           | 1.675.402         | -              | 404.403          | 56.638           | 70.692         | 99.628         | <b>2.306.763</b>  | <b>(179.998)</b>                             | <b>2.126.765</b>                                    |
| Other sectors                             | 1.399.096         | 171.465        | 27.506           | 88.620           | 30.665         | 10.257         | <b>1.727.609</b>  | <b>(233.759)</b>                             | <b>1.493.850</b>                                    |
|                                           | <b>22.964.204</b> | <b>172.007</b> | <b>1.429.161</b> | <b>1.283.749</b> | <b>492.983</b> | <b>401.215</b> | <b>26.743.319</b> | <b>(1.902.711)</b>                           | <b>24.840.608</b>                                   |
| <b>By customer sector</b>                 |                   |                |                  |                  |                |                |                   |                                              |                                                     |
| Corporate                                 | 9.882.891         | 171.465        | 773.340          | 634.572          | 448.642        | 330.703        | <b>12.241.613</b> | <b>(1.033.886)</b>                           | <b>11.207.727</b>                                   |
| Small and medium-sized enterprises (SMEs) | 5.201.416         | -              | 256.705          | 592.048          | 40.695         | 24.838         | <b>6.115.702</b>  | <b>(517.716)</b>                             | <b>5.597.986</b>                                    |
| Retail                                    |                   |                |                  |                  |                |                |                   |                                              |                                                     |
| - housing                                 | 5.281.389         | -              | 41.792           | 34.809           | 1.767          | 14.909         | <b>5.374.666</b>  | <b>(121.036)</b>                             | <b>5.253.630</b>                                    |
| - credit cards                            | 170.552           | -              | 102.025          | -                | -              | 11             | <b>272.588</b>    | <b>(21.281)</b>                              | <b>251.307</b>                                      |
| - consumer and other                      | 2.427.956         | 542            | 255.299          | 22.320           | 1.879          | 30.754         | <b>2.738.750</b>  | <b>(208.792)</b>                             | <b>2.529.958</b>                                    |
|                                           | <b>22.964.204</b> | <b>172.007</b> | <b>1.429.161</b> | <b>1.283.749</b> | <b>492.983</b> | <b>401.215</b> | <b>26.743.319</b> | <b>(1.902.711)</b>                           | <b>24.840.608</b>                                   |

**25. Risk management – Credit risk (continued)**

**Credit quality of loans and advances to customers**

The following table presents the credit quality of the Group's loans and advances to customers:

|                               | 31 March 2014                                        |                                              |                                                     | 31 December 2013                                     |                                              |                                                     |
|-------------------------------|------------------------------------------------------|----------------------------------------------|-----------------------------------------------------|------------------------------------------------------|----------------------------------------------|-----------------------------------------------------|
|                               | Gross loans before fair value on initial recognition | Fair value adjustment on initial recognition | Gross loans after fair value on initial recognition | Gross loans before fair value on initial recognition | Fair value adjustment on initial recognition | Gross loans after fair value on initial recognition |
|                               | €000                                                 | €000                                         | €000                                                | €000                                                 | €000                                         | €000                                                |
| Neither past due nor impaired | 11.491.024                                           | (196.325)                                    | 11.294.699                                          | 11.855.363                                           | (226.207)                                    | 11.629.156                                          |
| Past due but not impaired     | 6.036.583                                            | (181.835)                                    | 5.854.748                                           | 6.732.583                                            | (417.169)                                    | 6.315.414                                           |
| Impaired                      | 8.735.255                                            | (1.434.678)                                  | 7.300.577                                           | 8.155.373                                            | (1.259.335)                                  | 6.896.038                                           |
|                               | 26.262.862                                           | (1.812.838)                                  | 24.450.024                                          | 26.743.319                                           | (1.902.711)                                  | 24.840.608                                          |

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

Fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the Laiki Bank acquisition in 2013 (Note 32). In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

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

|                   | 31 March 2014 | 31 December 2013 |
|-------------------|---------------|------------------|
|                   | €000          | €000             |
| Past due:         |               |                  |
| - up to 30 days   | 865.567       | 822.037          |
| - 31 to 90 days   | 1.150.585     | 1.063.243        |
| - 91 to 180 days  | 682.021       | 1.316.042        |
| - 181 to 365 days | 1.634.525     | 2.099.424        |
| - over one year   | 1.703.885     | 1.431.837        |
|                   | 6.036.583     | 6.732.583        |

The fair value of the collateral that the Group holds (to the extent that they mitigate credit risk) in respect of loans and advances to customers that are past due but not impaired as at 31 March 2014 is €4.738.147 thousand (31 December 2013: €5.133.851 thousand).

**25. Risk management – Credit risk (continued)**

**Credit quality of loans and advances to customers (continued)**

*Impaired loans and advances to customers on an individual basis*

|                | <b>31 March 2014</b>            |                                 | 31 December 2013         |                          |
|----------------|---------------------------------|---------------------------------|--------------------------|--------------------------|
|                | <b>Gross Loans and advances</b> | <b>Fair value of collateral</b> | Gross Loans and advances | Fair value of collateral |
|                | <b>€000</b>                     | <b>€000</b>                     | €000                     | €000                     |
| Cyprus         | <b>7.701.051</b>                | <b>4.453.034</b>                | 7.110.927                | 4.111.343                |
| Greece         | <b>171.666</b>                  | -                               | 171.465                  | -                        |
| Russia         | <b>270.106</b>                  | <b>169.517</b>                  | 284.869                  | 191.672                  |
| United Kingdom | <b>168.025</b>                  | <b>141.468</b>                  | 163.979                  | 128.734                  |
| Romania        | <b>260.291</b>                  | <b>114.674</b>                  | 256.612                  | 126.046                  |
| Ukraine        | <b>164.116</b>                  | <b>124.439</b>                  | 167.521                  | 132.015                  |
|                | <b>8.735.255</b>                | <b>5.003.132</b>                | 8.155.373                | 4.689.810                |

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

**Provision for impairment of loans and advances to customers**

The movement of provisions for impairment of loans and advances to customers is as follows:

|                                                         | Cyprus           | Greece     | Russia         | Other countries | <b>Total</b>     |
|---------------------------------------------------------|------------------|------------|----------------|-----------------|------------------|
| <b>2014</b>                                             | €000             | €000       | €000           | €000            | <b>€000</b>      |
| 1 January                                               | 2.574.670        | 189        | 286.366        | 215.045         | <b>3.076.270</b> |
| Exchange adjustments                                    | 11.809           | -          | (16.927)       | (11.882)        | <b>(17.000)</b>  |
| Applied in writing off impaired loans and advances      | (277)            | -          | (9)            | -               | <b>(286)</b>     |
| Interest accrued on impaired loans and advances         | (27.141)         | -          | (238)          | (1.262)         | <b>(28.641)</b>  |
| Collection of loans and advances previously written off | 123              | -          | -              | 607             | <b>730</b>       |
| Charge for the period - continuing operations           | 129.888          | -          | 17.557         | (980)           | <b>146.465</b>   |
| Charge for the period – discontinued operations         | -                | -          | -              | 38.528          | <b>38.528</b>    |
| <b>31 March</b>                                         | <b>2.689.072</b> | <b>189</b> | <b>286.749</b> | <b>240.056</b>  | <b>3.216.066</b> |
| <b>Individual impairment</b>                            | <b>2.076.051</b> | <b>189</b> | <b>139.635</b> | <b>210.603</b>  | <b>2.426.478</b> |
| <b>Collective impairment</b>                            | <b>613.021</b>   | -          | <b>147.114</b> | <b>29.453</b>   | <b>789.588</b>   |

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

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

**25. Risk management – Credit risk (continued)**

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

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be 2 years for loans that have been managed by Recoveries Division for more than 3 years, and 4 years for customers that have been managed by Recoveries Division for less than 3 years. For all other loans a maximum expected recovery period of 5 years is assumed.

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

Indicatively, if the actual recoverable amount of impaired loans from collateral in Cyprus portfolio is lower than the amount estimated as at 31 March 2014 by 5% and 10%, then provisions for impairment of loans and advances would increase by €307.690 thousand and €536.836 thousand respectively. Alternatively, if the collateral value in Cyprus increased by 5% and 10%, then the provisions for impairment of loans and advances would decrease by €74.459 thousand and €238.114 thousand respectively.

**Forbearance**

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

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

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

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

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

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

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and or/measures that restructure the borrower's financing (financial restructuring).



**25. Risk management – Credit risk (continued)**

**Forbearance (continued)**

Restructuring options may be of a short or long-term nature or combination thereof.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than 5 years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed 3 years.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:

- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.

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

**25. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers**

|                                                     | Cyprus           | Greece        | Russia         | United Kingdom | Romania       | Ukraine       | Total            |
|-----------------------------------------------------|------------------|---------------|----------------|----------------|---------------|---------------|------------------|
|                                                     | €000             | €000          | €000           | €000           | €000          | €000          | €000             |
| <b>2014</b>                                         |                  |               |                |                |               |               |                  |
| 1 January                                           | 5.135.646        | -             | 187.031        | 107.624        | 124.312       | 62.051        | <b>5.616.664</b> |
| New loans and advances rescheduled in the period    | 767.131          | 70.749        | 9.920          | 47.449         | -             | 4.481         | <b>899.730</b>   |
| Assets no longer rescheduled (including repayments) | (339.698)        | -             | (18.433)       | (25.793)       | (70.118)      | (3.975)       | <b>(458.017)</b> |
| Interest accrued on rescheduled loans and advances  | 69.275           | -             | 1.503          | 1.264          | 689           | 2.460         | <b>75.191</b>    |
| Exchange adjustments                                | 1.035            | -             | (13.666)       | 682            | 174           | (6.188)       | <b>(17.963)</b>  |
| <b>31 March</b>                                     | <b>5.633.389</b> | <b>70.749</b> | <b>166.355</b> | <b>131.226</b> | <b>55.057</b> | <b>58.829</b> | <b>6.115.605</b> |

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount on 31 March 2014 of €1.604.875 thousand which were rescheduled prior to the acquisition date (29 March 2013).

**25. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit quality*

|                               | Cyprus           | Greece        | Russia         | United Kingdom | Romania        | Ukraine       | Total            |
|-------------------------------|------------------|---------------|----------------|----------------|----------------|---------------|------------------|
| <b>31 March 2014</b>          | €000             | €000          | €000           | €000           | €000           | €000          | €000             |
| Neither past due nor impaired | 2.993.249        | -             | 144.975        | 102.072        | 10.856         | 7.401         | <b>3.258.553</b> |
| Past due but not impaired     | 1.534.833        | -             | 10.443         | 19.332         | 2.516          | 18.870        | <b>1.585.994</b> |
| Impaired                      | 1.105.307        | 70.749        | 10.937         | 9.822          | 41.685         | 32.558        | <b>1.271.058</b> |
|                               | <b>5.633.389</b> | <b>70.749</b> | <b>166.355</b> | <b>131.226</b> | <b>55.057</b>  | <b>58.829</b> | <b>6.115.605</b> |
| <b>31 December 2013</b>       |                  |               |                |                |                |               |                  |
| Neither past due nor impaired | 2.659.066        | -             | 154.721        | 89.549         | 16.586         | 6.128         | <b>2.926.050</b> |
| Past due but not impaired     | 1.428.549        | -             | 18.529         | 10.425         | 22.598         | 22.221        | <b>1.502.322</b> |
| Impaired                      | 1.048.031        | -             | 13.781         | 7.650          | 85.128         | 33.702        | <b>1.188.292</b> |
|                               | <b>5.135.646</b> | <b>-</b>      | <b>187.031</b> | <b>107.624</b> | <b>124.312</b> | <b>62.051</b> | <b>5.616.664</b> |

**25. Risk management – Credit risk** (continued)

**Rescheduled loans and advances to customers** (continued)

*Fair value of collateral*

|                               | Cyprus           | Greece   | Russia         | United Kingdom | Romania       | Ukraine       | Total            |
|-------------------------------|------------------|----------|----------------|----------------|---------------|---------------|------------------|
| <b>31 March 2014</b>          | €000             | €000     | €000           | €000           | €000          | €000          | €000             |
| Neither past due nor impaired | 2.587.624        | -        | 141.208        | 102.071        | 10.857        | 7.401         | <b>2.849.161</b> |
| Past due but not impaired     | 1.313.820        | -        | 10.309         | 18.466         | 1.561         | 17.770        | <b>1.361.926</b> |
| Impaired                      | 860.026          | -        | 7.114          | 6.870          | 19.008        | 15.115        | <b>908.133</b>   |
|                               | <b>4.761.470</b> | <b>-</b> | <b>158.631</b> | <b>127.407</b> | <b>31.426</b> | <b>40.286</b> | <b>5.119.220</b> |
| <b>31 December 2013</b>       |                  |          |                |                |               |               |                  |
| Neither past due nor impaired | 2.290.950        | -        | 151.815        | 89.444         | 14.052        | 6.127         | <b>2.552.388</b> |
| Past due but not impaired     | 1.218.052        | -        | 18.206         | 12.236         | 16.544        | 20.699        | <b>1.285.737</b> |
| Impaired                      | 789.767          | -        | 9.509          | 5.639          | 57.430        | 20.369        | <b>882.714</b>   |
|                               | <b>4.298.769</b> | <b>-</b> | <b>179.530</b> | <b>107.319</b> | <b>88.026</b> | <b>47.195</b> | <b>4.720.839</b> |

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

**25. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration*

|                                           | Cyprus           | Greece        | Russia         | United Kingdom | Romania       | Ukraine       | Total            |
|-------------------------------------------|------------------|---------------|----------------|----------------|---------------|---------------|------------------|
| <b>31 March 2014</b>                      | €000             | €000          | €000           | €000           | €000          | €000          | €000             |
| <b>By economic activity</b>               |                  |               |                |                |               |               |                  |
| Trade                                     | 487.278          | -             | 29.568         | 417            | 5.048         | 4.383         | <b>526.694</b>   |
| Manufacturing                             | 192.927          | -             | 4.416          | 4.896          | 740           | 1.003         | <b>203.982</b>   |
| Hotels and catering                       | 458.982          | -             | -              | 13.226         | 6.281         | 6.337         | <b>484.826</b>   |
| Construction                              | 1.114.196        | -             | 9.116          | 16.788         | 9.646         | 8.951         | <b>1.158.697</b> |
| Real estate                               | 743.774          | -             | -              | 82.581         | 10.918        | 25.069        | <b>862.342</b>   |
| Private individuals                       | 1.945.421        | -             | -              | 1.750          | 60            | 8.628         | <b>1.955.859</b> |
| Professional and other services           | 422.405          | -             | 123.255        | 10.650         | 21.186        | 4.033         | <b>581.529</b>   |
| Other sectors                             | 268.406          | 70.749        | -              | 918            | 1.178         | 425           | <b>341.676</b>   |
|                                           | <b>5.633.389</b> | <b>70.749</b> | <b>166.355</b> | <b>131.226</b> | <b>55.057</b> | <b>58.829</b> | <b>6.115.605</b> |
| <b>By customer sector</b>                 |                  |               |                |                |               |               |                  |
| Corporate                                 | 2.701.275        | 70.749        | 144.981        | 69.451         | 39.974        | 51.389        | <b>3.077.819</b> |
| Small and medium-sized enterprises (SMEs) | 1.032.437        | -             | 19.787         | 61.430         | 15.024        | 4.799         | <b>1.133.477</b> |
| Retail                                    |                  |               |                |                |               |               |                  |
| - housing                                 | 1.489.145        | -             | 94             | 62             | -             | 236           | <b>1.489.537</b> |
| - credit cards                            | 253              | -             | 310            | -              | -             | -             | <b>563</b>       |
| - consumer and other                      | 410.279          | -             | 1.183          | 283            | 59            | 2.405         | <b>414.209</b>   |
|                                           | <b>5.633.389</b> | <b>70.749</b> | <b>166.355</b> | <b>131.226</b> | <b>55.057</b> | <b>58.829</b> | <b>6.115.605</b> |

**25. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration (continued)*

|                                           | Cyprus           | Russia         | United Kingdom | Romania        | Ukraine       | Total            |
|-------------------------------------------|------------------|----------------|----------------|----------------|---------------|------------------|
| <b>31 December 2013</b>                   | €000             | €000           | €000           | €000           | €000          | €000             |
| <b>By economic activity</b>               |                  |                |                |                |               |                  |
| Trade                                     | 454.872          | 46.834         | 593            | 8.062          | 4.721         | <b>515.082</b>   |
| Manufacturing                             | 186.322          | 4.417          | 1.204          | 1.348          | 994           | <b>194.285</b>   |
| Hotels and catering                       | 371.577          | -              | 11.410         | 6.314          | 6.232         | <b>395.533</b>   |
| Construction                              | 993.812          | 9.773          | 16.124         | 17.512         | 10.738        | <b>1.047.959</b> |
| Real estate                               | 700.093          | -              | 70.691         | 68.019         | 25.398        | <b>864.201</b>   |
| Private individuals                       | 1.815.870        | -              | 1.693          | 119            | 8.665         | <b>1.826.347</b> |
| Professional and other services           | 379.664          | 126.007        | 5.909          | 21.644         | 4.740         | <b>537.964</b>   |
| Other sectors                             | 233.436          | -              | -              | 1.294          | 563           | <b>235.293</b>   |
|                                           | <b>5.135.646</b> | <b>187.031</b> | <b>107.624</b> | <b>124.312</b> | <b>62.051</b> | <b>5.616.664</b> |
| <b>By customer sector</b>                 |                  |                |                |                |               |                  |
| Corporate                                 | 2.428.050        | 165.286        | 58.069         | 101.904        | 53.553        | <b>2.806.862</b> |
| Small and medium-sized enterprises (SMEs) | 937.341          | 18.592         | 49.310         | 22.289         | 5.501         | <b>1.033.033</b> |
| Retail                                    |                  |                |                |                |               |                  |
| - housing                                 | 1.396.739        | 2.340          | 64             | 110            | 263           | <b>1.399.516</b> |
| - credit cards                            | 382              | 153            | -              | -              | -             | <b>535</b>       |
| - consumer and other                      | 373.134          | 660            | 181            | 9              | 2.734         | <b>376.718</b>   |
|                                           | <b>5.135.646</b> | <b>187.031</b> | <b>107.624</b> | <b>124.312</b> | <b>62.051</b> | <b>5.616.664</b> |

**25. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Provisions for impairment*

|                         | Cyprus         | Greece       | Russia        | United Kingdom | Romania       | Ukraine       | Total          |
|-------------------------|----------------|--------------|---------------|----------------|---------------|---------------|----------------|
| <b>31 March 2014</b>    | €000           | €000         | €000          | €000           | €000          | €000          | <b>€000</b>    |
| Individual impairment   | 436.027        | 5.846        | 2.365         | 3.998          | 11.061        | 20.343        | <b>479.640</b> |
| Collective impairment   | 184.379        | -            | 9.818         | 23             | 1.365         | -             | <b>195.585</b> |
|                         | <b>620.406</b> | <b>5.846</b> | <b>12.183</b> | <b>4.021</b>   | <b>12.426</b> | <b>20.343</b> | <b>675.225</b> |
| <b>31 December 2013</b> |                |              |               |                |               |               |                |
| Individual impairment   | 410.690        | -            | 2.628         | 2.893          | 17.938        | 14.577        | <b>448.726</b> |
| Collective impairment   | 176.223        | -            | 11.465        | -              | 3.044         | -             | <b>190.732</b> |
|                         | <b>586.913</b> | <b>-</b>     | <b>14.093</b> | <b>2.893</b>   | <b>20.982</b> | <b>14.577</b> | <b>639.458</b> |

**26. Risk management – Liquidity risk and funding**

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

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

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

**Management structure**

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

Liquidity is also monitored daily by Market Risk Management ('MRM'). MRM is an independent department responsible to ensure compliance at the level of individual units, as well as at Group level, with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates. MRM reports to ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. It also provides the results of various stress tests to the ALCO.

The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. The ALCO monitors mostly the stock of liquid assets and the cash outflows of the bank in Cyprus, since these are considered to be of utmost importance.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy statement and reviews almost at every meeting, the liquidity position of the Group. Information on inflows/outflows is also provided.

**Restriction on withdrawal of deposits**

In March 2013 the Ministry of Finance imposed temporary restrictive measures on the free flow of funds due to lack of substantial liquidity and risk of deposits outflow with possible outcome the risk of the viability of the credit institutions with chain effects that could lead to instability of the financial system and have destabilizing consequences on the economy and society of the country as a whole. These restrictive measures comprised maximum limits on withdrawals, transfers to other financial institutions within the Republic, movement of funds outside the Republic and mandatory rollovers of maturing fixed deposits and notice accounts.

Given the continuing stabilisation of the financial sector the majority of these restrictions have been abolished in line with the Ministry of Finance roadmap for the abolition of Restrictive Measures. Currently, the restrictive measures in force, restrict the movement of funds outside the Republic (subject to exceptions) and the majority of restrictions for the flow of funds within the Republic have been abolished.



## 26. Risk management – Liquidity risk and funding (continued)

### Monitoring process

#### Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Group's activities. MRM prepares a report for submission to the CBC, indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash (both banknote balances, nostro balances and any overnight money market balances). This information is also sent to members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

#### Weekly

Currently MRM prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC. Group Treasury prepares projections of expected inflows and outflows covering a two months period. Group Treasury prepares and submits a liquidity report to the Board of Directors and EXCO on a weekly basis.

#### Monthly

MRM prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer. The fixed deposit renewal rates and the actual flows compared to maximum withdrawal limits, given the restrictive measures are also calculated and presented to ALCO.

#### Quarterly

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan, for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the Funding Crisis Committee. The plan sets out the members of this Committee and a series of the possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the CBC.

### Liquidity ratios

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

The Group's liquidity ratio was as follows:

|                                | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|--------------------------------|--------------------------|---------------------|
|                                | <b>%</b>                 | <b>%</b>            |
| 31 March 2014/31 December 2013 | <b>12,14</b>             | 12,28               |
| Average ratio                  | <b>12,67</b>             | 11,16               |
| Highest ratio                  | <b>12,39</b>             | 14,42               |
| Lowest ratio                   | <b>12,36</b>             | 8,69                |

The minimum liquidity ratios for Cyprus operations as set by the CBC are 20% for Euro and 70% for foreign currencies.

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

## 26. Risk management – Liquidity risk and funding (continued)

### Liquidity ratios (continued)

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

|                                | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|--------------------------------|--------------------------|---------------------|
|                                | <b>%</b>                 | <b>%</b>            |
| 31 March 2014/31 December 2013 | <b>150,96</b>            | 145,38              |
| Average ratio                  | <b>148,17</b>            | 128,84              |
| Highest quarter ratio          | <b>150,96</b>            | 145,95              |
| Lowest quarter ratio           | <b>145,38</b>            | 85,70               |

### Sources of funding

Currently and following the bail-in of the Group's long term debt securities, the Group's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through Emergency Liquidity Assistance ('ELA').

The Group currently has limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding. As at 31 March 2014, the funding from the ELA amounted to €9,51 billion. (Note 17).

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for repayment. The subsidiaries of the Company, Bank of Cyprus UK Ltd and Bank of Cyprus Channel Islands Ltd, cannot place funds with the Group in excess of maximum limits set by the local regulators.

The subsidiaries can proceed with dividend distribution in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

The carrying value of the Group's encumbered assets as at 31 March 2014 and 31 December 2013 are summarised below:

|                              | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|------------------------------|--------------------------|---------------------|
|                              | <b>€000</b>              | <b>€000</b>         |
| Cash and other liquid assets | <b>278.252</b>           | 367.080             |
| Other investments            | <b>3.279.952</b>         | 3.289.810           |
| Loans and advances           | <b>14.915.805</b>        | 15.136.002          |
| Property                     | <b>93.646</b>            | 90.181              |
|                              | <b>18.567.655</b>        | 18.883.073          |

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

Securities are mainly used as collateral for repurchase transactions as well as for covered bonds, while loans are mainly used as collateral for funding from the Central Bank of Cyprus and for covered bonds.

**26. Risk management – Liquidity risk and funding (continued)**

**Sources of funding (continued)**

Cash and other liquid assets include amounts placed with banks as collateral under ISDA agreements of €177.566 thousand (31 December 2013: €221.255 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

Loans and advances indicated as encumbered as at 31 March 2014 and 31 December 2013 are mainly used as collateral for funding from the CBC.

In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand are pledged as collateral for obtaining funding from CBC (Note 18).

**27. Risk management – Other risks**

Other business risks include insurances risks, relating to the occurrence of an insured event under an insurance contract and to the uncertainty of the amount and the timing of the resulting claim, operational risks, regulatory risks associated with the increasing regulatory obligations imposed on the Group, risks associated with intensive competition, litigation and political risks. Operational and regulatory risk is analysed below.

**Operational risk**

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of Operational Risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives. During 2013, an enterprise-wide Operational Risk Management software was implemented to streamline and further automate operational risk management activities.

Operational risks can arise from all business lines and from all activities carried out by the Group. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the Internal Audit function and the Audit Committee of the Board of Directors, which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

The past year has been extremely challenging from an operational risk management perspective due to the occurrence of several events following the Eurogroup decisions in March 2013, which gave rise to a number of important operational risk drivers. These risk drivers impinged upon a wide spectrum of the Group's operations. During the first quarter of 2014, the major task that remained to be completed was the full absorption of the operations of Laiki Bank in Cyprus and the final integration of the information technology systems and data with those of Bank of Cyprus.

**27. Risk management – Other risks (continued)**

**Operational risk (continued)**

The day-to-day operational issues are being addressed by the business lines in consultation and close cooperation with the Operational risk department and other control functions. Operational Risk Management is monitoring and assessing the potential risks and measures are taken to control and mitigate them. No risks have materialised in loss incidents for the Company from this process. The project of integrating the IT systems of the two organisations and migrating all customer and account data is well governed and is progressing successfully in line with the initial target dates.

During the past six months, a number of regulatory changes were put in effect. From these new regulations emanate demands for new software and procedures that give rise to operational risks related to data integrity, data aggregation as well as non-compliance with the new regulatory provisions. Group Operational Risk is involved in the management of these risks as a matter of priority in collaboration with other control functions, such as Group Compliance.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, corrective action and statistical analysis. During the three months ended 31 March 2014, 165 loss events with gross loss over €1.000 were recorded (year 2013: 434).

The Group aims to increase awareness of its employees on operational risk issues through ongoing staff training.

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

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the Group operates to ensure continuity and timely recovery after a catastrophic event.

**Regulatory risk**

The Group's operations in Cyprus and overseas, are supervised by the CBC. In carrying out its supervisory duties, the CBC follows, inter alia, the European Union's underlying legal framework as well as closely observing and monitoring ongoing developments and emerging risks and appropriately adjusting its monitoring and regulatory procedures and operations. The overseas subsidiaries and branches of the Group are similarly supervised by the corresponding regulatory authorities in the countries where they operate.

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

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

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

**28. Sovereign exposure**

The Group's sovereign exposure and non-sovereign exposure in countries which have entered or have applied to the European Support Mechanism or whose Moody's credit rating is below Aa1 and the total Group exposure exceeds €100.000 thousand, is presented below. These countries are: Cyprus, Greece, Italy, Russia, Romania, Ukraine, Portugal and Spain.

The Group had no exposure to Greek government bonds as at 31 March 2014 or 31 December 2013. The sovereign exposure to the other countries, other than Cyprus, was not considered to be impaired as at 31 March 2014 and 31 December 2013, despite the financial difficulties of these countries, as the situation is not severe enough to impact the future cash flows of these countries' sovereign securities, except in relation to exchanged Cyprus government bonds as described below.

*Cyprus Government Bonds (CyGBs)*

In June 2013, the Republic of Cyprus offered to exchange a number of existing government bonds with a total nominal value of €1 billion, which matured during the economic adjustment programme period (March 2013 - March 2016), with five new bonds with corresponding equal coupon rates (on a series-by-series basis) and 5-10 year maturities. The Group accepted the above offer and participated in the exchange with bonds of total nominal value of €180.000 thousand. The exchange constituted a modification of terms, rather than resulting in the derecognition of the CyGBs being exchanged.

For the CyGBs offered for exchange, there was objective evidence of impairment, as in addition to other indicators (i.e. financial difficulties of the issuer, downgrades and decline in the fair value), there was a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, during the year 2013 the Group had recognised impairment losses of €6.927 thousand relating to the exchanged bonds.

The CyGBs held by the Group that were not subject to the offer for exchange of June 2013 are not considered as impaired as at 31 March 2014, for the following reasons:

- There has not been any breach of contract or delinquency in interest of principal payments.
- Although the issuer has financial difficulties, this is sufficiently mitigated by the fact that Cyprus has entered into an economic adjustment programme.
- The economic adjustment programme is progressing as planned and the terms of the MoU are being fulfilled.
- Cyprus is expected to be able to return to markets and raise necessary financing by the end of the economic adjustment programme.

**28. Sovereign exposure** (continued)

**Credit risk**

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

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

|                                                                | <b>Cyprus</b>     | <b>Greece</b>  | <b>Italy</b>  | <b>Russia</b>    | <b>Romania</b> | <b>Ukraine</b> |
|----------------------------------------------------------------|-------------------|----------------|---------------|------------------|----------------|----------------|
| <b>31 March 2014</b>                                           | €000              | €000           | €000          | €000             | €000           | €000           |
| Deposits with central banks                                    | 238.046           | -              | -             | 44.157           | 3.142          | 6.720          |
| Placements with banks                                          | 111.866           | 18.201         | 25.132        | 15.510           | 219.750        | 12.620         |
| Investments in sovereign debt securities                       |                   |                |               |                  |                |                |
| - available-for-sale                                           | 197               | -              | 52.811        | 1.856            | -              | -              |
| - loans and receivables                                        | 2.618.403         | -              | -             | -                | -              | -              |
| - fair value through profit or loss                            | 16.402            | -              | -             | -                | -              | -              |
| Investments in debt securities of banks and other corporations |                   |                |               |                  |                |                |
| - available-for-sale                                           | 3.526             | -              | -             | -                | -              | 1              |
| - loans and receivables                                        | 502               | -              | -             | -                | -              | -              |
| - fair value through profit or loss                            | 44                | -              | -             | -                | -              | -              |
| Loans and advances to customers (before provisions)            | 21.062.359        | 97.038         | -             | 1.289.944        | 462.924        | 363.195        |
| Derivative financial assets                                    | -                 | -              | -             | -                | 15             | -              |
| <b>Total on balance sheet</b>                                  | <b>24.051.345</b> | <b>115.239</b> | <b>77.943</b> | <b>1.351.467</b> | <b>685.831</b> | <b>382.536</b> |
| Contingent liabilities                                         | 834.251           | 260.698        | -             | 3.705            | 21             | 32             |
| Commitments                                                    | 2.520.202         | -              | -             | 124.499          | 1.204          | 180            |
| <b>Total off balance sheet</b>                                 | <b>3.354.453</b>  | <b>260.698</b> | <b>-</b>      | <b>128.204</b>   | <b>1.225</b>   | <b>212</b>     |
| <b>Total exposure to credit risk</b>                           | <b>27.405.798</b> | <b>375.937</b> | <b>77.943</b> | <b>1.479.671</b> | <b>687.056</b> | <b>382.748</b> |

**28. Sovereign exposure (continued)**

**Credit risk (continued)**

|                                                                | <b>Cyprus</b>     | <b>Greece</b>  | <b>Italy</b>  | <b>Russia</b>    | <b>Romania</b> | <b>Ukraine</b> |
|----------------------------------------------------------------|-------------------|----------------|---------------|------------------|----------------|----------------|
| <b>31 December 2013</b>                                        | €000              | €000           | €000          | €000             | €000           | €000           |
| Deposits with central banks                                    | 456.069           | -              | -             | 51.593           | 5.695          | 9.969          |
| Placements with banks                                          | 51.374            | 19.799         | 428           | 103.976          | 222.417        | 9.458          |
| Investments in sovereign debt securities                       |                   |                |               |                  |                |                |
| - available-for-sale                                           | 1.423             | -              | 52.211        | 2.051            | -              | -              |
| - loans and receivables                                        | 2.572.940         | -              | -             | -                | -              | -              |
| - fair value through profit or loss                            | 15.413            | -              | -             | -                | -              | -              |
| Investments in debt securities in banks and other corporations |                   |                |               |                  |                |                |
| - available-for-sale                                           | 6.148             | 290            | -             | -                | -              | 1              |
| - loans and receivables                                        | 497               | -              | -             | -                | -              | -              |
| - fair value through profit or loss                            | 103               | -              | -             | -                | -              | -              |
| Loans and advances to customers (before provisions)            | 21.173.769        | 97.124         | -             | 1.429.161        | 483.541        | 395.051        |
| <b>Total on balance sheet</b>                                  | <b>24.277.736</b> | <b>117.213</b> | <b>52.639</b> | <b>1.586.781</b> | <b>711.653</b> | <b>414.479</b> |
| Contingent liabilities                                         | 880.984           | 335.073        | -             | 7.206            | 100            | 50             |
| Commitments                                                    | 2.748.596         | -              | -             | 147.695          | 3.366          | 536            |
| <b>Total off balance sheet</b>                                 | <b>3.629.580</b>  | <b>335.073</b> | <b>-</b>      | <b>154.901</b>   | <b>3.466</b>   | <b>586</b>     |
| <b>Total exposure to credit risk</b>                           | <b>27.907.316</b> | <b>452.286</b> | <b>52.639</b> | <b>1.741.682</b> | <b>715.119</b> | <b>415.065</b> |

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

On 31 March 2014 the revaluation reserve of available-for-sale investments includes losses amounting to €4.894 thousand (31 December 2013: €5.851 thousand) relating to the above sovereign debt securities and gains amounting €584 thousand (31 December 2013: losses of €142 thousand) relating to debt securities of banks and other corporations.

## 28. Sovereign exposure (continued)

### Credit risk (continued)

The analysis of loans and advances to customers for the countries above is set out in Note 25.

In Cyprus, loans and advances to customers include loans to local authorities, semi-governmental organisations and government controlled businesses of €136.551 thousand (31 December 2013: €139.733 thousand). In addition, contingent liabilities and commitments include an amount of €58.429 thousand for these entities (31 December 2013: €56.389 thousand).

### Liquidity risk

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

|                                     | On demand and up to one month | Between one and three months | Between three months and one year | Between one and five years | Over five years | Total            |
|-------------------------------------|-------------------------------|------------------------------|-----------------------------------|----------------------------|-----------------|------------------|
| <b>31 March 2014</b>                | €000                          | €000                         | €000                              | €000                       | €000            | <b>€000</b>      |
| <b>Cyprus</b>                       |                               |                              |                                   |                            |                 |                  |
| - available-for-sale                | 27                            | -                            | -                                 | 170                        | -               | <b>197</b>       |
| - loans and receivables             | -                             | 199.085                      | 1.826.500                         | 292.839                    | 299.979         | <b>2.618.403</b> |
| - fair value through profit or loss | -                             | -                            | -                                 | 16.402                     | -               | <b>16.402</b>    |
|                                     | <b>27</b>                     | <b>199.085</b>               | <b>1.826.500</b>                  | <b>309.411</b>             | <b>299.979</b>  | <b>2.635.002</b> |

|                                     |          |                |                  |                |                |                  |
|-------------------------------------|----------|----------------|------------------|----------------|----------------|------------------|
| <b>31 December 2013</b>             |          |                |                  |                |                |                  |
| <b>Cyprus</b>                       |          |                |                  |                |                |                  |
| - available-for-sale                | -        | -              | -                | 1.423          | -              | <b>1.423</b>     |
| - loans and receivables             | -        | 199.003        | 1.749.757        | 327.267        | 296.913        | <b>2.572.940</b> |
| - fair value through profit or loss | -        | -              | -                | 15.413         | -              | <b>15.413</b>    |
|                                     | <b>-</b> | <b>199.003</b> | <b>1.749.757</b> | <b>344.103</b> | <b>296.913</b> | <b>2.589.776</b> |

The Cyprus Government Bond of €1,6 billion is due on 1 July 2014 and the government has a unilateral roll-over option up to July 2017.

As at 31 March 2014 and 31 December 2013, the Group had no sovereign debt security exposure to Spain, Portugal and Greece.



## **29. Capital management**

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus (CBC).

The minimum capital adequacy ratios as determined by the CBC for the year 2013 until 30 December 2013 were: Core Tier 1 ratio of 8,7%, Tier 1 ratio of 10,2% and total capital ratio of 12,2%. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios were abolished.

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

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment and taking into account the parameters of the balance sheet assessment and the EU-wide stress test, the minimum capital requirements will be determined in consultation with the Troika and informing European Stability Mechanism.

In addition, the CBC may also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II adds-ons).

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

## 29. Capital management (continued)

### Capital position under CRD IV

The information presented below represents the Group's estimated capital position under CRD IV/CRR, including the application of the transitional arrangements published by the CBC on 26 May 2014.

The Group's provisional capital position on a CRD IV/CRR basis is presented below. The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014.

|                                                | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|------------------------------------------------|--------------------------|---------------------|
| <b>Regulatory capital</b>                      | <b>€000</b>              | €000                |
| Transitional Common Equity Tier 1 (CET1)       | <b>2.496.549</b>         | 2.495.585           |
| Transitional Additional Tier capital (AT1)     | -                        | -                   |
| Tier 2 capital (T2)                            | <b>51.794</b>            | 45.204              |
| <b>Transitional total regulatory capital</b>   | <b>2.548.343</b>         | 2.540.789           |
|                                                |                          |                     |
| Risk weighted assets – credit risk             | <b>21.417.827</b>        | 21.788.374          |
| Risk weighted assets – market risk             | <b>54.379</b>            | 3.398               |
| Risk weighted assets – operational risk        | <b>2.058.000</b>         | 2.057.687           |
| <b>Total risk weighted assets</b>              | <b>23.530.206</b>        | 23.849.459          |
|                                                | <b>%</b>                 | <b>%</b>            |
| Transitional Common Equity Tier 1 (CET1) ratio | <b>10,6</b>              | 10,5                |
| <b>Transitional total capital ratio</b>        | <b>10,8</b>              | 10,7                |

The Group continued to strengthen its capital position with the CET1 ratio increasing to 10,6% primarily driven by the reduction of risk weighted assets and by the increase on earnings. The CET1 at 31 March 2014 includes unaudited profits for the quarter amounting to €18.321 thousand.

The Group continues to be in excess of the minimum capital requirements.

The regulatory capital as at 31 March 2014 includes 'Shares subject to interim orders' (Note 21) which amounted to €46.244 thousand (31 December 2013: €58.922 thousand).

**29. Capital management (continued)**

**Capital position on prevailing rules as at 31 December 2013**

The Group's capital position applying the rules which were prevailing as at 31 December 2013 is set out below.

|                                             | 31 December 2013 |
|---------------------------------------------|------------------|
| <b>Regulatory capital</b>                   | €000             |
| Core original own funds (Core tier 1)       | 2.281.513        |
| Original own funds (Tier 1)                 | 2.281.513        |
| Additional own funds (Tier 2)               | 75.581           |
| <b>Total regulatory capital</b>             | 2.357.094        |
| Risk weighted assets – credit risk          | 20.380.360       |
| Risk weighted assets – market risk          | 3.398            |
| Risk weighted assets – operational risk     | 2.057.687        |
| <b>Total risk weighted assets</b>           | 22.441.445       |
|                                             | %                |
| Core tier 1 ratio                           | 10,2             |
| Tier 1 ratio                                | 10,2             |
| Tier 2 ratio                                | 0,3              |
| <b>Total capital ratio</b>                  | 10,5             |
| <b>Minimum ratios per the CBC Directive</b> |                  |
| Core tier 1 ratio                           | 9,0              |
| Tier 1 ratio                                | n/a              |
| <b>Total capital ratio</b>                  | n/a              |

**30. Related party transactions**

|                                                                  | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|------------------------------------------------------------------|--------------------------|---------------------|
|                                                                  | <b>€000</b>              | €000                |
| Loans and advances:                                              |                          |                     |
| - members of the Board of Directors and key management personnel | <b>3.278</b>             | 3.224               |
| - connected persons                                              | <b>645</b>               | 526                 |
|                                                                  | <b>3.923</b>             | 3.750               |
| Deposits:                                                        |                          |                     |
| - members of the Board of Directors and key management personnel | <b>1.952</b>             | 1.881               |
| - connected persons                                              | <b>33.266</b>            | 36.536              |
|                                                                  | <b>35.218</b>            | 38.417              |

The above table does not include period or year balances for members of the Board of Directors and their connected persons who resigned during the period or year.

Interest income and expense from related parties for the three months ended 31 March 2014 amounted to €26 thousand and €130 thousand respectively.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €195 thousand (31 December 2013: €231 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €602 thousand (31 December 2013: €743 thousand).

The total unsecured amount of the loans and advances and of the contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 March 2014 amounted to €1.332 thousand (31 December 2013: €1.439 thousand).

During the three months ended 31 March 2014 the Group paid €41 thousand relating to insurance transactions to Universal Insurance Agency Ltd in which Mr Xanthos Vrachas is a director.

Connected persons include spouses, minor children and companies in which directors or other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

**30. Related party transactions (continued)**

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

|                                                  | <b>Three months<br/>ended 31 March</b> |
|--------------------------------------------------|----------------------------------------|
|                                                  | <b>2014</b>                            |
| <b>Director emoluments</b>                       | <b>€000</b>                            |
| <i>Executives</i>                                |                                        |
| Salaries and other short term benefits           | <b>211</b>                             |
| Employer's contributions                         | <b>11</b>                              |
| Retirement benefit plan costs                    | <b>28</b>                              |
|                                                  | <b>250</b>                             |
| <i>Non-executives</i>                            |                                        |
| Fees                                             | <b>102</b>                             |
| Total directors' emoluments                      | <b>352</b>                             |
| <b>Other key management personnel emoluments</b> |                                        |
| Salaries and other short term benefits           | <b>510</b>                             |
| Employer's contributions                         | <b>40</b>                              |
| Retirement benefit plan costs                    | <b>52</b>                              |
| Total other key management personnel emoluments  | <b>602</b>                             |
| <b>Total</b>                                     | <b>954</b>                             |

The fees of the non-executive directors include fees as members of the Board of Directors of the Company and its subsidiaries as well as of committees of the Board of Directors.

The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other Directors who report directly to the CEO.

**31. Group companies**

The main companies and branches included in the interim consolidated financial statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 March 2014 are:

| <b>Company</b>                                               | <b>Country</b> | <b>Activities</b>                                       | <b>Percentage holding (%)</b> |
|--------------------------------------------------------------|----------------|---------------------------------------------------------|-------------------------------|
| Bank of Cyprus Public Company Ltd                            | Cyprus         | Commercial bank                                         | N/A                           |
| The Cyprus Investment and Securities Corporation Ltd (CISCO) | Cyprus         | Investment banking, asset management and brokerage      | 100                           |
| General Insurance of Cyprus Ltd                              | Cyprus         | General insurance                                       | 100                           |
| EuroLife Ltd                                                 | Cyprus         | Life insurance                                          | 100                           |
| Kermia Ltd                                                   | Cyprus         | Property trading and development                        | 100                           |
| Kermia Properties & Investments Ltd                          | Cyprus         | Property trading and development                        | 100                           |
| Kermia Hotels Ltd                                            | Cyprus         | Hotel business                                          | 100                           |
| BOC Ventures Ltd                                             | Cyprus         | Management of venture capital investments               | 100                           |
| Tefkros Investments Ltd                                      | Cyprus         | Investment fund                                         | 100                           |
| Bank of Cyprus Mutual Funds Ltd                              | Cyprus         | Inactive                                                | 100                           |
| Cytrustees Investment Public Company Ltd                     | Cyprus         | Closed-end investment company                           | 58                            |
| Diners Club (Cyprus) Ltd                                     | Cyprus         | Club credit card facilities                             | 100                           |
| BOC Russia (Holdings) Ltd                                    | Cyprus         | Intermediate holding company                            | 80                            |
| Finerose Properties Ltd                                      | Cyprus         | Financing services                                      | 100                           |
| Hydrobius Ltd                                                | Cyprus         | Special purpose entity                                  | -                             |
| Laiki Capital Public Co Ltd                                  | Cyprus         | Holding company                                         | 67                            |
| Laiki Financial Services Ltd                                 | Cyprus         | Investment banking, asset management and brokerage      | 67                            |
| Laiki Factors Ltd                                            | Cyprus         | Factoring and invoice discounting                       | 100                           |
| PanEuropean Ltd                                              | Cyprus         | Investment company                                      | 100                           |
| Philiki Ltd                                                  | Cyprus         | Investment company                                      | 100                           |
| Cyprialife Ltd                                               | Cyprus         | Investment company                                      | 100                           |
| JCC Payment Systems Ltd                                      | Cyprus         | Card processing transaction services                    | 75                            |
| Bank of Cyprus Public Company Ltd (branch of the Company)    | Greece         | Commercial bank                                         | N/A                           |
| Kyprou Leasing SA                                            | Greece         | Leasing                                                 | 100                           |
| Kyprou Commercial SA                                         | Greece         | Financing of motor vehicles and other consumer products | 100                           |
| Kyprou Securities SA                                         | Greece         | Investment banking                                      | 100                           |
| Kyprou Properties SA                                         | Greece         | Property management                                     | 100                           |

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**31. Group companies (continued)**

| <b>Company</b>                                               | <b>Country</b>  | <b>Activities</b>                                          | <b>Percentage holding (%)</b> |
|--------------------------------------------------------------|-----------------|------------------------------------------------------------|-------------------------------|
| Kyprou Zois (branch of EuroLife Ltd)                         | Greece          | Life insurance                                             | 100                           |
| Kyprou Asfaltiki (branch of General Insurance of Cyprus Ltd) | Greece          | General insurance                                          | 100                           |
| Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)            | United Kingdom  | Commercial bank                                            | 100                           |
| BOC Financial Services Ltd                                   | United Kingdom  | Financial advice on investment products and life insurance | 100                           |
| Misthosis Funding Plc                                        | United Kingdom  | Special purpose entity                                     | -                             |
| Misthosis Funding (Holding) Ltd                              | United Kingdom  | Special purpose entity                                     | -                             |
| Bank of Cyprus (Channel Islands) Ltd                         | Channel Islands | Commercial bank                                            | 100                           |
| Tefkros Investments (CI) Ltd                                 | Channel Islands | Investment fund                                            | 100                           |
| Bank of Cyprus Romania (branch of the Company)               | Romania         | Commercial bank                                            | N/A                           |
| Cyprus Leasing Romania IFN SA                                | Romania         | Leasing                                                    | 100                           |
| CB Uniastrum Bank LLC                                        | Russia          | Commercial bank                                            | 80                            |
| Leasing Company Uniastrum Leasing                            | Russia          | Leasing                                                    | 80                            |
| MC Investment Asset Management LLC                           | Russia          | Special purpose entity                                     | -                             |
| PJSC Bank of Cyprus                                          | Ukraine         | Commercial bank                                            | 100                           |
| LLC Ikos Finance                                             | Ukraine         | Financing services                                         | 100                           |
| Kyprou Finance (NL) B.V.                                     | Netherlands     | Financing services                                         | 100                           |

In addition to the above companies, at 31 March 2014 the Company had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

**Cyprus:** Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Limestone Properties Ltd, Samarinda Navigation Co. Ltd, Turnmill Properties Ltd, Fairford Properties Ltd, Inverness Properties Ltd, Dinmont Properties Ltd, Lendrick Properties Ltd, Sunnybridge Properties Ltd, Caraway Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Drysdale Properties Ltd, Snowfield Properties Ltd, Medaland Properties Ltd, Stamoland Properties Ltd, Ecnaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakou Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, EuroLife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd and Salecom Ltd.

**31. Group companies (continued)**

**Romania:** Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

**Cyprus:** Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd and Frozenport Properties Ltd.

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

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

In 2014, the Group decided the transfer of the operations and the assets and liabilities of the Group subsidiary company Laiki Factors Ltd to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership, of the subsidiary. This process is expected to be completed in June 2014.

**32. Acquisitions and non-current assets held for sale**

**32.1 Acquisition of certain operations of Laiki Bank**

As part of the agreement with Eurogroup, the Company acquired all of the insured deposits, ELA funding and the majority of the loans and assets of Laiki Bank. These assets included all assets of Laiki Bank in Cyprus, the loans of Laiki Bank in the UK and selected assets of Laiki Bank in Greece. The results of Laiki Bank are fully consolidated from the date of acquisition.

As prescribed by the Decree issued on 29 March 2013, the Resolution Authority was required to perform a valuation of the assets and liabilities transferred from Laiki Bank to the Company and to determine a fair compensation for Laiki Bank with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of assets and liabilities transferred by Laiki Bank to the Company. The consideration transferred for this transaction (being shares of the Company) was determined and enforced by the Resolution Authority pursuant to the Decree for the 'Issue of Bank of Cyprus Share Capital to compensate Laiki Bank' issued on 30 July 2013. In accordance with the above Decree, this was set at 18,1% of the total share capital of the Company with no further right for additional compensation. Accordingly, 848.560 thousand shares were issued to Laiki Bank with nominal value €1,00 each.

In accordance with the Company's accounting policy, business combinations are accounted for using the acquisition method.

*Consideration transferred*

In accordance with IFRS 3 'Business Combinations', the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Due to the specific conditions under which this transaction took place, i.e. the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of acquisition, the ongoing discussions and negotiations with the Troika and the non-availability of up to date financial information as at the date of acquisition due to the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction.

IFRS 3 does not provide any guidance for cases where the fair value of the consideration cannot be reliably measured. Hence the Company has referred to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', which provides that in the absence of an IFRS that specifically applies to a transaction, event or condition, management shall use its judgement in developing and applying an accounting policy.



## 32. Acquisitions and non-current assets held for sale (continued)

### 32.1 Acquisition of certain operations of Laiki Bank (continued)

By analogy to other standards that deal with the exchange of assets, the Company has concluded that it is appropriate to determine the fair value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established.

As a result of applying the above accounting treatment, no goodwill or bargain purchase arises on this transaction.

#### *Fair value of identifiable assets and liabilities*

For the determination of the fair value of the identifiable assets and liabilities and contingent liabilities, the Company used the services of an independent international firm.

#### *Accounting for the business combination*

In March 2014 the accounting for the business combination was completed and the company recognised final adjustments on the acquisition date fair values, amounted to €7.082 thousand on the assets and liabilities acquired.

In addition an investment provisionally classified as available for sale was classified to investment in associates and joint ventures (Note 33) following information obtained for this investment about facts and circumstances that existed on the acquisition date.

#### *Fair values acquired*

The table below sets out the final fair values of the identifiable assets and liabilities acquired from Laiki Bank and its subsidiaries that are incorporated in the Republic of Cyprus and have been transferred to the Company through the Decree issued on 29 March 2013.

| <b>Fair values recognised on acquisition</b>                                                                       | <b>€000</b>       |
|--------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Assets</b>                                                                                                      |                   |
| Cash and balances with central banks                                                                               | 406.685           |
| Placements with banks                                                                                              | 1.294.458         |
| Amount receivable from the Company                                                                                 | 1.153.000         |
| Investments                                                                                                        | 2.430.044         |
| Loans and advances to customers                                                                                    | 8.659.000         |
| Property, plant and equipment and intangible assets                                                                | 129.779           |
| Deferred tax asset                                                                                                 | 417.002           |
| Investments in associates and joint ventures                                                                       | 236.977           |
| Other assets                                                                                                       | 374.083           |
| <b>Total assets</b>                                                                                                | <b>15.101.028</b> |
| <b>Liabilities</b>                                                                                                 |                   |
| Amounts due to banks                                                                                               | 1.233.564         |
| Funding from central banks                                                                                         | 9.102.528         |
| Customer deposits                                                                                                  | 4.177.445         |
| Other liabilities                                                                                                  | 127.149           |
| Deferred tax liability                                                                                             | 5.131             |
| <b>Total liabilities</b>                                                                                           | <b>14.645.817</b> |
| <b>Non-controlling interests</b>                                                                                   | <b>5.324</b>      |
| <b>Total identifiable net assets at fair value</b>                                                                 | <b>449.887</b>    |
| <b>Fair value of consideration transferred (comprising of 848.560 thousand shares of nominal value €1,00 each)</b> | <b>449.887</b>    |
| <b>Analysis of cash flows on acquisition</b>                                                                       |                   |
| Total cash flows acquired of which:                                                                                | 2.854.143         |
| Cash and cash equivalents                                                                                          | 1.126.302         |
| Consideration paid in cash                                                                                         | -                 |

## 32. Acquisitions and non-current assets held for sale (continued)

### 32.1 Acquisition of certain operations of Laiki Bank (continued)

#### *Fair values acquired (continued)*

The fair value of loans and advances to customers amounts to €8.667.731 thousand. The gross amount of loans and advances to customers before fair value adjustment on initial recognition is €10.688.905 thousand. Of the total gross amount, €3.902.593 thousand were considered to be impaired as at the acquisition date. The fair value of these impaired loans amounts to €2.420.380 thousand.

### 32.2 Acquisition of certain assets and liabilities of Laiki (UK Branch) by Bank of Cyprus UK Ltd

On 1 April 2013, in accordance with a Decree issued by the Resolution Authority, the customer deposits of the Laiki UK Branch amounting to €325.209 thousand and certain liquid assets were acquired by Bank of Cyprus UK Ltd, a wholly owned subsidiary of the Group.

### 32.3 Step acquisition

Following the acquisition of certain operations of Laiki Bank, the Company's holding in JCC Payment Systems Ltd ('JCC') which provides cards processing transaction services has increased from 45% to 75%. As a result, the Company fully consolidates JCC from 29 March 2013. Up to the date of becoming a subsidiary, the Company used proportional consolidation to account for JCC.

### 32.4 Non-current assets held for sale

The Ukrainian operations of the Group were classified as a disposal group held for sale (Note 35.1).

The carrying value of the major classes of assets and liabilities of the disposal group is set out below.

|                                      | <b>31 March<br/>2014</b> | 31 December<br>2013 |
|--------------------------------------|--------------------------|---------------------|
|                                      | <b>€000</b>              | €000                |
| Cash and balances with central banks | <b>10.181</b>            | 14.842              |
| Placements with banks                | <b>15.924</b>            | 14.049              |
| Loans and advances to customers      | <b>250.076</b>           | 305.507             |
| Investment properties                | <b>34.395</b>            | 49.430              |
| Property and equipment               | -                        | -                   |
| Other assets                         | <b>1.168</b>             | 1.067               |
| Customer deposits                    | <b>(47.235)</b>          | (73.462)            |

Immediately before the classification of the Group's Ukrainian operations as a disposal group held for sale, the recoverable amount was estimated for property and equipment and intangible assets and no impairment loss was identified. Loans and advances to customers were measured at amortised cost and are stated net of impairment provisions.

Following the classification of the disposal group as held for sale, an impairment of €9.210 thousand was recognised, to reduce the carrying amount of the scoped-in non-current assets, namely the property and equipment and other assets of the disposal group, to fair value less cost to sell. This impairment loss was recognised within 'Operating expenses' in the consolidated income statement.

In accordance with the Group's accounting policy, the excess loss being the difference of the fair value less cost to sell of the disposal group and the carrying amount of scoped-in non-current assets is not recognised.

### 33. Investments in associates and joint ventures

#### Carrying value of the investment

|                                      | 31 March<br>2014 | 31 December<br>2013 |
|--------------------------------------|------------------|---------------------|
|                                      | €000             | €000                |
| CNP Cyprus Insurance Holdings Ltd    | 101.099          | 98.324              |
| Marfin Diversified Strategy Fund Plc | 94.407           | 94.407              |
| Byron Capital Partners Ltd           | 5.322            | 5.322               |
| Interfund Investments Plc            | 3.026            | 3.000               |
| Aris Capital Management LLC          | 2.078            | 2.078               |
| Rosequeens Properties SRL            | -                | -                   |
| Grand Hotel Enterprises Society Ltd  | -                | -                   |
|                                      | 205.932          | 203.131             |

The Group's investments in associates comprise of CNP Cyprus Insurance Holdings Ltd, Aris Capital Management LLC (shareholding 49,90%, and 30,00% respectively), Interfund Investments Plc (shareholding of 23,12%), Grand Hotel Enterprises Society Ltd (shareholding of 35,20%) and Rosequeens Properties SRL (shareholding 33,33%). The carrying value of Rosequeens Properties SRL and Grand Hotel Enterprises Society Ltd is restricted to zero.

The Group's investments in joint venture comprises of Byron Capital Partners Ltd (BCP) and Marfin Diversified Strategy Fund Plc (MDSF) acquired by the Group as part of the acquisition of certain operations of Laiki Bank (Note 32.1). The Group is a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulates a number of matters which require consent by both shareholders. The management of the shares of the MDFS are 100% owned by BCP. The Group considers that it jointly controls Byron Capital Partners Ltd (shareholding 70,00%) and Marfin Diversified Strategy Fund Plc (shareholding approximately 90% of the units of the fund).

### 34. Other information

The total capital expenditure of the Group for the three months ended 31 March 2014 amounted to €4.511 thousand.

On 4 April 2014 Mr Marios Yiannas resigned from the Board of Directors.

### 35. Events after the reporting date

#### 35.1 Disposal of the Group's Ukrainian business

On 18 April 2014 the Group completed the sale of its Ukrainian business, comprising (i) its holding of 99,77% in its subsidiary bank in Ukraine, PJSC Bank of Cyprus, (ii) the funding provided by the Group to PJSC Bank of Cyprus, and (iii) its loans with Ukrainian exposures, to Alfa Group.

The sale consideration was €202.500 thousand, comprising €102.500 thousand received and €100.000 thousand deferred up to 31 March 2015.

The disposal will be reflected in the Group's second quarter results. The accounting loss from the sale is estimated at €115.000 thousand and represents the difference of the consideration and the net book value of the assets and liabilities disposed as at 31 March 2014, as well as the unwinding of the related foreign currency reserve of €56.000 thousand as at the disposal date. The impact of this disposal on the Group's capital which will be recognised during the second quarter of 2014 is estimated at €24.000 thousand or 0,1 percentage points negative on the Group's capital ratios.

**35. Events after the reporting date** (continued)

**35.2 Disposal of the Group's investment in Romanian Banca Transilvania**

On 18 April 2014 the Group sold its investment in Romanian Banca Transilvania comprising 220.461.952 shares, representing 9,99% of the issued share capital of Banca Transilvania. The disposal took place on the Bucharest Stock Exchange at a transaction price of RON 1,67.

The sale consideration amounted to approximately €82.000 thousand and the realised accounting gain from the transaction was €47.000 thousand. The impact on the Group's capital is estimated to be €55.000 thousand or 0,2 percentage points positive on the Core Tier 1 capital ratio.

**35.3 Release of the nine-month time deposits**

On 30 April 2014 the Group after witnessing improved liquidity positions and within the scope of further enhancing its liquidity through deleveraging released the nine-month time deposits that were blocked as per the decrees relating to the recapitalisation of the Company in July 2013 and matured on 30 April 2014.

In order to normalise the maturity profile of its deposit base, the Company decided the gradual release as follows: (i) one third of the nine-month time deposits to be immediately released and available in clients' current accounts, (ii) one third of the nine-month time deposits to be converted into a three-month time deposit maturing and automatically released on 31 July 2014, and (iii) one third of the nine-month time deposits to be converted into a six-month time deposit maturing and automatically released on 31 October 2014.

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

**35.4 Disposal of loans in Serbia**

On 22 May 2014 the Group sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank S.A., thereby enhancing the Company's liquidity position.

The sale consideration amounts to approximately €165.000 thousand and the realised accounting gain from the transaction is €27.000 thousand. The impact on the Group's capital is estimated to be €46.000 thousand or 0,2 percentage points positive on the Core Tier 1 capital ratio.