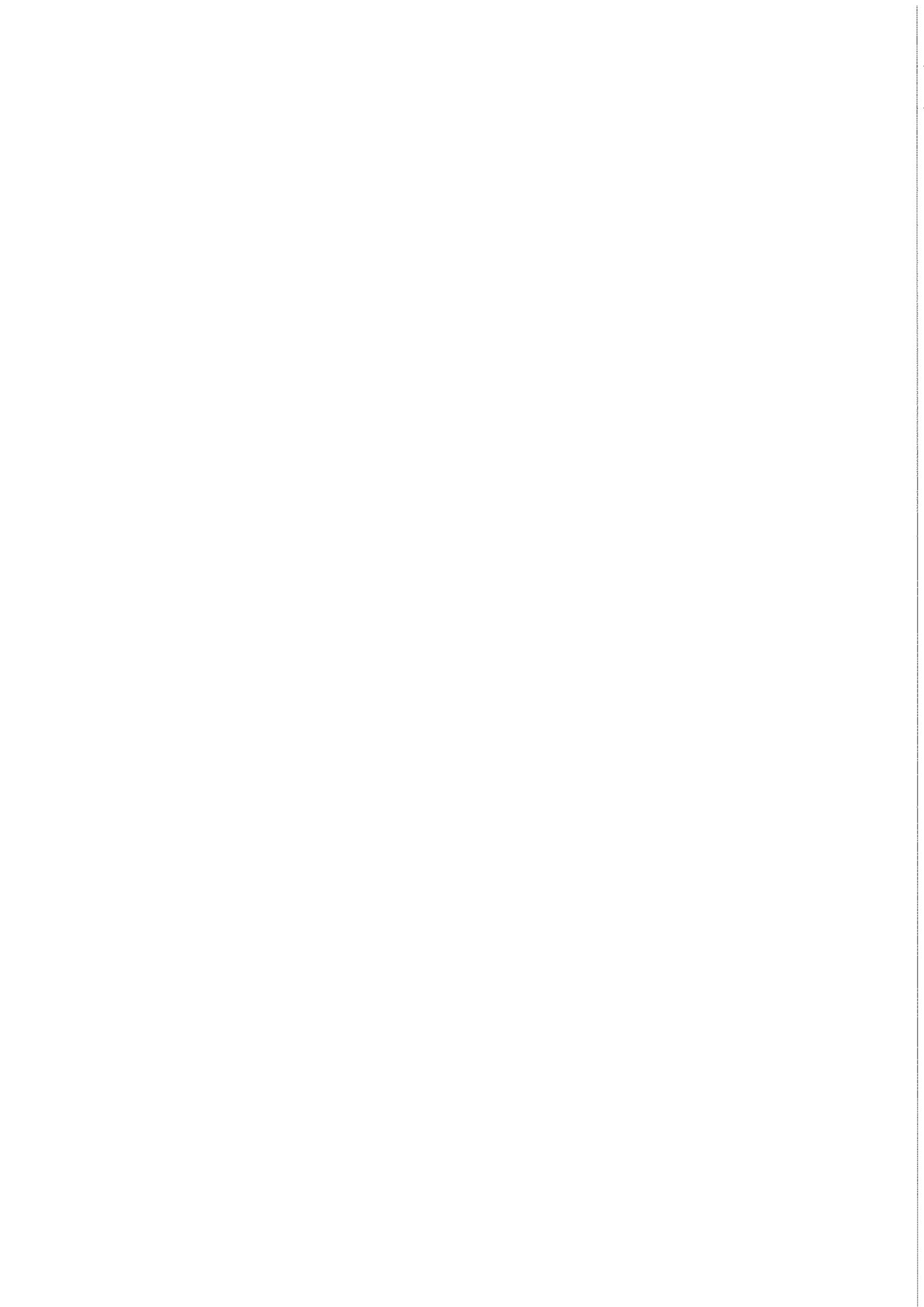




EUROBANK CYPRUS LTD

Report and Financial Statements

For the year ended 31 December 2013

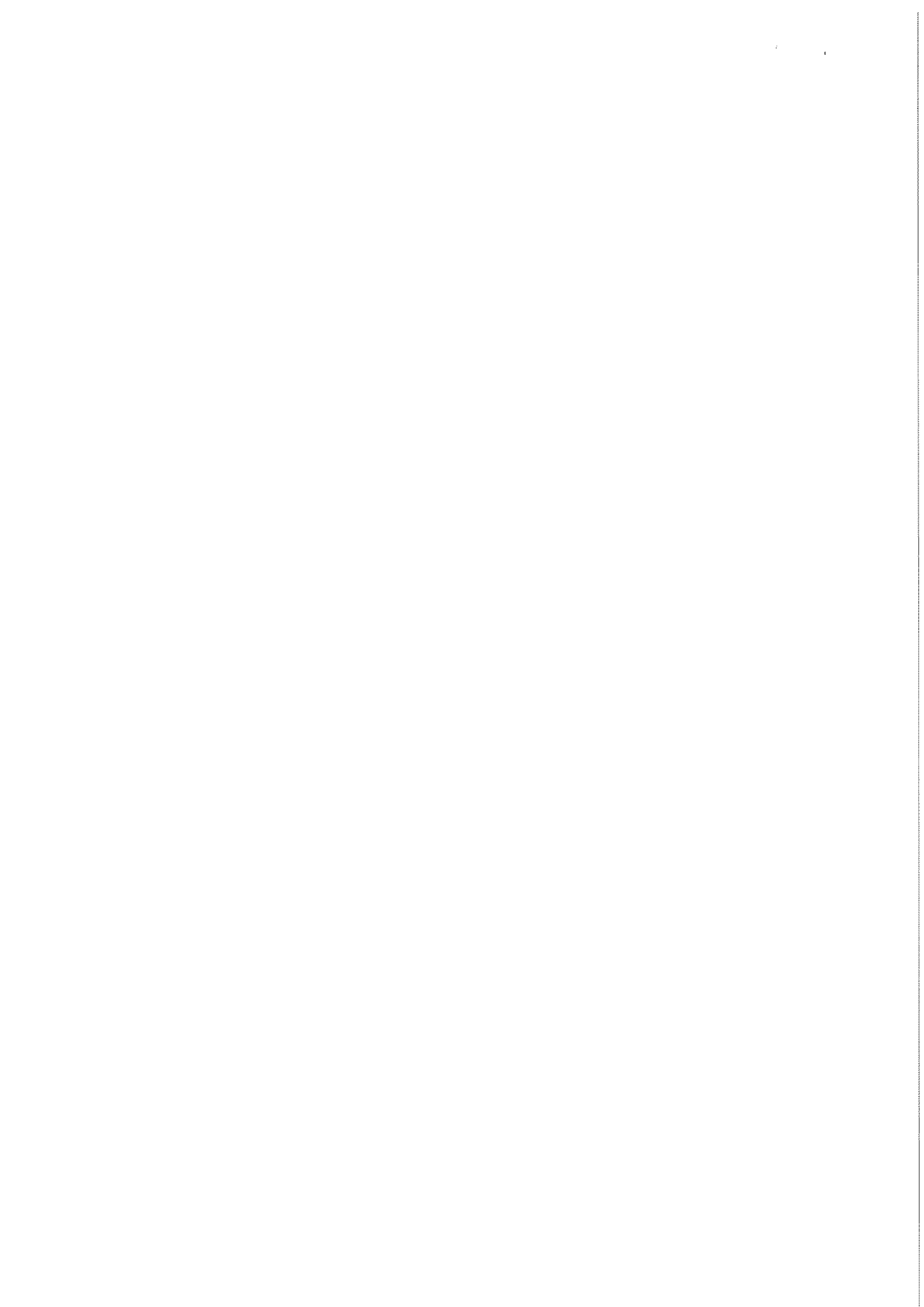


Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2013

Contents

	Page
Board of Directors and Other Officers	1
Report of the Board of Directors	2 – 5
Independent Auditor's Report	6 – 7
Income Statement	8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the Financial Statements	13 – 75
Additional information to the financial statements	76



Eurobank Cyprus Ltd

Board of Directors and other officers

Board of Directors

R. Kyprianou	Chairman, Non Executive (elected Chairman on 14 February 2014)
M. Zampelas	Vice Chairman, Non Executive
M. Louis	Executive
D. Shacallis	Executive
M. Colakides	Non Executive
K. Vasiliou	Non Executive
L. Demosthenous	Non Executive
F. Karavias	Non Executive (appointed on 11 March 2014)
O. Ellingham	Non Executive (appointed on 28 April 2014)
A. Soteriou	Non Executive (appointed on 28 April 2014)
D. Hadjiargyrou	Non Executive (resigned on 14 March 2014)
V. Nicolaides	Non Executive (resigned on 14 March 2014)
C. Papaellinas	Non Executive (resigned on 4 March 2014)
C. Zachariou	Non Executive (resigned on 11 March 2014)

Executive Committee

M. Louis
D. Shacallis
C. Hambakis
A. Malliotis
A. Petsas
A. Antoniou
S. Kassianides

Company Secretary

D. Shacallis

Registered office

41 Arch. Makariou III Avenue
5th floor
CY-1065 Nicosia
Cyprus

Eurobank Cyprus Ltd

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2013.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

Branches

The Bank did not operate through any branches during the year.

Review of developments, position and performance of the Bank's business

The main financial highlights for the year are as follows:

	2013	2012
	€'000	€'000
Operating income	83.440	100.346
Operating expenses including provision for impairment of loans and advances	38.695	45.019
Profit before tax	44.745	55.327
Profit for the year	35.005	48.365
Customer deposits	2.471.483	3.137.971
Loans and advances to customers	1.742.932	2.248.842
Total assets	3.682.467	4.494.200

The financial position, development and performance of the Bank as presented in these financial statements are considered satisfactory.

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Business outlook and risks

The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance. The financial risks which are managed and monitored are credit risk, operational risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Notes 2.1 and 4 of the financial statements.

Operating environment of Cyprus

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. These events led to negotiations between the Republic of Cyprus and the European Commission, the European Central Bank and the International Monetary Fund (the "Troika") for financial support which resulted into the Eurogroup decision on 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through a "bail in". Additionally, legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and they were enforced on 28 March 2013. The Bank's operations have been affected and will continue to be affected by the extent and duration of these restrictive measures.

Following the positive outcome of the first and second quarterly reviews of Cyprus's economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The uncertain economic conditions in Cyprus and the imposition of capital controls together with the current instability of the banking system and the continuing overall economic recession, could affect the ability of the Bank's customers to repay loans advanced to them by the Bank and the cash flow forecasts of the Bank's management in relation to the impairment assessment for financial assets. The Bank's management is in continuous communication with the borrowers in an effort to further strengthen its position by obtaining additional collaterals if the need arises.

The Bank's management is monitoring continuously the market conditions and adjusts its strategy in order to better manage risks under the prevailing conditions but also, at the same time to take advantage of business opportunities that emerge. The very high capital adequacy ratio of the Bank together with the high liquidity reserves will enable the Bank to manage the risks associated with the difficult economic conditions.

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Future developments of the Bank

The Bank currently operates through a network of 7 Banking centres in Nicosia, Limassol, Larnaca and Paphos. The Bank will continue to strengthen its operations investing in human capital and procedures in various areas.

Results

The Bank's results for the year are set out on pages 8 and 9. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2013.

Capital adequacy

The capital adequacy of the Bank as at 31 December 2013, as disclosed in Note 4.4 of the financial statements, stands at 45,0% (2012: 32,3%).

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2013 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2013 and up to the date of this report except for Mr N. Karamouzis and Ms P. Hadjisotiriou who resigned on 1 August and 15 July 2013, respectively.

In accordance with the Central Bank of Cyprus new guidelines on Board member independency, the following members of the Board resigned: Messrs C. Papaellinas on 4 March 2014, C. Zachariou on 11 March 2014, D. Hadjiargyrou and V. Nicolaides on 14 March 2014.

On 14 February 2014, Mr R. Kyprianou was elected as Chairman of the Board of Directors. On 11 March 2014, Mr F. Karavias was appointed on the Board of Directors. On 28 April 2014, Messrs O. Ellingham and A. Soteriou were appointed on the Board of Directors.

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Bank Management

The Bank's Executive Committee as at 31 December 2013 and at the date of this report is shown on page 1.

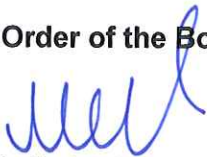
Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 30 of the financial statements.

Auditors

The Independent Auditors, PricewaterhouseCoopers Limited have expressed their willingness to continue in office.

By Order of the Board



Michalis Louis
Chief Executive Officer

Nicosia, 29 April 2014

Eurobank Cyprus Ltd

Independent auditor's report

To the Members of Eurobank Cyprus Ltd

Report on the financial statements

We have audited the accompanying financial statements of Eurobank Cyprus Limited (the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eurobank Cyprus Limited as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Eurobank Cyprus Ltd

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.
- The Bank's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



George C Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 29 April 2014

Eurobank Cyprus Ltd

Income Statement for the year ended 31 December 2013

	Note	2013 €'000	2012 €'000
Interest income	5	132.368	210.165
Interest expense	5	(61.361)	(130.381)
Net interest income		71.007	79.784
Banking fee and commission income	6	20.592	25.178
Banking fee and commission expense	6	(11.657)	(18.400)
Net banking fee and commission income		8.935	6.778
Dividend income		378	317
Net trading income	7	874	6.621
Gains less losses from investment securities	8	2.246	6.846
		3.498	13.784
		83.440	100.346
Staff costs	9	(12.530)	(11.620)
Other operating expenses	10	(7.590)	(8.021)
		63.320	80.705
Impairment losses on loans and advances	15	(18.575)	(25.378)
Profit before tax		44.745	55.327
Income tax expense	11	(9.740)	(6.962)
Profit for the year		35.005	48.365

The notes on pages 13 to 75 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2013

	2013 €'000	2012 €'000
Profit for the year	<u>35.005</u>	<u>48.365</u>
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
-remeasurements of post employment benefit obligations	(3.021)	-
Items that may be subsequently reclassified to profit or loss		
Available-for-sale financial assets (Note 16)		
- net changes in fair value, net of tax	8.921	27.653
- transfer to profit or loss due to disposal net of tax	<u>(2.246)</u>	<u>(12.459)</u>
	<u>6.675</u>	<u>15.194</u>
Other comprehensive income for the year, net of tax	<u>3.654</u>	<u>15.194</u>
Total comprehensive income for the year	<u>38.659</u>	<u>63.559</u>

The notes on pages 13 to 75 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet at 31 December 2013

	Note	2013 €'000	2012 €'000
Assets			
Cash and balances with central banks	12	79.126	136.781
Loans and advances to banks	13	1.547.594	1.688.099
Derivative financial instruments	14	526	659
Loans and advances to customers	15	1.742.932	2.248.842
Available-for-sale financial assets	16	137.752	242.795
Held-to-maturity investments	17	164.672	164.608
Intangible assets	18	1.999	1.867
Property, plant and equipment	19	6.854	5.025
Other assets	20	1.012	5.524
Total assets		3.682.467	4.494.200
Liabilities			
Due to other banks	21	608.510	818.092
Derivative financial instruments	14	1.791	1.359
Due to customers	22	2.471.483	3.137.971
Other liabilities	23	33.127	7.881
Total liabilities		3.114.911	3.965.303
Equity			
Share capital	24	12.010	12.010
Share premium	24	245.384	245.384
Other reserves		14.821	8.146
Retained earnings		295.341	263.357
Total equity		567.556	528.897
Total equity and liabilities		3.682.467	4.494.200

On 29 April 2014 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Michalis Louis, Chief Executive Officer



Demetris Shacallis, Chief Financial Officer



The notes on pages 13 to 75 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity for the year ended 31 December 2013

	Share capital €'000	Share premium €'000	Available- for-sale revaluation reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2012	12.010	245.384	(7.048)	214.992	465.338
Other comprehensive income for the year	-	-	15.194	-	15.194
Profit for the year	-	-	-	48.365	48.365
Total comprehensive income for the year	-	-	15.194	48.365	63.559
Balance at 31 December 2012/ 1 January 2013	12.010	245.384	8.146	263.357	528.897
Other comprehensive income for the year	-	-	6.675	(3.021)	3.654
Profit for the year	-	-	-	35.005	35.005
Total comprehensive income for the year	-	-	6.675	31.984	38.659
Balance at 31 December 2013	12.010	245.384	14.821	295.341	567.556

The notes on pages 13 to 75 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement for the year ended 31 December 2013

	Note	2013 €'000	2012 €'000
Net cash flows used in operating activities	28	(52.805)	(863.405)
Cash flows from investing activities			
Purchases of intangible assets	18	(513)	(132)
Purchases of property, plant and equipment	19	(2.690)	(338)
Proceeds from sale of property, plant and equipment	19	15	45
Proceeds from disposal and redemptions of available-for-sale financial assets		122.671	828.686
Payments for acquisition of available-for-sale financial assets		(15.290)	(508.630)
Interest received on available-for-sale financial assets		2.244	12.996
Proceeds from sale and redemption of debt securities lending		-	605.054
Interest received on debt securities lending	17	-	13.619
Interest received on held-to-maturity investments	17	8.312	6.800
Dividend income received from investment securities		378	317
Net cash from investing activities		115.127	958.417
Net increase in cash and cash equivalents		62.322	95.012
Cash and cash equivalents at beginning of year		1.328.309	1.233.297
Cash and cash equivalents at end of year	28	1.390.631	1.328.309

The notes on pages 13 to 75 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

Eurobank Cyprus Ltd ("the Bank") is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its registered office and business address is at 41 Arch. Makariou III Avenue, 5th floor, 1065 Nicosia, Cyprus.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

2.1 Basis of preparation

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

As of the date of the authorisation of the financial statements, all IFRSs issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2013 have been endorsed by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39, "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Bank's presentation currency is the Euro (€) being its functional currency. Except as indicated financial information presented in Euro has been rounded to the nearest thousand.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations:

In making its assessment of the Bank's ability to continue as a going concern, the Board of Directors has taken into consideration the following:

a) Position of the Group

Greek sovereign debt exchange programme

Following the Eurogroup's decisions on 27 November 2012 and as part of debt reduction measures, the Greek State announced on 3 December 2012 an invitation to eligible holders of new Greek Government Bonds (nGGBs) to submit offers to exchange such securities for six months zero coupon notes to be issued by the European Financial Stability Fund (EFSF). Under its participation to the Greek state's debt buyback program, the Eurobank Ergasias Group submitted for exchange the 100% of its nGGBs portfolio of total face value €2.3 billion.

Recapitalisation Framework and Process

Given the severity of the impact of the Greek Government Bond exchange programme (PSI+), on 21 February 2012 the Euro Area finance ministers allocated a total of €50 billion of the second support programme for Greece specifically for the recapitalisation of the Greek banking system. These funds were directed to the Hellenic Financial Stability Fund (HFSF) whose mandate has been extended and enhanced accordingly. €39 billion of these funds were remitted to Greece in 2012 and the final €11 billion in 2013.

Recapitalisation of Eurobank Ergasias S.A.

The Bank of Greece (BoG), after assessing the business plan and the capital needs of Eurobank Ergasias S.A. has concluded on 19 April 2012 that Eurobank Ergasias S.A. is a viable bank and, on 8 November 2012, notified Eurobank Ergasias S.A. that its Tier I capital should increase by €5.839 million. Eurobank Ergasias S.A., the HFSF and the European Financial Stability Facility (EFSF) signed on 28 May 2012, on 21 December 2012 and on 30 April 2013 a trilateral presubscription agreement (PSA) for the advance to Eurobank Ergasias S.A. of EFSF notes of face value of €3.970 million, €1.341 million and €528 million, respectively, (total €5.839 million), as advance payment of its participation in the share capital increase of Eurobank Ergasias S.A..

On 7 April 2013, the relevant regulatory authorities, with the consent of the management of both banks, decided that National Bank of Greece S.A. (NBG) and Eurobank Ergasias S.A. will be independently recapitalised in full. As a consequence, the merger process of the two Banks was suspended.

Following the above decision, the Board of Directors of Eurobank Ergasias S.A. evaluated the specificities of the exercise in relation with the attraction of capital from private investors and, in particular, the uncertainty regarding the completion or not of the merger with NBG, and the ensuing inability of properly assessing the investment proposal, as well as the absence of tens of thousands of Eurobank Ergasias S.A.'s traditional shareholders who were substituted, due to the recent Voluntary Tender Offer, by NBG's stake of approximately 85% in Eurobank Ergasias S.A.'s capital. As a consequence, the Board of Directors of Eurobank Ergasias S.A. proposed to the Extraordinary General Meeting on 30 April 2013 that the share capital increase of €5.839 million be fully subscribed by the HFSF.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern consideration (continued):

a) Position of the Group (continued)

Recapitalisation of Eurobank Ergasias S.A. (continued)

On 30 April 2013, the Extraordinary General Meeting approved the increase of the share capital of the Eurobank Ergasias S.A., in accordance with the provisions of Law 3864/2010 and Act of Cabinet 38/9.11.2012, in order to raise € 5,839 million by issuing 3,789,317,358 new ordinary shares, covered entirely by the HFSF with the contribution of bonds issued by the EFSF and owned by the HFSF. The capital increase was certified on 31 May 2013 and the listing of the new shares was completed on 19 June 2013 after obtaining the relevant approvals from Greek regulatory authorities.

On 28 March 2013, the BoG issued an Executive Committee Act (13/28.03.2013) bringing the limit for the Core Tier I capital to 9% of Risk Weighted Assets and for Equity Core Tier I to 6%, effective from 31 March 2013. According to the new definition of Core Tier I capital, AFS reserve is fully recognised, while deferred tax asset's recognition is limited to 20% of Core Tier I capital. On 23 December 2013, the BoG issued an Executive Committee Act (36/23.12.2013) lifting the aforementioned limitation related to the deferred tax asset's recognition, effective from 31 December 2013. As at 31 December 2013, the Core Tier I ratio of Eurobank Ergasias S.A stood at 10.4% and proforma with the completion of transaction with Fairfax Financial Holdings Limited (increase of Fairfax's participation in Eurobank Properties S.A. through share capital increase) and the implementation of Basel II IRB credit risk methodology to New Hellenic Postbank's mortgage portfolio at 11,3%.

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately € 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and HFSF announced that the transaction timetable will be adjusted to allow for the finalization of the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework. The BoG, following the assessment of Eurobank's capital needs, concluded on 6 March 2014 and notified Eurobank that its Core Tier I capital should increase by €2,945 million. Eurobank Ergasias S.A. with its letter to BoG on 24 March 2014, submitted its capital enhancement plan whereby revised its capital actions providing for an additional positive impact on regulatory capital of € 81 million and stated that it intends to cover the remaining capital needs of € 2,864 million through a share capital increase, which constitutes a step towards further strengthening Eurobank's capital position and enhances Eurobank's ability to support the Greek economy. The proposed capital increase will be effected through a marketed equity offering.

On 12 April 2014, the Extraordinary General Meeting approved the share capital increase of Eurobank Ergasias S.A., by €2,864m. The new shares are to be offered through an international private placement.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern consideration (continued):

a) Position of the Group (continued)

On 15 April 2014, Eurobank Ergasias S.A. announced that, following the approval by Hellenic Financial Stability Fund, has signed an agreement with a group of international Investors in relation to its capital increase; under the terms of such agreement, the specific Investors agreed to commit to subscribe for newly issued ordinary shares of Eurobank at a price of Euro 0.30 per newly issued ordinary share. The aggregated commitments of the said Investors amount to approximately €1,332 million (representing approximately 46.5% of the share capital Increase).

b) The Cyprus economy

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. These events led to negotiations between the Republic of Cyprus and the European Commission, the European Central Bank and the International Monetary Fund (the "Troika") for financial support which resulted into the Eurogroup decision on 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through a "bail in". Additionally, legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and they were enforced on 28 March 2013. The Bank's operations will be affected by the extent and duration of these restrictive measures.

Following the positive outcome of the first and second quarterly reviews of Cyprus's economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The uncertain economic conditions in Cyprus and the imposition of capital controls together with the current instability of the banking system and the continuing overall economic recession, could affect the ability of the Bank's customers to repay loans advanced to them by the Bank and the cash flow forecasts of the Bank's management in relation to the impairment assessment for financial assets. The Bank's management is in continuous communication with the borrowers in an effort to further strengthen its position by obtaining additional collaterals if the need arises.

The Bank's management is monitoring continuously the market conditions and adjusts its strategy in order to better manage risks under the prevailing conditions but also, at the same time to take advantage of business opportunities that emerge. Taking into account all the above factors the Bank's Board of Directors has concluded that the Bank's financial statements are appropriately prepared on a going concern basis.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS

During the current year the Bank adopted all the new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on 1 January 2013. This adoption did not have a material effect on the accounting policies of the Bank with the exception of the following:

(a) The following new standards and amendments to existing standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), applied from 1 January 2013:

- **IAS 1, Amendment – “Presentation of Items of Other Comprehensive Income”**
The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The adoption of the amendments did not have a material impact on the presentation of other comprehensive income in the Bank’s financial statements.
- **IAS 12, Amendment – “Deferred tax: Recovery of Underlying Assets”**
The amendment provides a practical approach for measuring deferred tax assets and deferred tax liabilities when investment property is measured using the fair value model in IAS 40 “Investment Property”. The amendment has no impact on the Bank’s financial statements.
- **IAS 19, Amendment – “Employee Benefits”**
The changes on the Bank’s accounting policies have been as follows: to immediately recognize all past service costs; to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset) and to recognize all remeasurements, previously known as actuarial gains/losses in other comprehensive income. As the Bank’s previous accounting policy was to fully recognise the actuarial liability arising from the Bank’s obligations under the defined benefit plan, the amendment to IAS 19 does not affect the amounts recognised in the Bank’s balance sheet as at 1 January 2012 and 31 December 2012. The Bank’s previous accounting policy was to recognise actuarial gains in the income statement whereas following the amendment to IAS 19, remeasurements of the net defined benefit liability/asset are recognised in other comprehensive income. Hence the remeasurement of the net defined benefit liability/asset arising from actuarial gains and losses during 2013 has been recognised in other comprehensive income as disclosed in the statement of comprehensive income. In relation to 2012 the remeasurement arising from actuarial gains and losses was assessed to be immaterial and hence there was no restatement of the 2012 income statement and statement of comprehensive income.
- **IFRS 7, Amendment – “Disclosures, Offsetting Financial Assets and Financial Liabilities”**
The amendment requires disclosure of the effect or potential effect of netting arrangements on an entity’s financial position. In particular, it requires information about all recognised financial instruments that are set off, according to IAS 32 “Financial Instruments: Presentation”, as well as about those recognised financial instruments that, although they are not set off under IAS 32 “Financial Instruments: Presentation”, are subject to an enforceable master netting arrangement or similar agreement.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

- IFRS 13, "Fair value measurement"
IFRS 13 establishes a single framework for measuring fair value, provides a revised definition of fair value and introduces more comprehensive disclosure requirements on fair value measurement. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application (1 January 2013). There was no material impact on the financial statements of the Bank from the prospective adoption of the measurement requirements of IFRS 13. New disclosures and enhancements to existing disclosures are provided in note 4.5. "Financial assets and liabilities measured at fair value"

Annual Improvements to IFRSs 2009–2011 Cycle

Improvements to IFRSs comprise amendments to a number of standards aiming to clarify:

- the requirements for comparative information in IAS 1 "Presentation of Financial Statements";
- when certain types of equipment are classified as property, plant and equipment in IAS 16 "Property Plant and Equipment";
- the accounting for the tax effect of distributions to holders of equity instruments in IAS 32 "Financial Instruments: Presentation"; and
- interim financial reporting requirements regarding total segment assets and liabilities in IAS 34 "Interim Financial Reporting"

The above improvements to IFRSs did not have a material impact on the Bank's financial statements.

(b) A number of new standards, amendments and interpretations to existing standards are effective after 2013, as they have not yet been endorsed for use in the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

- IAS 19, Amendment – "Defined Benefit Plans: Employee Contributions" (effective 1 January 2015, not yet endorsed by EU)
The amendment clarifies the accounting for post-employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from pension expense in the year in which the related employee service is delivered, instead of attributing them to periods of employee service. The adoption of the amendment is not expected to have a material impact on the Bank's financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

- IAS 32, Amendment – “Offsetting Financial Assets and Financial Liabilities” (effective 1 January 2014)
The amendment clarifies the requirements for offsetting financial assets and financial liabilities.
The adoption of the amendment is not expected to have a material impact on the Bank’s financial statements.
- IAS 36, Amendment - Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014)
The amendments restrict the requirement to disclose the recoverable amount of an asset or cash generating unit only to periods in which an impairment loss has been recognized or reverses.
They also include detailed disclosure requirements applicable when an asset or cash generating unit’s recoverable amount has been determined on the basis of fair value less costs of disposal.
The adoption of the amendment is not expected to have a material impact on the Bank’s financial statements.
- IAS 39, Amendment – “Novation of derivatives and continuation of hedge accounting” (effective 1 January 2014)
The amendment provides relief from discontinuing hedge accounting when, as a result of laws and regulations, a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty and specific criteria are met.
The adoption of the amendment is not expected to have a material impact on the Bank’s financial statements.
- IFRS 9, “Financial Instruments” (effective date to be determined by IASB)
IFRS 9, Financial instruments, is a new standard for financial instruments that is ultimately intended to replace current IAS 39 Financial Instruments: Recognition and Measurement in its entirety.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. It requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment which is not held for trading, in other comprehensive income, with only dividend income generally recognized in profit or loss.

IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities, as well as derecognition requirements. IFRS 9 requires that, in cases where a financial liability is designated as at fair value through profit or loss, the part of a fair value change due to the reporting entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

Fair value changes attributable to a financial liability's credit risk are not subsequently reclassified in profit or loss. According to IAS 39 which currently applies, the amount of the change in the fair value of the financial liability designated as fair value through profit or loss is recognized in profit or loss.

Based on IFRS 9 and IFRS 7 Amendments, Mandatory Effective Date and Transition Disclosures, issued in December 2011, entities were required to apply IFRS 9 for annual periods beginning on or after January 1, 2015, with earlier application permitted. Additionally, IFRS 9 should be applied to all financial instruments outstanding as of the effective date, as if the classification and measurement under IFRS 9 had always been applied, but comparative periods do not need to be restated.

IFRS 9 was amended in November 2013 with IFRS 9 Financial Instruments: Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39 to include a new general hedge accounting model that will better reflect reporting entities' risk management activities in the financial statements and some related amendments to IAS 39 and IFRS 7. The amendments also allow entities to early adopt the provision in IFRS 9 as issued in 2010, related to the presentation of changes in an entity's own credit risk within other comprehensive income without applying the other requirements of IFRS 9 at the same time. In addition, the January 1 2015 mandatory effective date is removed and a new mandatory effective date will be set upon completion of the impairment phase of the accounting for financial instruments. Entities that adopt IFRS 9 as amended in November 2013 can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being. As IFRS 9 is an ongoing IASB project, which has not yet been finalized, it remains impractical to quantify its effect, as at the date of the publication of these financial statements.

- IFRS 12, "Disclosure of Interests in Other Entities" (effective 1 January 2014)
IFRS 12 specifies the disclosures required enabling users of financial statements to evaluate the nature of and risks associated with the reporting entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The adoption of the standard is not expected to have a significant impact on Bank's financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2015, not yet endorsed by EU)

The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Definition of vesting condition in IFRS 2 "Share – based Payment";
- Accounting for contingent consideration in a business combination in IFRS 3 "Business Combinations";
- Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 "Operating Segment";
- Short-term receivables and payables in IFRS 13 "Fair Value Measurement";
- Revaluation method—proportionate restatement of accumulated depreciation in IAS 16 "Property, Plant and Equipment";
- Key management personnel in IAS 24 "Related Party Disclosures"; and
- Revaluation method—proportionate restatement of accumulated amortization in IAS 38 "Intangible Assets";

Annual Improvements to IFRSs 2011-2013 Cycle (effective 1 January 2015, not yet endorsed by EU)

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2011-13 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Scope exceptions for joint ventures in IFRS 3 "Business Combinations";
- Scope of portfolio exception in IFRS 13 "Fair Value Measurement";
- Clarifying the interrelationship between IFRS 3 "Business Combinations" and IAS 40 "Investment Property" when classifying property as investment property or owner-occupied property in IAS 40; and
- Meaning of "effective IFRSs" in IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRIC 21, Levies (effective 1 January 2014, not yet endorsed by EU)

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy that is not income tax when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, for example a specified level of revenue, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The adoption of the interpretation is not expected to have a material impact on the Bank's financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro thousands, which is the Bank's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions that are transactions denominated, or require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in a foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within foreign exchange income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2.4 Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, forward currency agreements and interest rate options (both written and purchased), currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.4 Derivative financial instruments and hedge accounting (continued)

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives, embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the exposure to changes in the fair value of recognised assets or liabilities or unrecognized firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest method is not used remains until the disposal of the equity security.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify and/or are not designated for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under "Net Trading Income/Loss".

The fair values of derivative instruments held for trading and used for hedging purposes are disclosed in Note 14.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.5 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement on an accruals basis, using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Then interest income is calculated on the recoverable amount.

2.6 Fees and commissions

Fees and commissions are generally recognised in the income statement on an accruals basis. Commissions and fees relating to foreign exchange transactions, private banking activities, trade services, remittances and bank charges are recognised on the completion of the underlying transaction.

2.7 Operating leases

Accounting for leases as lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.8 Income taxation

(i) Current income tax

Income tax payable/(receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense /(income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.8 Income taxation (continued)

If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

The Bank does not offset income tax liabilities and current income tax assets.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items recognised in other comprehensive income, is also recognised in the other comprehensive income.

2.9 Employee benefits

During the year the Bank operated a defined benefit scheme until 12 December 2013, the date on which it was approved by the Bank's employees that the scheme would be terminated. As from 12 December 2013 the Bank and the employees contribute to a defined contributions scheme.

The defined benefit scheme provides for a lump sum payment upon retirement taking into account the years of service and salary of each employee. The scheme is funded by the Bank and the assets are held in a separate trustee-administered fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the date of the balance sheet.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.9 Employee benefits (continued)

The cost of providing benefits is part of staff costs and is estimated annually using the projected unit credit actuarial valuation method. According to this method, the cost of providing benefits is debited to the income statement over the working lives of the employees participating in the scheme according to the guidance and provisions of independent professional actuaries that carry out actuarial valuations at least every three years. The calculation of the cost of providing benefits for this scheme is based on the present value of the expected future outflow using as discount rate the yield from high quality corporate bond indices in the Eurozone.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise. Within equity such actuarial gains and losses are included within retained earnings. The re-measurements of the net defined benefit liability/asset recognised in other comprehensive income are not reclassified to profit or loss in a subsequent period.

Past-service costs are recognized immediately in income.

Under the defined contributions scheme the Bank and members of staff pay fixed contributions into a separate provident fund. The Bank's contributions are recognised in the period they relate to and included in staff costs in the income statement.

The Bank and the members of staff also contribute to the Government Social Insurance Fund based on members of staff salaries.

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is recognised in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognised in the income statement as expenses as occurred.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values, over their estimated useful lives. The estimated useful economic lives are as follows:

	<u>Useful economic life</u>
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 to 12 years
Leasehold property improvements	12 years
Computer hardware	3 to 12,5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.11 Computer software

Acquired computer software licenses/programs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method to allocate the cost of computer software, over their estimated useful lives. The annual amortisation rates used range between 8% and 24%.

Gains and losses on disposal of computer software are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

2.12 Impairment of non-financial assets

Non financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.13 Financial assets and liabilities

2.13.1 Financial assets

The Bank classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or it is a derivative (except for derivatives that are financial guarantee contracts or designated and effective hedging instruments).

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss when the following apply:

- a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
- b) financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis; or
- c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.1 Financial assets (continued)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or
- b) those that the Bank upon initial recognition designates as available for sale.

Loans and receivables are reported in the balance sheet as loans and advances to banks or customers.

(iii) *Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

- a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
- b) those that the Bank designates as available-for-sale; and
- c) those that meet the definition of loans and receivables.

(iv) *Available-for-sale financial assets*

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(v) *Accounting treatment*

Purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans originated by the Bank are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value; transaction costs are taken directly to the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.1 Financial assets (continued)

losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and transferred to the available for sale revaluation reserve in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method is recognised in the income statement.

Dividends on equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Interest income and expense on financial assets is recognised in the income statement. Interest income is included in "Interest income" and interest expense is included in "Interest expense".

2.13.2 Financial liabilities

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss have two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

The Bank designates financial liabilities at fair-value-through-profit-or-loss when any of the following apply:

- a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
- b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
- c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

2.13.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. In summary, the amount of collective provisions is determined by considering factors such as probability of default derived from historical data, loss given default derived from historical loss experience, and loss identification period which is determined for each asset class based on similar credit risk characteristics and other applicable factors. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "impairment losses on loans and advances" whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in "Gains less losses from investment securities". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Available-for-sale assets

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale equity securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.15 Sale and repurchase agreements and securities lending

(i) *Sale and repurchase agreements*

Securities sold subject to repurchase agreements ("repos") continue to be recorded in the Bank's balance sheet while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the period of the repo agreements using the effective interest method.

(ii) *Securities lending*

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.16 Fiduciary activities

Where the Bank acts in a fiduciary capacity such as nominee, trustee or agent, assets and related income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements.

2.17 Related party transactions

Related parties include the parent and ultimate controlling party, fellow subsidiaries, other group companies under common control, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature within the same category are disclosed on an aggregate basis.

2.18 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.19 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognized in the period in which the Bank becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Bank are not provided in advance. Provisions are not recognized for future operating losses.

2.20 Due to banks and due to customers

Due to banks and due to customers are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in interest expense in the income statement using the effective interest method. Due to banks and due to customers are derecognized when they are extinguished, that is, when the obligation is discharged.

2.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

2.22 Offsetting financial instruments

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

2.23 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.23 Financial guarantees (continued)

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is recognised in the income statement within other operating expenses.

2.24 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand, all interbank placements and reverse sale agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Bank's management makes various judgments, estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the financial statements within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment continuously. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating there is measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

At 31 December 2013, if the recoverable amounts which are based on force sale values (FSVs) increased by 10%, provision for impairment losses on loans and advances to customer would have been €6.072 thousands lower, while a 10% decrease in FSVs would result in €5.990 thousands increase in provisions for impairment losses.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management

4.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates. The Risk Committee places trading limits on the level of exposure that can be taken in relation to overnight and intra-day market positions as well as limits in longer durations. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally concluded to hedge outstanding positions, thereby controlling the variability in the net cash amounts required to offset market positions.

4.2 Financial risk factors

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and equity risk) and liquidity risk. The Bank's overall risk management policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Bank's financial performance, financial position and cash flows.

4.2.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are recognised for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, management carefully manages its exposure to credit risk.

The Bank minimises the risk by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

In addition, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted (excluding related party balances, Note 29). Facilities higher than these limits are authorised and monitored at group level.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(a) Credit risk measurement and management - investment securities and derivatives

The Bank holds lien agreements issued by Eurobank Ergasias S.A. for all investment securities held, whereby the latter guarantees to the Bank, that in case of any default by the issuer of the investment securities, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank Ergasias S.A. As a result, the Bank considers that it is not exposed to any credit risk exposure in relation to the investment in securities as these are guaranteed by Eurobank Ergasias S.A. with cash balances in place to cover the entire carrying amount of these investment securities. As a result, the Bank is dependent on Eurobank Ergasias S.A. Reference on the impact of the Greek economy is disclosed in the Board of Directors report under section "Business outlook and Risks" and Note 2.1 of the financial statements.

Derivative financial instruments held by the Bank are primarily with Eurobank Ergasias S.A., and as such the Bank considers that these carry the credit risk of Eurobank Ergasias S.A. Therefore, as this is the parent entity of the Bank, the Bank does not have any specific policies in place to monitor this credit risk.

(b) Credit risk measurement – Loans and advances

The Bank applies various credit rating systems for the assessment and measurement of credit risk. These systems assign a specific rating to every borrower/counterparty which reflects the creditworthiness of the particular borrower and consequently the ability to repay funds on a timely manner. Credit rating takes under consideration various quantitative and qualitative factors. The Bank periodically reviews rating systems and adapts them to particular market conditions, products or borrowers.

Risk limit control and mitigation policies – Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances to customers are:

- Cash deposits and other cash equivalents;
- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Lien agreement with the parent bank.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held

The table below represents the maximum credit risk exposure to the Bank at 31 December 2013 and 2012, without taking account of any collateral held:

	2013 €'000	2012 €'000
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	1.547.594	1.688.099
Derivative financial instruments	526	659
Loans and advances to customers:		
- Wholesale lending	1.726.103	2.231.820
- Consumer lending	4.646	4.173
- Mortgage lending	12.183	12.849
Available-for-sale financial assets - debt securities	111.805	219.896
Held-to-maturity investments	164.672	164.608
Other assets	759	4.652
Total	3.568.288	4.326.756
Credit risk exposures relating to off-balance sheet items (Note 26):		
Guarantees and letters of credit	90.654	85.965
Approved unutilised credit facilities	211.908	286.035
Total	302.562	372.000

For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

4.2.1.2 Loans and advances to banks

The credit quality of placements and settlement balances with banks and reverse repurchase agreements receivable from banks, based on rating agencies' counterparty country ratings, is graded as follows as at 31 December 2013 and 2012:

	2013 €'000	2012 €'000
Aaa to Aa3	670.131	947.015
A1 to A3	47.656	259
Baa1 to Baa3	125.957	-
B1 to B3	-	50.473
Caa1 and below	703.850	690.352
	1.547.594	1.688.099

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers

(a) Loans and advances neither past due nor impaired:

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired as at year end can be assessed by reference to the Bank's standard grading system. Based on the Bank's credit assessment methodology, the credit quality of the total portfolio of loans and advances to customers is graded as follows as at 31 December 2013 and 2012:

	2013 €'000	2012 €'000
Satisfactory risk	987.861	1.340.824
Watch list	24.949	19.776
Total	1.012.810	1.360.600

The remaining loan portfolio which is covered by liens is disclosed in Note 29.

The total wholesale portfolio is covered by collateral 90% (in 2012: 85%). Consumer loans are generally not collateralised by tangible securities with exception of cash deposits taken as collateral in certain circumstances. Mortgage loans are fully collateralised.

(b) Loans and advances past due but not impaired:

	31 December 2013			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Past due up to 29 days	5.021	28	-	5.049
Past due 30 - 89 days	7.919	24	-	7.943
Past due 90 - 180 days	1.268	-	-	1.268
Past due more than 180 days and less than a year	3.585	-	-	3.585
Total	17.793	52	-	17.845
Fair value of collateral	15.498	-	-	15.498

	31 December 2012			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Past due up to 29 days	9.334	40	-	9.374
Past due 30 - 89 days	10.614	24	-	10.638
Past due 90 - 180 days	4.760	6	-	4.766
Past due more than 180 days and less than a year	144	-	-	144
Total	24.852	70	-	24.922
Fair value of collateral	21.602	-	-	21.602

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(c) Loans and advances past due and impaired:

As at 31 December 2013, loans and advances past due and impaired amounted to €101.988 thousands (2012: €73.545 thousands).

4.2.1.4 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2013 and 2012 based on Moody's ratings or their equivalent:

	31 December 2013		
	Available- for-sale debt securities	Held-to- maturity investments	Total
	€'000	€'000	€'000
Aaa	36.805	-	36.805
Aa1 to Aa3	58.929	-	58.929
A1 to A3	-	-	-
Caa3 (1)	16.071	164.672	180.743
Total	111.805	164.672	276.477

	31 December 2012		
	Available- for-sale debt securities	Held-to- maturity investments	Total
	€'000	€'000	€'000
Aaa	137.608	-	137.608
Aa1 to Aa3	63.305	-	63.305
A1 to A3	-	-	-
Bb3	18.983	-	18.983
B3 (1)	-	164.608	164.608
Total	219.896	164.608	384.504

(1) The debt securities rated Caa3 by Moody's as at 31 December 2013 (2012: B3), comprise of Cyprus government bonds classified as held-to-maturity investments and available-for-sale financial assets.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

(a) Geographical sectors

The following table analyses the Bank's main credit exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by geographical region as at 31 December 2013 and 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of counterparties.

	Greece	Cyprus	Other Western European countries	New Europe countries	Other countries	Total
	€'000	€'000	€'000	€'000	€'000	€'000
On-balance sheet assets						
Loans and advances to banks	1.343.692	30.288	172.311	-	1.303	1.547.594
Derivative financial instruments	472	43	-	-	11	526
Loans and advances to customers:						
- Wholesale lending	166.695	707.230	622.110	111.856	118.212	1.726.103
- Consumer lending	-	4.646	-	-	-	4.646
- Mortgage lending	-	12.183	-	-	-	12.183
Available-for-sale financial assets - debt securities	-	16.071	95.734	-	-	111.805
Held-to-maturity investments	-	164.672	-	-	-	164.672
Other assets	434	126	116	29	54	759
As at 31 December 2013	1.511.293	935.259	890.271	111.885	119.580	3.568.288
Off-balance sheet items						
Guarantees and letters of credit	720	86.872	1	164	2.897	90.654
Approved unutilised credit facilities	11.848	167.780	3.523	1	28.756	211.908
As at 31 December 2013	12.568	254.652	3.524	165	31.653	302.562

New Europe countries classification as disclosed above includes the following countries: Belarus, Bulgaria, Czech Republic, Latvia, Lithuania, Poland, Romania, Ukraine, Serbia, Montenegro, Hungary and Malta.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	Greece	Cyprus	Other Western European countries €'000	New Europe countries €'000	Other countries €'000	Total €'000
On-balance sheet assets	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to banks	1.269.736	50.472	237.315	-	130.576	1.688.099
Derivative financial instruments	564	69	-	26	-	659
Loans and advances to customers:						
- Wholesale lending	165.296	1.013.995	599.276	151.803	301.450	2.231.820
- Consumer lending	1	2.076	2.096	-	-	4.173
- Mortgage lending	-	12.849	-	-	-	12.849
Available-for-sale financial assets - debt securities	-	-	140.353	18.983	60.560	219.896
Held-to-maturity investments	-	164.608	-	-	-	164.608
Other assets	4.213	172	194	54	19	4.652
As at 31 December 2012	1.439.810	1.244.241	979.234	170.866	492.605	4.326.756
Off-balance sheet items						
Guarantees and letters of credit	1.891	82.090	2	7	1.975	85.965
Approved unutilised credit facilities	1.878	103.194	3.436	2	177.525	286.035
As at 31 December 2012	3.769	185.284	3.438	9	179.500	372.000

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following table analyses the Bank's main credit risk exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by the industry sectors of the Bank's counterparties as at 31 December 2013 and 2012:

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru- ction €'000	Manufa- cturing €'000	Other €'000	Total €'000
On-balance sheet assets								
Loans and advances to banks	-	-	1,547,594	-	-	-	-	1,547,594
Derivative financial instruments	-	25	472	2	-	14	13	526
Loans and advances to customers:								
- Wholesale lending	-	808,514	591,540	210,448	21,561	82,376	11,664	1,726,103
- Consumer lending	-	241	-	4,405	-	-	-	4,646
- Mortgage lending	-	-	-	12,183	-	-	-	12,183
Available-for-sale financial assets								
- debt securities	74,999	36,806	-	-	-	-	-	111,805
Held-to-maturity investments	164,672	-	-	-	-	-	-	164,672
Other assets	-	148	550	-	-	-	61	759
As at 31 December 2013	239,671	845,734	2,140,156	227,038	21,561	82,390	11,738	3,568,288

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	Total €'000
Off-balance sheet items					
Guarantees and letters of credit	-	32,527	683	57,444	90,654
Approved unutilised credit facilities	-	31	19,056	192,821	211,908
As at 31 December 2013	-	32,558	19,739	250,265	302,562

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru- ction €'000	Manufa- cturing €'000	Other €'000	Total €'000
On-balance sheet assets								
Loans and advances to banks	-	-	1.688.099	-	-	-	-	1.688.099
Derivative financial instruments	-	28	563	32	-	36	-	659
Loans and advances to customers:								
- Wholesale lending	-	1.169.185	639.232	229.396	22.498	164.342	7.167	2.231.820
- Consumer lending	-	380	-	3.783	-	-	10	4.173
- Mortgage lending	-	-	-	12.849	-	-	-	12.849
Available-for-sale financial assets								
- debt securities	142.848	38.562	38.486	-	-	-	-	219.896
Held-to-maturity investments	164.608	-	-	-	-	-	-	164.608
Other assets	-	148	4.408	-	-	-	96	4.652
As at 31 December 2012	307.456	1.208.303	2.370.788	246.060	22.498	164.378	7.273	4.326.756

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	Total €'000
Off-balance sheet items					
Guarantees and letters of credit	13.237	60.490	431	11.807	85.965
Approved unutilised credit facilities	-	-	9.085	276.950	286.035
As at 31 December 2012	13.237	60.490	9.516	288.757	372.000

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

The Bank takes on exposure to market risks. Market risks arise from exposure to interest rates, currency and equity products or combination of them, all of which are exposed to general and specific market movements. Specifically, the market risks the Bank is exposed to are the following:

(a) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected adverse movements arise. The Bank's Risk Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken and exposures are monitored daily.

(b) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Committee sets limits on the level of exposures which are monitored daily.

(c) Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk that the Bank undertakes arises mainly from equity positions classified as available-for-sale financial assets. The Risk Committee sets limits on the level of the exposures which are monitored daily.

The Bank's monitoring of market risk is performed by the parent bank with the use of 'value at risk' (VaR) methodology to estimate the market risk of positions held and the potential economic loss based upon a number of assumptions and variables.

(d) VaR summary for 2013 and 2012

VaR is a methodology used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR that the Bank measures is an estimate based upon a 99% confidence level and a holding period of 1 day and the methodology used for the calculation is Monte Carlo simulation (full repricing).

The VaR models are designed to measure market risk in a normal market environment. It is assumed that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated using exponentially weighted moving average (EWMA) of 6 months historical data.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. Given this, actual outcomes are monitored regularly, via back testing process, to test the validity of the assumptions and the parameters used in the VaR calculation.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

(d) VaR summary for 2013 and 2012 (continued)

Since VaR constitutes an integral part of the Bank's market risk control regime, VaR limits have been established for all (trading and investment portfolios) operations and actual exposure is reviewed daily by management. However, the use of this approach does not prevent losses outside of these limits in the event of extraordinary market movements.

Average VaR by risk type:

	2013	2012
	€'000	€'000
Interest Rate Risk	150	206
Foreign Exchange Risk	16	6
Equities Risk	996	847
Total VaR	1.024	885

The VaR calculation is applied to all positions.

The aggregate of the interest rate, foreign exchange and equities VaR results does not constitute the Bank's total VaR due to correlations and consequent diversification effects among risk factors.

4.2.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match, and as a result there may be inability to meet cash calls.

The Bank is exposed to daily calls on its available cash resources due to deposits withdrawals, loan draw-downs and guarantees, margin calls and payments on cash-settled derivatives. The Bank maintains cash resources to meet all of these needs. The Risk Committee sets liquidity limits to ensure that sufficient funds are available to meet such calls.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because past performance supports that the third parties generally do not draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below presents maturity analysis of assets as at 31 December 2013 and 2012, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2013					
	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	TOTAL €'000
- Cash and balances with central banks	79.126	-	-	-	79.126
- Loans and advances to banks	1.125.631	262.790	91.199	97.040	1.576.660
- Loans and advance to customers	241.895	136.553	175.845	1.364.413	1.918.706
- Available-for-sale investments	19.118	14.285	68.615	36.618	138.636
- Held-to-maturity investments	-	1.900	91.413	80.113	173.426
- Derivative financial instruments	327	23	169	7	526
- Other assets	759	-	-	-	759
	1.466.856	415.551	427.241	1.578.191	3.887.839

31 December 2012					
	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	TOTAL €'000
- Cash and balances with central banks	136.781	-	-	-	136.781
- Loans and advances to banks	1.461.463	71.670	102.713	58.640	1.694.486
- Loans and advance to customers	241.243	209.607	583.883	1.415.036	2.449.769
- Available-for-sale investments	-	67.136	62.680	118.421	248.237
- Held-to-maturity investments	-	1.900	6.413	173.425	181.738
- Derivative financial instruments	403	59	156	41	659
- Other assets	4.652	-	643	-	5.295
	1.844.542	350.372	756.488	1.765.563	4.716.965

Derivative assets are reported in the liquidity analysis at current market value. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

The above assets are used from a liquidity management perspective to manage liquidity risk arising from the contractual maturity analysis of financial liabilities as disclosed in the following tables.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below analyses the cash flows payable by the Bank under derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. Liabilities without contractual maturities (sight and saving deposits) are presented in the "less than 1 month" time bucket.

31 December 2013

	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	TOTAL €'000
Non-derivative liabilities:					
- Due to other banks	381.231	52.926	11.532	191.314	637.003
- Due to customers	1.401.565	788.495	275.114	7.230	2.472.404
- Other liabilities	27.521	737	3.147	-	31.405
	1.810.317	842.158	289.793	198.544	3.140.812

Derivative financial instruments:	1.579	43	162	7	1.791
-----------------------------------	--------------	-----------	------------	----------	--------------

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	Total €'000
Guarantees and letters of credit	90.654	-	90.654
Approved unutilised credit facilities	211.908	-	211.908
Capital expenditure	319	-	319
Operating lease commitments	947	1.055	2.002
	303.828	1.055	304.883

31 December 2012

	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	TOTAL €'000
Non-derivative liabilities:					
- Due to other banks	394.757	309.782	58.087	60.804	823.430
- Due to customers	1.400.420	1.120.405	617.704	114	3.138.643
- Other liabilities	5.878	801	44	43	6.766
	1.801.055	1.430.988	675.835	60.961	3.968.839

Derivative financial instruments:	978	87	255	39	1.359
-----------------------------------	------------	-----------	------------	-----------	--------------

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	Total €'000
Guarantees and letters of credit	85.965	-	85.965
Approved unutilised credit facilities	286.035	-	286.035
Capital expenditure	32	-	32
Operating lease commitments	689	533	1.222
	372.721	533	373.254

On derivative instruments line, the negative net present value (allocated per time bucket) is presented as a good proxy of the expected outflow.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The liabilities from derivatives are reported in the liquidity analysis using the current market values of them. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

It should be noted that the above table represents the worst case scenario since it is based on the assumption that all liabilities will be paid earlier than expected (all term deposits are withdrawn at their contractual maturity). Historical experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

4.3 Off balance sheet instruments

In common with other banks, the Bank conducts business involving guarantees, documentary letters of credit and acceptances (Note 26).

Guarantees are generally written by a bank to support the performance of a customer to third parties. As the Bank will only be required to meet obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the Bank to make payments to third parties on production of documents and provided that the terms of the documentary credits are satisfied. The repayment by the customer is usually immediate.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that the customer does not honour payment.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by a bank and subsequently rediscounted.

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made for fixed periods and are cancellable by the Bank subject to notice requirements.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.4 Capital management

	2013 €'000	2012 €'000
Ordinary shareholders' equity	567.556	528.897
Less: other regulatory adjustments	(16.821)	(10.703)
Total Tier 1 capital	550.735	518.194
Tier 2 capital	54.822	48.836
Less: other regulatory adjustments	-	-
Total regulatory capital	605.557	567.030
Risk Weighted Assets	1.345.881	1.753.755

	2013 %	2012 %
Ratios:		
Core Tier 1	40,9	29,5
Tier 1	40,9	29,5
Tier 2	4,1	2,8
Capital Adequacy Ratio	45,0	32,3

Tier 1 capital represents share capital, share premium and reserves less intangible assets and valuation differences eligible as Tier 2 as at 31 December.

Tier 2 capital represents subordinated debt and valuation differences eligible as Tier 2 as at 31 December.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the European Union and the Central Bank of Cyprus.

The Bank has complied with all externally imposed capital requirements throughout the period.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, processes and policies from previous years.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.5 Financial assets and liabilities measured at fair value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available, the fair value of financial assets and liabilities is estimated using present value or other estimation and valuation techniques where all significant inputs are observable.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rate used. The fair values of financial assets and liabilities approximate their carrying amounts due to the following reasons:

- a) trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques.
- b) substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore the Bank has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, other than held-to-maturity financial assets which are referred to in Note 17.
- c) All financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end; based on whether the inputs to their fair values are observable or non observable.
 - i) Level 1 - Quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis. Any form of valuation technique results in the instrument not falling into this level.
 - ii) Level 2 - Financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts, structured assets and liabilities and available-for-sale financial assets with no quoted price.
 - iii) Level 3 - Financial instruments measured using valuation techniques which include at least one significant non-observable input.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.5 Financial instruments carried at fair value (continued)

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2013 and 2012 is presented in the following tables. The below fair value measurements represent recurring fair value measurements.

	At 31 December 2013			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €000	
Financial assets measured at fair value:				
Derivative financial instruments held for trading	-	526	-	526
Available-for-sale investment securities	137.752	-	-	137.752
Total financial assets measured at fair value	137.752	526	-	138.278

Financial liabilities measured at fair value:

Derivative financial instruments held for trading	-	1.791	-	1.791
Total financial liabilities measured at fair value	-	1.791	-	1.791

	At 31 December 2012			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €000	
Financial assets measured at fair value:				
Derivative financial instruments held for trading	-	659	-	659
Available-for-sale investment securities	242.795	-	-	242.795
Total financial assets measured at fair value	242.795	659	-	243.454

Financial liabilities measured at fair value:

Derivative financial instruments held for trading	-	1.359	-	1.359
Total financial liabilities measured at fair value	-	1.359	-	1.359

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.6 Financial instruments not carried at fair value

The following table presents the carrying amounts and the fair values of financial instruments not measured at fair value, analysed by the level in the IFRS 13 fair value hierarchy into which each fair value measurement is included:

	At 31 December 2013			Total Fair Value- for disclosure purposes €000	Carrying amount €'000
	Level 1 €'000	Level 2 €'000	Level 3 €000		
Financial assets measured at amortised cost					
Loans and advances to banks	-	1,547,594	-	1,547,594	1,547,594
Loans and advances to customers	-	-	1,742,932	1,742,932	1,742,932
Held-to-maturity debt securities	164,672	-	-	164,672	164,672
Other financial assets	-	759	-	759	759
Financial liabilities measured at amortised cost					
Due to other banks	-	608,510	-	608,510	608,510
Due to customers	-	2,471,483	-	2,471,483	2,471,483
Other financial liabilities	-	31,405	-	31,405	31,405
At 31 December 2012					
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total Fair Value- for disclosure purposes €000	Carrying amount €'000
Financial assets measured at amortised cost					
Loans and advances to banks	-	1,688,099	-	1,688,099	1,688,099
Loans and advances to customers	-	-	2,248,842	2,248,842	2,248,842
Held-to-maturity debt securities	164,608	-	-	164,608	164,608
Other financial assets	-	4,652	-	4,652	4,652
Financial liabilities measured at amortised cost					
Due to other banks	-	818,092	-	818,092	818,092
Due to customers	-	3,137,971	-	3,137,971	3,137,971
Other financial liabilities	-	6,766	-	6,766	6,766

4.7 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.8 Offsetting financial assets and financial liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	Financial instruments €' 000	Cash collateral received €' 000	€' 000
Assets	58.828	-	58.828
Total assets subject to offsetting, master netting and similar arrangement	58.828	-	58.828

	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	Financial instruments €' 000	Cash collateral received €' 000	€' 000
Liabilities	58.828	-	58.858
Total liabilities subject to offsetting, master netting and similar arrangement	58.828	-	58.828

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	Financial instruments €' 000	Cash collateral received €' 000	€' 000
Assets	77.335	-	77.335
Total assets subject to offsetting, master netting and similar arrangement	77.335	-	77.335

	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
	Financial instruments €' 000	Cash collateral received €' 000	€' 000
Liabilities	77.335	-	77.335
Total liabilities subject to offsetting, master netting and similar arrangement	77.335	-	77.335

The Bank has master netting arrangements entered into in the normal course of business, which are enforceable in case of default.

Eurobank Cyprus Ltd

Notes to the financial statements

5 Net interest income

	2013 €'000	2012 €'000
Interest income		
Interest from loans and advances to banks	21.483	46.048
Interest from derivatives	559	13.028
Interest from loans and advances to customers	100.730	120.475
Interest from available-for-sale financial assets	1.220	13.423
Interest from debt securities lending (Note 17)	-	9.452
Interest from held-to-maturity investments (Note 17)	8.376	7.735
Other interest income	-	4
Total interest income	132.368	210.165
Interest expense		
Interest on due to other banks	(18.536)	(47.060)
Interest on repurchase agreements	-	(124)
Interest on derivatives	(965)	(20.136)
Interest on customer deposits	(41.858)	(63.061)
Other interest expense	(2)	-
Total interest expense	(61.361)	(130.381)
Net interest income	71.007	79.784

6 Net banking fee and commission expense

	2013 €'000	2012 €'000
Banking fee and commission income		
Bank transfer commissions	9.514	11.775
Other fees and commissions	11.078	13.403
Total banking fee and commission income	20.592	25.178
Banking fee and commission expense		
Fees on lien agreements (Note 29)	(6.401)	(13.362)
Other fees and commissions	(5.256)	(5.038)
Total banking fee and commission expense	(11.657)	(18.400)
Net banking fee and commission income	8.935	6.778

7 Net trading income

	2013 €'000	2012 €'000
Gains on hedging instruments	-	15.674
Losses on hedged items attributable to the hedged risk	-	(9.136)
Net gains representing ineffective portions of fair value hedges	-	6.538
Foreign exchange gain/(loss)	773	(85)
Gains less losses on financial instruments at fair value through profit or loss – derivatives held for trading	101	168
	874	6.621

Up to 2012 the Bank hedged a proportion of its interest rate risk resulting from the potential decrease in the fair value of fixed rate financial assets. These positions were nil as at 31 December 2012 following disposals and maturities resulting to the recognition of a net gain of €'000 6.538 as disclosed above in the income statement for the year ended 31 December 2012.

Eurobank Cyprus Ltd

Notes to the financial statements

8 Gains less losses from investment securities

	2013 €'000	2012 €'000
Gains less losses on disposal of available-for-sale financial assets	2.246	21.936
Gains less losses on debt securities lending	-	7.805
Losses on unwinding of hedging instruments following disposal of hedged available-for-sale financial assets	-	(22.675)
Losses on impairment of available-for-sale equity investments	-	(220)
	<u>2.246</u>	<u>6.846</u>

9 Staff costs

	2013 €'000	2012 €'000
Salaries and other related costs	9.504	8.822
Social insurance and other costs	1.525	1.497
Directors' fees and remuneration	719	901
Retirement benefit costs – defined benefits scheme	710	400
Retirement benefit costs – defined contributions scheme	72	-
	<u>12.530</u>	<u>11.620</u>

Following an assembly of members of the Defined Benefit Scheme which took place on 12 December 2013, it was resolved that the Defined Benefit Scheme would be dissolved and a Defined Contributions Scheme would be set-up whereby the Bank would contribute 10% of the gross monthly salary of the members of staff who previously were under the Defined Benefit pension scheme and a range between 5%-10% for new members of staff who were not under the above scheme. All necessary approvals have been obtained for the above.

The average number of employees of the Bank during the year was 201 (2012: 188).

According to the actuarial valuation conducted for the year ended 31 December 2013 and 2012, the amounts appearing in the balance sheet of the Bank are as follows:

	2013 €'000	2012 €'000
Present value of the obligations (funded)	11.818	8.175
Fair value of plan assets	(11.684)	(8.818)
Retirement benefit obligations/(assets) recognised in balance sheet	<u>134</u>	<u>(643)</u>

Retirement benefit obligations for 2013 is included in "Other liabilities" (Note 23) and retirement benefit assets for 2012 are included in "Other assets" (Note 20).

The principal actuarial assumptions used for the actuarial valuation were:

	2013 %	2012 %
Discount rate of obligations	3,25	4,85
Future salary increases	2014-2016: 1,00 pa 2017: 2,00 pa 2018+: 3,50 pa	2013-2015: 1,00 pa 2016: 2,00 pa 2017: 3,50 pa
Future price inflation	2,00	2,00
Social Insurance Contribution Offset		
Accumulation Rate	1,50	1,50

Eurobank Cyprus Ltd

Notes to the financial statements

9 Staff costs (continued)

The amounts recognised in the income statement for the year in respect of the defined benefit scheme are as follows:

	2013	2012
	€'000	€'000
Current service cost	741	739
Net interest on the defined benefit asset	(31)	95
Net actuarial gain recognised in the year	-	(434)
Total income statement charge	<u>710</u>	<u>400</u>

The movement in the retirement obligations recognised in the balance sheet is as follows:

	2013	2012
	€'000	€'000
(Asset)/liability for staff retirement obligations at 1 January	(643)	457
Actual contributions paid by the Bank	(2,954)	(1,500)
Total expense recognised in the income statement	710	400
Total actuarial loss recognised in the other comprehensive income	3,021	-
Liability/(asset) for staff retirement obligations at 31 December	<u>134</u>	<u>(643)</u>

10 Other operating expenses

	2013	2012
	€'000	€'000
Amortisation of intangible assets (Note 18)	381	340
Depreciation of property, plant and equipment (Note 19)	858	733
Gain on disposal/write down of intangible assets and property, plant and equipment	(11)	(37)
Operating lease rentals	1,020	968
Repairs and maintenance	1,442	1,051
Auditors' remuneration for statutory audit	154	136
Auditors' remuneration for non-audit assurance engagements	17	224
Auditors' remuneration for tax services	22	19
Professional fees	505	1,548
Advertising and promotion	932	810
Other administrative expenses	2,270	2,229
	<u>7,590</u>	<u>8,021</u>

Eurobank Cyprus Ltd

Notes to the financial statements

11 Income tax expense

	2013 €'000	2012 €'000
Current tax:		
- Corporation tax	9.496	6.599
- Withholding tax	239	396
Total current tax	9.735	6.995
Deferred tax charge/ (credit)	5	(33)
Total income tax expense	9.740	6.962

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2013 €'000	2012 €'000
Profit before tax	44.745	55.327
Tax calculated at the applicable corporation tax rate of 12,5% (2012: 10%)	5.593	5.533
Tax effect of expenses not deductible for tax purposes	446	96
Tax effect of allowances and income not subject to tax	(657)	(1.291)
Withholding tax	239	396
Deferred tax charge	5	(33)
Special levy on bank deposits	4.114	2.261
Income tax expense	9.740	6.962

The Bank is subject to income tax on taxable profits at the rate of 12,5% (2012: 10%).

As from tax year 2012 brought forward losses of only five years may be utilised.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only be subject to special defence contribution at the rate of 10%; increased to 15% as from 31 August 2011; increased to 30% as from 29 April 2013.

In certain cases dividends received from abroad may be subject to special defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013; reduced to 17% as from 1 January 2014.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

There is no income tax effect relating to components of other comprehensive income (2012: €nil).

Eurobank Cyprus Ltd

Notes to the financial statements

11 Income tax expense (continued)

Deferred income tax:

Deferred income taxes are calculated on all temporary differences under the liability method at the rate in effect at the time the reversal is expected to take place.

The movement in deferred income tax assets and liabilities (non-current) during the year is as follows:

	Differences between wear & tear and depreciation €'000	Total €'000
Balance at 1 January 2012	159	159
Credited to income statement	(33)	(33)
Balance at 1 January 2013	126	126
Charged to income statement	5	5
Balance at 31 December 2013 (Note 23)	131	131

12 Cash and balances with central banks

	2013 €'000	2012 €'000
Cash in hand	4.476	3.091
Balances with central banks	74.650	133.690
	79.126	136.781
of which:		
Mandatory deposits with central banks	24.487	31.120

Cash and balances with central banks are classified as current.

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

Eurobank Cyprus Ltd

Notes to the financial statements

13 Loans and advances to banks

	2013	2012
	€'000	€'000
Reverse repurchase agreements receivables (1)	670.131	579.383
Placements with banks (2)	782.883	880.786
Settlement balances with banks	94.580	227.930
	<u>1.547.594</u>	<u>1.688.099</u>
Analysed as follows:		
Current	1.472.832	1.632.500
Non current	74.762	55.599
	<u>1.547.594</u>	<u>1.688.099</u>
Maturity analysis		
- on demand up to 7 days	1.015.981	1.114.320
- between 7 days and three months	370.174	418.123
- between three months and one year	86.677	100.057
- more than one year	74.762	55.599
	<u>1.547.594</u>	<u>1.688.099</u>

(1) The reverse repurchase agreements receivables represent money market placements fully secured by bonds issued by the European Financial Stability Fund (EFSF) (Note 29).

(2) Placements with banks bear interest which is based on the interbank rate of the relevant term and currency.

None of these financial assets are either past due or impaired.

Loans and advances to banks are categorized as "loans and receivables".

Eurobank Cyprus Ltd

Notes to the financial statements

14 Derivative financial instruments

The Bank utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase or sell foreign and domestic currency. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. Since future contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities, except in the cases where the counterparty is a Eurobank group entity.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

Eurobank Cyprus Ltd

Notes to the financial statements

14 Derivative financial instruments (continued)

	Fair Values			
	2013		2012	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives designated as fair value hedges				
Cross currency / interest rate swaps	-	-	-	-
FX round swaps	-	-	-	-
Derivatives held for trading				
Foreign exchange derivatives	237	253	303	374
Cross currency / interest rate swaps	289	1.538	356	985
	526	1.791	659	1.359
	526	1.791	659	1.359

	Fair Values			
	2013		2012	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Analysed as follows:				
Current	327	1.579	618	1.320
Non-current	199	212	41	39
	526	1.791	659	1.359

(a) Cross currency/interest rate swaps

The notional principal amounts of the outstanding cross currency/interest rate swap contracts at 31 December 2013 were 1,5 million (2012: €3 million).

At 31 December 2013, the fixed interest rates vary from 0,52% to 4,38% (2012: 0,52% to 8,25%) and the main floating rates are EURIBOR and LIBOR.

(b) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2013 were €1,3 million (2012: €12 million).

(c) Foreign exchange options

The notional principal amounts of foreign exchange options at 31 December 2013 were €9,4 million (2012: €31 million).

(d) Foreign exchange swaps

The notional principal amounts of foreign exchange options at 31 December 2013 were €218 million (2012: €227 million).

Eurobank Cyprus Ltd

Notes to the financial statements

15 Loans and advances to customers

	2013 €'000	2012 €'000
Private individuals:		
- Overdrafts	8.290	8.416
- Term loans	3.524	4.602
- Mortgages	12.183	12.849
	<u>23.997</u>	<u>25.867</u>
Corporate entities:		
- Large corporate loans	1.110.428	1.366.694
- Private banking loans	293.850	307.453
- International business banking loans	368.282	596.324
	<u>1.772.560</u>	<u>2.270.471</u>
Total	<u>1.796.557</u>	<u>2.296.338</u>
Gross loans and advances to customers	1.796.557	2.296.338
Less: provision for impairment losses	(53.625)	(47.496)
Net amount of loans and advances to customers	<u>1.742.932</u>	<u>2.248.842</u>
	2013 €'000	2012 €'000
Analysed as follows:		
Current	424.063	932.630
Non current	1.318.869	1.316.212
	<u>1.742.932</u>	<u>2.248.842</u>

The movement of the provision for impairment losses on loans and advances by class is as follows:

	31 December 2013			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Balance at 1 January	39.587	7.909	-	47.496
Impairment losses on loans and advances charged in the year	18.532	43	-	18.575
Amounts previously provided written off in the year	(11.879)	-	-	(11.879)
Foreign exchange loss	(567)	-	-	(567)
Balance at 31 December	<u>45.673</u>	<u>7.952</u>	-	<u>53.625</u>
	31 December 2012			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Balance at 1 January	27.805	9.082	-	36.887
Impairment losses on loans and advances charged in the year	25.113	265	-	25.378
Amounts previously provided written off in the year	(13.415)	(1.438)	-	(14.853)
Foreign exchange loss	84	-	-	84
Balance at 31 December	<u>39.587</u>	<u>7.909</u>	-	<u>47.496</u>

Interest income on impaired loans and advances to customers accrued during the year amounted to €'000 8.047 (2012: €'000 5.756).

Eurobank Cyprus Ltd

Notes to the financial statements

15 Loans and advances to customers (continued)

As at 31 December 2013, loan impairment provision amounted to €53.625 thousand (2012: €47.496 thousand), of which €11.940 thousand (2012: €20.355 thousand) relates to one loan receivable from a related company with a gross carrying amount before provisions of €460.215 thousand as of 31 December 2013 (2012: €537.694 thousand). The impairment provision was estimated based on the credit quality of the assets held by the related company.

The fair value of the Bank's loans and advances to customers approximates their carrying amount at the balance sheet date as they bear interest at variable rates.

Loans and advances to customers are categorised as "loans and receivables".

16 Available-for-sale financial assets

	2013 €'000	2012 €'000
Issued by public organisations – government bonds and shares in public government organisations:		
- Greece	13.430	10.602
- USA	-	60.560
- Cyprus	16.071	-
- France	58.929	63.305
- Serbia	-	18.983
	<u>88.430</u>	<u>153.450</u>
Issued by other issuers:		
- Banks	-	38.486
- Other	49.322	50.859
	<u>49.322</u>	<u>89.345</u>
Total	<u>137.752</u>	<u>242.795</u>
Listed	<u>137.752</u>	<u>242.795</u>
	<u>137.752</u>	<u>242.795</u>
Equity	25.947	22.899
Debt	111.805	219.896
	<u>137.752</u>	<u>242.795</u>
Current	100.946	121.945
Non current	36.806	120.850
	<u>137.752</u>	<u>242.795</u>

The movement in the account is as follows:

	2013 €'000	2012 €'000
Net book value at 1 January	242.795	531.314
Additions	15.290	508.630
Disposals and redemptions	(122.672)	(806.750)
Amortisation of discounts/premiums and interest	(973)	(2.314)
Amortisation of mark to market due to fair value hedging	(50)	776
Net gains from changes in fair values	8.921	16.939
Foreign exchange adjustments	(5.559)	(5.800)
Net book value at 31 December	<u>137.752</u>	<u>242.795</u>

None of these financial assets are either past due or impaired.

Eurobank Cyprus Ltd

Notes to the financial statements

16 Available-for-sale financial assets (continued)

Equity reserve: Revaluation of the available-for-sale investments

Gains and losses arising from the changes in the fair value of available-for-sale investments are recognised in a revaluation reserve for available-for-sale financial assets in equity. The movement of the reserve is as follows:

	2013 €'000	2012 €'000
Balance at 1 January	8.146	(7.048)
Net gains from changes in fair value	8.921	27.653
Net losses/ gains transferred to net profit on disposal	(2.246)	32.937
Net losses transferred to net profit from discontinued fair value hedges	-	(45.396)
Balance at 31 December	14.821	8.146

17 Held-to-maturity investments and debt securities lending

(a) Held-to-maturity investments comprise of Cyprus government bonds.

	2013 €'000	2012 €'000
Current	87.891	-
Non-current	76.781	164.608
	164.672	164.608

The movement in the account is as follows:

	2013 €'000	2012 €'000
Net book value at 1 January	164.608	163.673
Additions	-	-
Redemptions	-	-
Interest accrued (Note 5)	8.376	7.735
Interest received	(8.312)	(6.800)
Net book value at 31 December	164.672	164.608

None of these financial assets are either past due or impaired.

(b) The movement in the debt securities is as follows:

	2013 €'000	2012 €'000
Net book value at 1 January	-	603.976
Redemptions	-	(597.249)
Interest accrued	-	9.452
Interest received	-	(13.619)
Changes in fair value due to hedging	-	(3.258)
Foreign exchange adjustments	-	698
Net book value at 31 December	-	-

Eurobank Cyprus Ltd

Notes to the financial statements

18 Intangible assets

	Computer licences & software €'000	Total €'000
At 1 January 2012		
Cost	3.339	3.339
Accumulated amortisation	(1.264)	(1.264)
Net book amount	2.075	2.075
Year ended 31 December 2012		
At 1 January	2.075	2.075
Additions	132	132
Amortisation charge (Note 10)	(340)	(340)
At 31 December	1.867	1.867
At 31 December 2012		
Cost	3.471	3.471
Accumulated amortisation	(1.604)	(1.604)
Net book amount	1.867	1.867
Year ended 31 December 2013		
At 1 January	1.867	1.867
Additions	513	513
Amortisation charge (Note 10)	(381)	(381)
At 31 December	1.999	1.999
At 31 December 2013		
Cost	3.984	3.984
Accumulated amortisation	(1.985)	(1.985)
Net book amount	1.999	1.999

Eurobank Cyprus Ltd

Notes to the financial statements

19 Property, plant and equipment

	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Total €'000
At 1 January 2012				
Cost	5.064	364	2.341	7.769
Accumulated depreciation	(960)	(269)	(1.112)	(2.341)
Net book amount	4.104	95	1.229	5.428
Year ended 31 December 2012				
At 1 January	4.104	95	1.229	5.428
Additions	54	35	249	338
Disposals and write offs	-	(8)	-	(8)
Depreciation charge (Note 10)	(426)	(46)	(261)	(733)
At 31 December	3.732	76	1.217	5.025
At 31 December 2012				
Cost	5.118	228	2.590	7.936
Accumulated depreciation	(1.386)	(152)	(1.373)	(2.911)
Net book amount	3.732	76	1.217	5.025
Year ended 31 December 2013				
At 1 January	3.732	76	1.217	5.025
Additions	1.996	2	692	2.690
Disposals and write offs	-	-	(3)	(3)
Depreciation charge (Note 10)	(441)	(33)	(384)	(858)
At 31 December	5.287	45	1.522	6.854
At 31 December 2013				
Cost	7.113	186	3.257	10.556
Accumulated depreciation	(1.826)	(141)	(1.735)	(3.702)
Net book amount	5.287	45	1.522	6.854

Leasehold improvements relate to premises occupied by the Bank for its own activities.

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2013 €'000	2012 €'000
Net book amount	3	8
Profit on sale of property, plant and equipment (Note 28)	12	37
Proceeds from sale of property, plant and equipment as per cash flow statement	15	45

Eurobank Cyprus Ltd

Notes to the financial statements

20 Other assets

	2013 €'000	2012 €'000
Prepaid expenses	253	229
Retirement benefit asset (Note 9)	-	643
Other assets	759	4,652
	<u>1.012</u>	<u>5.524</u>

	2013 €'000	2012 €'000
Current	864	4,734
Non-current	148	790
	<u>1.012</u>	<u>5.524</u>

Other assets include €434 thousand (2012: €4.213 thousand) receivable from Eurobank Ergasias S.A. (Note 29(i)).

None of these financial assets are either past due or impaired.

21 Due to other banks

	2013 €'000	2012 €'000
Deposits from other banks	534.200	753.133
Settlement balances with other banks	34.263	24.958
Subordinated debt (Note 29(i))	40.047	40.001
	<u>608.510</u>	<u>818.092</u>

Current	445.482	761.145
Non current	163.028	56.947
	<u>608.510</u>	<u>818.092</u>

Maturity analysis		
- on demand up to 7 days	35.540	47.868
- 7 days up to 3 months	398.516	655.723
- 3 months to 1 year	11.426	57.554
- 1 to 5 years	122.981	16.427
- after 5 years	40.047	40.520
	<u>608.510</u>	<u>818.092</u>

The fair value of amounts due to other banks approximates their carrying amount at the balance sheet date.

Amounts due to other banks are categorised as other financial liabilities at amortised cost.

Eurobank Cyprus Ltd

Notes to the financial statements

22 Due to customers

	2013 €'000	2012 €'000
Current accounts	724.995	675.504
Notice accounts	17.980	5.781
Term deposits	1.728.508	2.456.686
	2.471.483	3.137.971
Maturity analysis		
- up to 1 month	1.403.873	1.405.374
- between 1 month and three months	788.136	1.119.825
- between three months and one year	272.527	612.663
- between one year and five years	6.947	109
	2.471.483	3.137.971

The fair value of amounts due to customers approximates their carrying amount at the balance sheet date as the amounts due to customers almost entirely fall due within one year.

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2013 amounted to €468 million (2012: €688 million).

Amounts due to customers are categorised as other financial liabilities at amortised cost.

Special levy on total deposits is imposed to all Banks and Credit Institutions.

For the year 2012 the levy was 0,095% on total deposits of the previous year end.

For 2013 the levy on deposits increased to 0,15%, calculated on the previous quarter-end deposits payable in quarterly instalments.

23 Other liabilities

	2013 €'000	2012 €'000
Current income tax liability	1.457	989
Deferred tax liability (Note 11)	131	126
Retirement benefit obligations (Note 9)	134	-
Other liabilities and accruals ¹	15.334	6.766
Payable for unsettled bond purchase ²	16.071	-
	33.127	7.881
	2013 €'000	2012 €'000
Current	31.676	7.712
Non-current	1.451	169
	33.127	7.881

¹Other liabilities and accruals include commissions and consultancy fees of €491 thousand (2012: €857 thousand) payable to Eurobank Ergasias S.A. (Note 29 (i)).

²The payable for unsettled bond purchase relates to a purchase of a bond with trade date in late December 2013 and settlement in early January 2014.

Eurobank Cyprus Ltd

Notes to the financial statements

24 Share capital

The par value of the Bank's shares is €10 thousand per share. All shares are fully paid.

The movement of share capital and share premium is as follows:

	No. of shares	Ordinary shares €'000	Share premium €'000	Total €'000
Authorised				
At 31 December 2013 & 2012	1.500	15.000	-	15.000
Issued				
At 31 December 2013 & 2012	1.201	12.010	245.384	257.394

There were no changes in the Bank's share capital during the years ended 31 December 2013 and 2012.

All the shares have the same rights.

25 Operating lease commitments – where the Bank is the lessee

The Bank leases various offices under non-cancellable operating lease agreements with varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable building operating leases are as follows:

	2013 €'000	2012 €'000
Not later than one year	947	689
Later than one year and not later than five years	1.055	533
	2.002	1.222

26 Contingencies and commitments

The following analysis indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit the Bank to make payments in relation to acceptances, guarantees, indemnities and letters of credit drawn on customers:

	2013 €'000	2012 €'000
<i>Contingent liabilities:</i>		
Guarantees	61.608	65.114
Other	29.046	20.851
	90.654	85.965
<i>Commitments:</i>		
Approved unutilised credit facilities	211.908	286.035

Eurobank Cyprus Ltd

Notes to the financial statements

26 Contingencies and commitments (continued)

Capital commitments

As at 31 December 2013 commitments for contracted capital expenditures for the Bank amount to €319 thousand (2012: €32 thousand).

Legal proceedings

As at 31 December 2013 and 2012 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

27 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €502.430 thousand (2012: €360.098 thousand).

Eurobank Cyprus Ltd

Notes to the financial statements

28 Net cash flow from operating activities

	Note	2013 €'000	2012 €'000
Profit before tax		44.745	55.327
Adjustments for:			
Amortisation of intangible assets	18	381	340
Depreciation of property, plant and equipment	19	858	733
Gain on disposal of property, plant and equipment	19	(12)	(37)
Charge for defined benefit retirement obligation	9	710	400
Impairment losses on loans and advances net of write-offs	15	6.696	10.525
Dividend income		(378)	(317)
Interest income on available-for-sale financial assets	5	(1.220)	(13.423)
Interest income on debt securities lending	5	-	(9.452)
Interest income on held-to-maturity instruments	5	(8.376)	(7.735)
Foreign exchange differences on investing activities		5.559	5.102
Hedging adjustment on debt securities lending portfolio		-	3.258
Profit on disposal of available-for-sale financial assets	8	(2.246)	(21.936)
Profit on disposal of debt securities lending portfolio	8	-	(7.805)
Net fair value loss on available-for-sale financial assets transferred to income statement due to impairment	8	-	220
		<u>46.717</u>	<u>15.200</u>
Decrease/(increase) in operating assets			
Cash and balances with central banks		59.040	(88.490)
Loans and advances to banks		201.442	743.474
Derivative financial instruments		133	4.404
Loans and advances to customers		499.214	739.761
Other assets		3.869	10.838
Increase/(decrease) in operating liabilities			
Due to other banks		(209.582)	(2.966.137)
Derivative financial instruments		432	(57.026)
Due to customers		(666.488)	747.838
Retirement benefit obligations		(2.954)	(1.500)
Other liabilities		24.639	(4.772)
Cash used in operations			
Tax paid		(9.267)	(6.995)
Net cash flow used in operating activities		<u>(52.805)</u>	<u>(863.405)</u>

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	2013 €'000	2012 €'000
Cash in hand (Note 12)	4.476	3.091
Balances with banks	1.386.155	1.325.218
	<u>1.390.631</u>	<u>1.328.309</u>

Eurobank Cyprus Ltd

Notes to the financial statements

29 Related party transactions and balances

The immediate controlling party of the Bank is ERB New Europe Holding B.V. registered in the Netherlands. Eurobank Ergasias S.A., who produces consolidated financial statements available for public use, owns 100% of the shares of ERB New Europe Holding B.V.

Until 23 July 2012, the EFG Group was a controlling shareholder of EFG Eurobank Ergasias S.A., holding 44.70% of the Eurobank's ordinary shares and voting rights. On 23 July 2012, 43,55% of the ordinary shares and voting rights held by EFG Group were transferred to ten legal entities, each of which acquired approximately 4,40%, while the EFG Group retained the remaining 1,15%. These entities formally stated they were independent from each other. As a result, from 23 July 2012, onwards, the Bank ceased to be under EFG Group's control and will no longer consolidated in the financial statements of the EFG Group. In addition, the Bank's corporate and trade name was amended in order to no longer include the "EFG" suffix.

In May 2013, following its full subscription in the Eurobank Ergasias recapitalisation of €5.839 million, the Hellenic Financial Stability Fund ("HFSF") became the controlling shareholder and a related party of the Eurobank Ergasias S.A.. On 19 June 2013, the HFSF acquired 3.789.317.358 ordinary shares with voting rights, representing 98,56% of the ordinary share capital of Eurobank Ergasias S.A. Following the issuance of 205.804.664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders of Eurobank Ergasias S.A. on 27 June 2013, the percentage of the voting rights held in Eurobank Ergasias S.A. by HFSF decreased to 93,55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the percentage of the voting rights held by HFSF increased to 95,23%.

The Eurobank Ergasias Group regards other Greek Banks controlled, jointly controlled or significantly influenced by the HFSF, within the context of the Greek Banks' recapitalization, as well as the members of key management personnel of the HFSF, as related parties. The Eurobank Ergasias Group's transactions with HFSF's related Greek banks are made in the ordinary course of business, are carried out in market terms, are not influenced by the HFSF as the controlling shareholder of the Bank and are not included in the table presented below.

National Bank of Greece S.A. (NBG) Voluntary Tender Offer (VTO) and merger

On 15 February 2013, the National Bank of Greece SA (NBG) acquired 84,35% of the voting shares of Eurobank Ergasias S.A. following the completion of a Voluntary Tender Offer (VTO) launched on 11 January 2013. The VTO would have been followed by the merger of the two banks, the process of which initiated on 19 March 2013.

On 28 March 2013, BoG sent letters to all viable banks, including Eurobank Ergasias S.A. and NBG, stating that each bank should proceed with its recapitalization by the end of April 2013 and requesting them to proceed with the relevant necessary actions. On 7 April 2013, as the joint banks' request for the extension of the recapitalization process up to 20 June 2013 was not granted, the relevant regulatory authorities with the consent of the management of both banks decided that Eurobank Ergasias S.A. and NBG will be independently recapitalized in full. As a consequence, the merger process of the two banks was suspended. In this respect, the Extraordinary General Meeting of shareholders of Eurobank Ergasias S.A., convened on 30 April 2013, decided the increase of the Eurobank's ordinary share capital, in order to raise € 5.839 million, subscribed by way of contribution in kind from HFSF, in accordance with Law 3864/2010 and Act of Cabinet 38/9.11.2012. As a result of the above mentioned share capital increase of Eurobank Ergasias S.A., the percentage of the voting rights held by NBG at 31 December 2013 was reduced below 1%.

Eurobank Cyprus Ltd

Notes to the financial statements

29 Related party transactions and balances (continued)

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arms length basis. These include loans, deposits, derivatives and repurchase agreements. In addition, as part of its normal course of business in investment banking activities, the Bank at times may hold positions in debt and equity instruments of related parties. The volume of related party transactions and outstanding balances at the year-end are as follows:

(i) Related party transactions and outstanding balances:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Loans and advances to banks (1)	1,343,690	1,269,734	-	-	-	-
Loans and advances to customers (2)	-	-	471,584	529,194	51,157	23,830
Derivative financial instruments –						
Assets	472	563	-	-	-	-
Derivative financial instruments –						
Liabilities	1,544	1,041	-	-	-	-
Other assets	434	4,213	-	-	-	-
Due to other banks (3)	574,272	793,134	-	-	-	-
Due to customers	-	-	8,449	3,178	41,619	20,448
Other liabilities	491	857	154	553	-	-

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Interest income	21,237	58,771	36,184	50,967	799	822
Interest expense	19,352	66,925	3	6	850	248
Banking fee and commission income	1,013	-	-	-	-	-
Banking fee and commission expense – fees on lien agreement	6,401	13,362	-	-	-	-
Banking fee and commission expense – other	1,054	1,796	-	-	-	-
Net trading income/(loss)	-	9,785	567	-	-	-
Gains less losses from investment securities	-	(22,675)	-	-	-	-
Impairment losses on loans and advances	-	-	4,032	13,950	-	-
Staff costs excluding retirement benefit costs	-	-	-	-	613	860
Retirement benefit cost	-	-	-	-	94	126
Directors' remuneration	-	-	-	-	719	901
Other operating expenses	-	24	125	130	-	-

Eurobank Cyprus Ltd

Notes to the financial statements

29 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances (continued):

Key management personnel include directors and key management personnel of the Bank, and their close family members.

(1) Loans and advances to banks include reverse repurchase agreements with Eurobank Ergasias S.A. of €670.131 thousand (2012: €579.383 thousand) fully secured by EFSF bonds (Note 13).

(2) Total collaterals in relation to loans and advances to key management personnel amounted to €54.896 thousand (2012: €24.839 thousand).

(3) On 31 March 2010, Eurobank Ergasias S.A. advanced the sum of €40 million to the Bank. The interest rate of the loan was set at an annual rate equal to 3 month LIBOR plus 65 basis points and reprised to 3 month LIBOR plus 275 basis points on 18 December 2013. The loan shall be repaid on 31 March 2020. After 31 March 2015 Eurobank Ergasias S.A. has the option to call in any part of the loan. The loan is not secured and the rights and claims of Eurobank Ergasias S.A. are subordinated to the claims of all other creditors of the Bank except the holders of other subordinated indebtedness of the same type (lower tier II) of the Bank.

Within 2013, placements have continued to be redirected to unrelated Financial Institutions, that are not dependent on or exposed to Eurobank Ergasias S.A. maintaining the Bank's ring fencing status.

(ii) Lien agreements

As of 31 December 2013 and 2012, the Bank has in place lien agreements from Eurobank Ergasias S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2013 €'000	2012 €'000
Loans and advances to customers	459.881	636.441
Available-for-sale financial assets	-	18.983
	<u>459.881</u>	<u>655.424</u>

Based on the Lien agreements, in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank Ergasias S.A.

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II B.V. for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank. The loans and advances to customers subject to these arrangements amounted to €204.033 thousands (2012: €200.830 thousands).

Eurobank Cyprus Ltd

Notes to the financial statements

30 Post balance sheet events

Details regarding the re-capitalisation process of the parent bank and developments during 2014 are disclosed in Note 2.1 of the financial statements.

There were no other material post balance sheet events, which have a bearing on the understanding of the financial statements.

Independent Auditor's Report on pages 6 and 7.

Eurobank Cyprus Ltd

Additional information to the financial statements

Based on the requirement of the Central Bank of Cyprus Directive for Loan Impairment and Provisioning the following tables are set below. Table A contains the Non Performing Loans (NPL) and restructured facilities as per the definitions of the Central Bank of Cyprus Directive for non performing and restructured facilities, by sector and type of obligor. Table B contains a vintage analysis of NPL as per the definition of the above directive.

Table A

	Total Facilities €000	Performing facilities			Non performing facilities
		Not restructured	Restructured	Total	
1. CREDIT FACILITIES TO LEGAL ENTITIES	642.601	724.556	130.912	855.468	87.133
AGRICULTURE, FORESTRY AND FISHING	54	54	-	54	-
MINING AND QUARRYING	1	1	-	1	-
MANUFACTURING	62.048	39.096	22.952	62.048	-
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	2.471	2.471	-	2.471	-
WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	1	1	-	1	-
CONSTRUCTION	154.772	86.175	37.142	123.317	31.455
WHOLESALE AND RETAIL TRADE, REPAIR OR MOTOR VEHICLES AND MOTORCYCLES	116.824	92.787	18.806	111.593	5.231
TRANSPORTATION AND STORAGE	3.334	3.334	-	3.334	-
ACCOMMODATION AND FOOD SERVICES	50.311	45.844	4.584	50.228	83
INFORMATION AND COMMUNICATION	20.506	19.544	82	19.626	880
FINANCIAL AND INSURANCE SERVICES	138.118	135.943	2.175	138.118	-
REAL ESTATE ACTIVITIES	253.361	201.478	32.143	233.621	19.740
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	60.748	56.411	3.991	60.402	346
ADMINISTRATIVE AND SUPPORT ACTIVITIES	52.112	26.856	2.358	29.214	22.898
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	-	-	-	-	-
EDUCATION	4.477	575	3.794	4.369	108
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	3.564	3.489	-	3.489	75
ARTS, ENTERTAINMENT AND RECREATION	2.684	1.757	909	2.666	18
OTHER SERVICE ACTIVITIES	17.215	8.940	1.976	10.916	6.299
ACTIVITIES OF EXTRATERRITORIAL ORGANISATIONS AND BODIES	-	-	-	-	-
2. CREDIT FACILITIES TO PRIVATE INDIVIDUALS	189.410	139.362	28.817	168.179	21.231
Credit facilities for the purchase / construction of immovable property:	115.269	90.490	18.467	108.957	6.312
(a) Owner occupied	54.150	37.097	11.930	49.027	5.123
(b) For other purposes	61.119	53.393	6.537	59.930	1.189
Consumer loans	60.497	43.282	10.093	53.375	7.122
Credit cards	7.179	24	-	24	7.155
Current accounts	6.465	5.566	257	5.823	642
Credit Facilities to sole traders	-	-	-	-	-
3. INTRAGROUP FACILITIES	664.546	664.546		664.546	-
4. TOTAL FACILITIES	1.798.557	1.528.464	159.729	1.688.193	108.364
PROVISIONS	53.625				

Table B

Start Date	Total Portfolio			Facilities to legal entities			Facilities to individuals for acquisition/ construction of property			Facilities to individuals/ other facilities		
	Total facilities EUR 000s	NPLs EUR 000s	Provisions EUR 000s	Total facilities EUR 000s	NPLs EUR 000s	Provisions EUR 000s	Total facilities EUR 000s	NPLs EUR 000s	Provisions EUR 000s	Total facilities EUR 000s	NPLs EUR 000s	Provisions EUR 000s
Less than 1 year	761.141	5.284	219	735.046	5.154	164	8.317	-	-	17.778	130	56
1 - 2 years	288.761	13.998	5.834	261.924	13.715	5.736	9.652	-	-	17.185	282	98
2 - 3 years	241.340	9.603	1.778	198.423	4.197	1.492	27.366	1.053	-	15.552	4.353	286
3 - 5 years	384.880	65.071	30.529	310.413	57.350	28.337	64.148	5.259	1.446	10.319	2.462	745
6 - 7 years	120.432	14.412	9.720	53.563	6.720	2.174	53.563	-	-	13.306	7.691	7.545
7 - 10 years	-	-	-	-	-	-	-	-	-	-	-	-
More than 10 years	-	-	-	-	-	-	-	-	-	-	-	-
Total	1.796.554	108.367	48.081	1.559.368	87.137	37.904	163.047	6.312	1.446	74.139	14.918	8.730

