Eurobank EFG Cyprus Ltd

Report and financial statements
for the year ended 31 December 2009

Contents

Eurobank EFG Cyprus Ltd

Board of Directors and other officers

Board of Directors

N. Karamouzis	Chairman
M. Zampelas	Vice Chairman, Non Executive
M. Louis	Executive
D. Shacallis	Executive
M. Colakides	Non Executive
P. Hadjisotiriou	Non Executive
K. Morianos	Non Executive
K. Vasiliou	Non Executive
D. Hadjiargyrou	Non Executive
V. Nicolaides	Non Executive
C. Papaellinas	Non Executive
C. Zachariou	Non Executive

Executive Committee

Michalis Louis
Demetris Shacallis
Charalambos Hambakis
Achilleas Malliotis
Andreas Petsas
Antonis Antoniou
Stefanos Kassianides

Company Secretary

D. Shacallis

Registered office

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

Eurobank EFG Cyprus Ltd

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements of Eurobank EFG Cyprus Ltd (the “Bank”) for the year ended 31 December 2009.

Principal activity

Eurobank EFG Cyprus Ltd was incorporated on 21 December 2007 and remained dormant until the date of transfer of assets and activities of EFG Eurobank Ergasias S.A. – Cyprus Branch which took place on 26 March 2008.

The transfer of assets and activities was effected following the permit granted by the Central Bank of Cyprus dated 11 March 2008 to carry out banking services through the operation of a Cyprus subsidiary company and in accordance with the Transfer of Banking Business and Securities Law 64 (I)/1997, as amended (the “Transfer Law’) N 118(I)/2002 (as amended) articles 26-30.

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

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

The main financial highlights for the year / period end are as follows:

	1 January 2009 to 31 December 2009 €’000	21 December 2007 to 31 December 2008 €’000
Operating income	**160.057**	30.090
Operating expenses including provision for impairment of loans and advances	**31.100**	7.160
Profit before tax	**128.957**	22.930
Profit for the year / period	**120.003**	20.557
Customer deposits	**1.586.343**	922.055
Loans and advances to customers	**3.766.493**	1.251.736
Total assets	**21.233.398**	13.702.915

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

Principal risks and uncertainties

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 3, 29, 30 and 31 of the financial statements.

Report of the Board of Directors (continued)

Future developments

The Bank currently operates through a network of 5 Banking centres in Nicosia, Limassol and Larnaca. It is expected that the Bank will expand its network with 2 more Banking centres, 1 each in Nicosia and Paphos. In addition, the Bank will strengthen its back office support operations investing in human capital and procedures in various areas.

Results

The Bank's results for the year are set out on page 7. The Board of Directors does not recommend the payment of dividend and the net profit for the year is retained.

Share capital

There were no changes in the Bank's share capital in the year ended 31 December 2009.

Capital adequacy

The capital adequacy of the Bank as of 31 December 2009, as disclosed in Note 3.3 of the financial statements, stands at 11,3% and the minimum requirement in accordance with the "Directive to banks for the calculation of capital requirements and large exposures of 2006 and 2007" is 8%.

Board of Directors

The members of the Board of Directors of the Bank at 31 December 2009 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2009 and up to the date of this report.

Bank Management

The Bank's Executive Committee as at 31 December 2009 and at the date of this report is shown on page 1.

Events after the balance sheet date

In the context of a group reorganisation, the Bank will undertake the assets and liabilities of the company Eurocredit Retail Services Limited, a group related company, incorporated in Cyprus. The reorganisation is subject to approval by the shareholders and creditors of Eurocredit Retail Services Limited and to court approval under the provisions of Cap.113, Articles 198-200. The financial effect of this proposed reorganisation cannot be currently assessed. The total assets and net liabilities of Eurocredit Rental Services Limited as of 31 December 2009 based on its audited financial statements amount to €2.285 thousand and €8.159 thousand respectively.

On 25 February 2010 the Bank proceeded with a new share capital increase. The increase comprised the issue of 100 new shares in the capital of the Bank to EFG New Europe Holding B.V. of nominal value €10.000 and issuance price of €600.000 per share, amounting to a total of €60 million.

Report of the Board of Directors (continued)

Events after the balance sheet date (continued)

On 31 March 2010 EFG Eurobank Ergasias S.A. extended to the Bank a subordinated loan of €40 million.

During 2010, the Greek Government debt credit spreads have deteriorated significantly. The macroeconomic risks affecting the Bank and the measures announced by the Greek Government in 2010 to address the increased fiscal deficits are analysed in Note 3.1.4.

Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Michalis Louis
Executive Director

Nicosia, 27 April 2010

PRICEWATERHOUSECOOPERS

INVESTORS IN PEOPLE

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Independent Auditor's Report
To the Members of Eurobank EFG Cyprus Ltd

Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank EFG Cyprus Ltd (the "Company") on pages 7 to 70 which comprise the balance sheet as at 31 December 2009 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 notes.

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 (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eurobank EFG Cyprus Ltd as at 31 December 2009, 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 EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company'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 on pages 2 to 4 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 156 of the Cyprus Companies Law, Cap. 113 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.

PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 27 April 2010

Eurobank EFG Cyprus Ltd

Income statement
for the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
Interest income	5	**735.625**	166.395
Interest expense	5	**(597.753)**	(140.536)
Net interest income		**137.872**	25.859
Banking fee and commission income	6	**3.382**	1.808
Banking fee and commission expense	6	**(27.990)**	(552)
Net banking fee and commission (expense)/income		**(24.608)**	1.256
Net trading income	7	**766**	2.966
Gains less losses from investment securities	8	**45.474**	-
Dividend income		**553**	9
Operating income		**160.057**	30.090
Staff costs	9	**(6.204)**	(4.571)
Other operating expenses	10	**(5.272)**	(2.268)
Profit from operations before provisions		**148.581**	23.251
Provisions for impairment of loans and advances		**(19.624)**	(321)
Profit before tax		**128.957**	22.930
Tax	11	**(8.954)**	(2.373)
Profit for the year / period		**120.003**	20.557

The notes on pages 12 to 70 are an integral part of these financial statements.

Eurobank EFG Cyprus Ltd

Statement of comprehensive income
for the year ended 31 December 2009

	Year ended 31 December 2009 €'000		Period ended 31 December 2008 €'000	
Profit for the year / period		**120.003**		20.557
Other comprehensive income:				
Net losses on available for sale financial assets (Note 16)				
-Unrealised net losses during the year/period, net of tax	**(41.540)**		(20.622)	
-Net reclassifications adjustments for realised net losses, net of tax	**(28.698)**	**(70.238)**	(14.216)	(34.838)
Other comprehensive loss for the year / period, net of tax		**(70.238)**		(34.838)
Total comprehensive income / (loss) for the year / period		**49.765**		(14.281)

The notes on pages 12 to 70 are an integral part of these financial statements.

Eurobank EFG Cyprus Ltd

Balance sheet
at 31 December 2009

	Note	2009 €'000	2008 €'000
Assets			
Cash and balances with central banks	12	**25.161**	10.762
Loans and advances to banks	13	**12.920.562**	10.746.502
Loans and advances to customers	15	**3.766.493**	1.251.736
Derivative financial instruments	14	**8.466**	4.319
Available-for-sale financial assets	16	**2.901.683**	1.469.693
Debt securities lending	17	**935.781**	212.468
Held-to-maturity investments	18	**669.378**	-
Property, plant and equipment	19	**4.068**	3.066
Intangible assets	20	**1.549**	1.403
Other assets	21	**257**	2.966
Total assets		**21.233.398**	13.702.915
Liabilities			
Due to other banks	22	**15.241.152**	7.919.244
Repurchase agreements with banks	22	**4.060.320**	4.652.262
Due to customers	23	**1.586.343**	922.055
Derivative financial instruments	14	**103.955**	18.080
Other liabilities	24	**3.856**	2.707
Retirement benefit obligations	9	**4.904**	5.464
Total liabilities		**21.000.530**	13.519.812
Equity			
Share capital	25	**11.000**	11.000
Share premium	25	**186.384**	186.384
Other reserves		**(105.076)**	(34.838)
Retained earnings		**140.560**	20.557
Total equity		**232.868**	183.103
Total equity and liabilities		**21.233.398**	13.702.915

On 27 April 2010 the Board of Directors of Eurobank EFG Cyprus Ltd authorised the issuance of these financial statements.

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 12 to 70 are an integral part of these financial statements.

Eurobank EFG Cyprus Ltd

Statement of changes in equity for the year ended 31 December 2009

	Note	Share capital €'000	Share premium €'000	Available-for-sale revaluation reserve €'000	Retained earnings €'000	**Total €'000**
Comprehensive income:						
Net gains on available for sale financial assets:						
-Unrealised net losses during the period, net of tax	16	-	-	(20.622)	-	**(20.622)**
-Net reclassifications adjustments for realised net losses, net of tax	16	-	-	(14.216)	-	**(14.216)**
Other comprehensive loss for the period, net of tax		-	-	(34.838)	-	**(34.838)**
Profit for the period		-	-	-	20.557	**20.557**
Total comprehensive income for the period 2008		-	-	(34.838)	20.557	**(14.281)**
Transactions with owners						
Issue of shares on incorporation	25	10	-	-	-	**10**
Share capital increases	25	10.990	186.384	-	-	**197.374**
		11.000	186.384	-	-	**197.384**
Balance at 31 December 2008		**11.000**	**186.384**	**(34.838)**	**20.557**	**183.103**
Balance at 1 January 2009		11.000	186.384	(34.838)	20.557	**183.103**
Comprehensive income:						
Net losses on available for sale financial assets:						
-Unrealised net losses during the year, net of tax	16	-	-	(41.540)	-	**(41.540)**
-Net reclassifications adjustments for realised net losses, net of tax	16	-	-	(28.698)	-	**(28.698)**
Other comprehensive loss for the year, net of tax		-	-	(70.238)	-	**(70.238)**
Profit for the year		-	-	-	120.003	**120.003**
Total comprehensive income for the year 2009		-	-	(70.238)	120.003	**49.765**
Balance at 31 December 2009		**11.000**	**186.384**	**(105.076)**	**140.560**	**232.868**

The notes on pages 12 to 70 are an integral part of these financial statements.

Eurobank EFG Cyprus Ltd

Statement of cash flows
for the year ended 31 December 2009

	Note	**2009 €'000**	2008 €'000
Net cash flow from operating activities	28	**5.411.144**	3.951.028
Cash flows from investing activities			
Purchases of available-for-sale financial assets	16	**(3.817.535)**	(1.490.315)
Disposals and redemptions of available-for-sale financial assets		**2.401.468**	-
Interest received on available-for-sale financial assets		**114.335**	2.792
Purchase of debt securities lending		**(991.524)**	(212.468)
Interest received on debt security lending		**13.341**	469
Purchase of held-to-maturity investments		**(729.155)**	-
Disposals and redemptions of held-to-maturity investments		**85.258**	-
Interest received on held-to-maturity investments		**3.636**	-
Purchases of property, plant and equipment	19	**(1.492)**	(2.150)
Purchases of Intangible assets	20	**(589)**	(555)
Disposal and redemption of debt security lending		**286.240**	-
Acquisition of business under common control net of cash acquired	32 (iii)	**-**	173.934
Net cash flow used in investing activities		**(2.636.017)**	(1.528.293)
Cash flows from financing activities			
Issue of ordinary shares	25	**-**	150.010
Net cash flow from financing activities		**-**	150.010
Net increase in cash and cash equivalents		**2.775.127**	2.572.745
Cash and cash equivalents at beginning of year / period		**2.572.745**	-
Cash and cash equivalents at end of year / period	28	**5.347.872**	2.572.745

The notes on pages 12 to 70 are an integral part of these financial statements.

Eurobank EFG Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

Eurobank EFG Cyprus Limited ("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 Avenue, 5^{th} 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.

Following the approval from the Central Bank of Cyprus on 11 March 2008 to carry out banking services through the operation of a Cyprus subsidiary company and in accordance with the Transfer of Banking Business and Securities Law 64 (I)/1997, as amended (the 'Transfer Law') N 118(I)/2002 (as amended) articles 26-30, the assets and activities of the EFG Eurobank Ergasias S.A. – Cyprus Branch (the "Branch") were transferred to Eurobank EFG Cyprus Ltd on 26 March 2008.

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 Eurobank EFG Cyprus Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

The financial statements comprise the income statement and statement of comprehensive income showing as two statements, the balance sheet, the statement of changes in equity, the cash flow statement and the notes.

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts which have been measured at fair value.

The Bank classifies its expenses by the nature of expense method.

The financial statements are presented in Euros, which is the Bank's functional and presentation currency. The figures shown in the financial statements are stated in Euro thousands unless otherwise stated.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Notes 3, 29, 30 and 31.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Cash and cash equivalents comprise cash in hand and current accounts and placements with banks, including Central Banks, that mature within three months of the balance sheet date, other than mandatory reserves.

The cash flows from operating activities are determined by using the indirect method.

Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid are classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Banks business model (management approach).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.

Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. 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 4.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2009 have been adopted 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.

In addition, the following interpretations have been endorsed, however their effective dates are not the same, although an entity may choose to early adopt them:

(i) IFRIC 12 "Service Concession Arrangements";

(ii) IFRIC 15 "Agreements for the construction of real estate"; and

(iii) IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS

2.2.1 Standards, amendments and interpretations effective on or after 1 January 2009

During the current year the Bank adopted all the new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2009. This adoption did not have a material effect on the accounting policies of the Bank or the Bank's financial statements, with the exception of the following:

(i) IAS 1 (revised), 'Presentation of financial statements'. A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

(ii) Amendments to IFRS 7, 'Financial instruments: Disclosures'. The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the balance sheet or the comprehensive income of the Bank.

2.2.2 Standards and interpretations issued but not yet effective

At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

(i) Adopted by the European Union

New standards

- IFRS 3 (Revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009).
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).
- IFRS 1 (Revised) "First Time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 July 2009).

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

2.2.2 Standards and interpretations issued but not yet effective (continued)

(i) Adopted by the European Union (continued)

Amendments

- Annual improvements to IFRS (2008) re IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" on "Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives (effective for annual periods beginning on or after 30 June 2009).
- Amendments to IAS 32 "Financial Instruments: Presentation: Classifications of Rights Issues" (effective for annual periods beginning on or after 1 February 2010).
- Annual Improvements 2009 (effective for annual periods beginning on or after 1 July 2009 to 1 January 2010).
- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2010).

New IFRICs

- International Financial Reporting Interpretation Committee (IFRIC) 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008, EU: 30 March 2009).
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009, EU: 31 December 2009).
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008, EU: 30 June 2009).
- IFRIC 17 "Distributions of Non cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009).

(ii) Not adopted by the European Union

New standards

- IAS 24 (Revised) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

2.2.2 Standards and interpretations issued but not yet effective (continued)

(ii) Not adopted by the European Union (continued)

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The key features of the new standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January, 2013, earlier adoption is permitted.

  The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank, subject to endorsement by the EU.

Amendments

- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).
- Amendments to IFRS 1 "Additional Exemptions for First-time Adopters" (effective for annual periods beginning on or after 1 January 2010).

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

2.2.2 Standards and interpretations issued but not yet effective (continued)

(ii) Not adopted by the European Union (continued)

Amendments

- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters" (effective for annual periods beginning on or after 1 July 2010).

New IFRICs

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Bank with the exception of the adoption of IFRS 9 as explained above.

2.3 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.

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 separately accounted for at fair value with changes in fair value recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.3 Derivative financial instruments and hedge accounting (continued)

The method of recognising 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 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 or cash flows of hedged items.

(a) 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. The Bank only applies fair value hedge accounting for hedging fixed interest rate risk and currency risk on bonds classified as available-for-sale financial assets or as debt securities lending with the use of interest rate swaps and cross-currency interest rate swaps. The net result is included as hedge ineffectiveness in gains less losses on derivative financial instruments.

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 amortised to the income statement over the period to maturity.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify 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 'Gains less losses on derivative financial instruments'.

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

Gains less losses arising from early settlement of derivative financial instruments used for hedging, as a result of the disposal of the available-for-sale financial assets whose fair value interest rate was being hedged, are included in 'Gains less losses from investment securities'.

2 Summary of significant accounting policies (continued)

2.4 Sale and repurchase agreements and securities lending

(a) 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 under repo are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. 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 life of the agreements using the effective interest method.

(b) Securities lending

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognized 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.

2.5 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the income statement using the effective interest method.

The effective interest 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 relevant period. 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 (for example, prepayment options) 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.

2.6 Fees and commissions

Fees and commissions are generally recognised in the income statement on an accrual basis when the service has been provided.

Commissions and fees relating to foreign exchange transactions, private banking activities, remittances and bank charges are recognised on the completion of the underlying transaction.

2 Summary of significant accounting policies (continued)

2.7 Dividend income

Dividends are recognised in the income statement within “Dividend income” when the Bank’s right to receive payment is established.

2.8 Employee benefits

The Bank and the employees contribute to the Government Social Insurance Fund based on employees’ salaries.

In addition, the Bank operates a defined benefit scheme the assets of which are held by the Bank, and hence, do not qualify as plan assets. The scheme provides for a lump sum payment upon retirement taking into account the years of service and salary of each employee. The scheme is currently unfunded.

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.

Actuarial gains or losses that arise in calculating the Bank’s obligation are charged directly in the income statement for the period in full.

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 Europe, given Cyprus’ accession to the Eurozone as of 1 January 2008.

2.9 Foreign currency translation

2.9.1 Functional and presentation currency

Items included in the 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.

2.9.2 Transactions and balances

Foreign currency transactions that are transactions denominated, or that 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 foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. 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.

2 Summary of significant accounting policies (continued)

2.9 Foreign currency translation (continued)

2.9.2 Transactions and balances (continued)

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. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised 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 equity. 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 the fair value reserve in equity.

2.10 Taxation

2.10.1 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 credit to other comprehensive income or to equity (for example, current tax on of available-for-sale investment).

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretations and establishes provisions 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 balance sheet.

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

2 Summary of significant accounting policies (continued)

2.10 Taxation (continued)

2.10.2 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 and subsequently in the income statement together with the deferred gain or loss.

2.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance of property, plant and equipment are charged to the income statement during the financial year in which they are incurred.

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

	Useful economic life
Motor vehicles	5,0 years
Furniture, fixtures and office equipment	6,7 years
Leasehold property improvements	12,0 years
Computer Hardware	4,2 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

2 Summary of significant accounting policies (continued)

2.11 Property, plant and equipment (continued)

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.

2.12 Computer software

Acquired computer software licenses 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 10% to 24%.

2.13 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments 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.

2.14 Impairment of non-financial assets

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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned category.

2.15.1 Financial assets

The Bank allocates financial assets to 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.

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

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

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.1 Financial assets (continued)

A financial asset is classified as held for trading if it is acquired for the purpose of selling it in the near term or if 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. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the balance sheet as ‘Financial assets held for trading’.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as ‘Net trading income. Interest income and expense and dividend income and expenses on financial assets held for trading are included in ‘Net interest income’ or ‘Dividend income’, respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

• the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or

• the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or

• the financial assets consists of debt host and an embedded derivatives that must be separated.

Financial assets for which the fair value option is applied are recognised in the balance sheet as ‘Financial assets designated at fair value’. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in ‘Net gains on financial instruments designated at fair value through profit or loss’.

(b) 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;

(b) those that the Bank upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.1 Financial assets (continued)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers and as debt securities lending.

Interest on loans is included in the income statement and is reported as ‘Interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as ‘Provisions for impairment of loans and advances’.

(c) 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.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as ‘Interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as ‘Gains less losses from investment securities’.

(d) 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.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.1 Financial assets (continued)

(d) Available-for-sale financial assets (continued)

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

(e) Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the balance sheet within the relevant category and are disclosed as 'Assets pledged as collateral' in the relevant notes, if the transferee has the right to sell or repledge them.

2.15. 2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value), financial liabilities at amortised cost and hedging derivatives. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss
This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability 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 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. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the balance sheet as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Gain less losses on derivative financial instruments '. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

Financial liabilities for which the fair value option is applied are recognised in the balance sheet as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net trading income'.

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.2 Financial liabilities (continued)

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, and amounts payable under repurchase agreements.

2.15.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the balance sheet.

The Bank uses widely recognised valuation models for determining fair values of nonstandardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable. For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.4, if applicable.

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on theses liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.3 Determination of fair value (continued)

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the balance sheet. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary –particularly in view of the current market developments.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or other procedures such as Monte Carlo simulation.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers for disclosure purposes are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.15.4 Recognition of deferred day-one profit and loss

The best evidence of fair value at initial recognition is the transaction price (that is, 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 (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Bank has entered into transactions, some of which will mature after more than 10 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as ‘day one profit and loss’, is not recognised immediately in the income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without immediate reversal of deferred day one profits and losses.

2 Summary of significant accounting policies (continued)

2.15 Financial assets and liabilities (continued)

2.15.5 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 they have been redeemed or otherwise extinguished.

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. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

2.15.6 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Any reclassifications of bonds from available-for-sale category to loans and receivables are included in the balance sheet as “debt securities lending” (Note 17). No reclassifications have been made in the year ended 31 December 2009 (2008: None).

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively. Any previous gain or loss on assets reclassified that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest method.

On reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2 Summary of significant accounting policies (continued)

2.16 Impairment of financial assets

2.16.1 Assets carried at amortised cost

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 only 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.

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:

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

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.

2 Summary of significant accounting policies (continued)

2.16 Impairment of financial assets (continued)

2.16.1 Assets carried at amortised cost (continued)

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.

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. 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 “provisions for impairment of 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’.

2.16 Impairment of financial assets (continued)

2.16.1 Assets carried at amortised cost (continued)

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.

2.16.2 Assets classified as available for sale

The Bank assesses at each date of the balance sheet whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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 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.

2.17 Provisions

Provisions for restructuring costs and legal claims 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 has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 recognised as interest expense.

2.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current accounts and placements with banks, including Central Banks, that mature within three months of the balance sheet date, other than mandatory reserves.

2 Summary of significant accounting policies (continued)

2.19 Share capital

Ordinary shares including share premium are classified as equity and they are recorded at the amount received from the issue.

2.20 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.

2.21 Financial guarantee contracts

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.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm’s length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank’s liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee.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 reported in the income statement within other operating expenses.

2.22 Business combinations under common control transactions

Business combinations involving entities or businesses under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted using the predecessor basis of accounting. Under this method, the financial statements of the acquiree are included in the financial statements using pre-acquisition IFRS carrying amounts using uniform accounting policies. The excess of the cost of acquisition over the carrying amount of the Company’s share of identifiable net assets acquired, including goodwill, arising at the date on which the transaction occurs, is recorded in equity in retained earnings. The acquired entity’s or business’ results are incorporated from the date on which the transaction occurs.

3 Financial risk management

3.1 Use of financial instruments and financial risk factors

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 Board of Directors' Risk Committee (Eurobank Risk Committee - ERC) 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.

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk and interest rate 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.

3.1.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will default in the repayment of their obligations to the Bank in respect of the credit facilities granted to them by the Bank. 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 at group level carefully manages its exposure to credit risk.

The Bank minimises the risk by spreading its loan portfolio over all economic sectors (Note 3.1.1.1) and by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

In addition there are limits to the level of lending that the Bank’s Management can authorise. Facilities higher than these limits are authorized and monitored by EFG Eurobank Ergasias S.A..

3 Financial risk management (continued)

3.1 Use of financial instruments and financial risk factors (continued)

3.1.1 Credit risk (continued)

Credit risk measurement and management - investment securities and derivatives

The Bank holds lien agreements issued by EFG 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 EFG 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 EFG Eurobank Ergasias S.A with cash collateral balances in place to cover the entire carrying amount of these investment securities.

All derivative financial instruments held by the Bank are with EFG Eurobank Ergasias S.A, and as such the Bank considers that these carry the credit risk of EFG Eurobank Ergasias S.A, and 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.

Credit risk measurement – Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations, (ii) current exposure to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations ('the loss given default').

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:

- 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 from parent company.

The Bank policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Materiality thresholds are set by management.

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.

3 Financial risk management (continued)

3.1 Use of financial instruments and financial risk factors (continued)

3.1.1 Credit risk (continued)

3.1.1.1. Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum credit risk exposures relating to on and off balance sheet assets as at 31 December 2009 and 2008 before collateral held or other credit enhancements are as follows:

	2009 €'000	2008 €'000
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	12.920.562	10.746.502
Loans and advances to customers:		
- Wholesale lending	3.757.674	1.242.338
- Consumer lending	1.133	2.968
- Mortgage lending	7.686	6.430
Derivative financial instruments	8.466	4.319
Available-for-sale investments debt securities	2.862.375	1.444.093
Held-to-maturity investments	669.378	-
Debt securities lending	935.781	212.468
Other assets	133	582
Total	**21.163.188**	13.659.700
Credit risk exposures relating to off-balance sheet items (Note 27):		
Guarantees and LCs	33.330	7.870
Approved unutilised credit facilities	55.429	82.007
Total	**88.759**	89.877

For on-balance sheet-assets, the maximum credit risk exposure to credit risk set out above is based on the net carrying amounts as reported in the balance sheet.

3.1.1.2 Debt securities

The table below presents an analysis of debt securities by rating agency designation as at 31 December 2009 and as at 31 December 2008 based on Moody's ratings or their equivalent:

	At 31 December 2009				
	Loans and advances to banks €'000	Available-for-sale securities €'000	Held-to-maturity investments €'000	Debt securities lending €'000	**Total €'000**
Aaa	-	170.715	-	-	**170.715**
Aa1 to Aa3	3.163.063	20.887	96.797	-	**3.280.747**
A1 to A3	1.651.232	1.962.202	572.581	732.525	**4.918.540**
Lower than A3	-	708.358	-	185.208	**893.566**
Unrated (1)	2.356.382	213	-	18.048	**2.374.643**
Total	**7.170.677**	**2.862.375**	**669.378**	**935.781**	**11.638.211**

3 Financial risk management (continued)

3.1.1.2 Debt securities (continued)

	At 31 December 2008				
	Loans and advances to banks €'000	Available-for-sale securities €'000	Held-to-maturity investments €'000	Debt securities lending €'000	**Total €'000**
Aaa	-	43.588	-	-	**43.588**
Aa1 to Aa3	4.175.261	9.153	-	-	**4.184.414**
A1 to A3	-	1.326.821	-	158.644	**1.485.465**
Lower than A3	-	21.411	-	10.375	**31.786**
Unrated (1)	1.096.980	43.120	-	43.449	**1.183.549**
Total	**5.272.241**	**1.444.093**	**-**	**212.468**	**6.928.802**

(1) The credit quality of unrated debt securities classified as loans and advances to banks is considered to be equivalent to the credit rating of EFG Eurobank Ergasias S.A. (Long-term Deposits rating: A2 (Moody's) in 2009 (A1 (Moody's in 2008) since there are lien agreements with EFG Eurobank Ergasias S.A. for these debt securities (Note 32(ii)). As at date of finalization of the financial statements the Long-term Deposits rating was A3.

3.1.1.3 Concentration of credit risk

(a) Industry sectors

The maximum credit risk exposures of balance sheet assets as categorised by the industry sectors of the Bank's counterparties as at 31 December 2009 and as at 31 December 2008 are as follows:

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
Loans and advances to banks	-	-	12.920.562	-	-	-	-	**12.920.562**
Loans and advances to customers:								
- Wholesale lending	-	1.202.737	2.069.154	135.428	149.551	169.237	31.567	**3.757.674**
- Consumer lending	-	-	-	1.133	-	-	-	**1.133**
- Mortgage lending	-	-	-	7.686	-	-	-	**7.686**
Debt securities lending	867.192	-	68.589	-	-	-	-	**935.781**
Available-for-sale debt securities	2.445.858	21.996	353.678	-	-	40.843	-	**2.862.375**
Held-to-maturity investments	669.378	-	-	-	-	-	-	**669.378**
Derivative financial instruments	-	-	8.466	-	-	-	-	**8.466**
Other assets	-	-	-	-	-	-	133	**133**
As at 31 December 2009	**3.982.428**	**1.224.733**	**15.420.449**	**144.247**	**149.551**	**210.080**	**31.700**	**21.163.188**

3 Financial risk management (continued)

3.1.1.3 Concentration of credit risk (continued)

(a) Industry sectors (continued)

	Sovereigns	Commerce & Services	Banks & financial institutions	Private individuals	Constru-ction	Manufa-cturing	Other	**Total**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**
Loans and advances to banks	-	-	10.746.502	-	-	-	-	**10.746.502**
Loans and advances to customers:								
- Wholesale lending	-	300.147	752.683	33.776	70.551	37.065	48.116	**1.242.338**
- Consumer lending	-	-	-	2.968	-	-	-	**2.968**
- Mortgage lending	-	-	-	6.430	-	-	-	**6.430**
Debt securities lending	212.468	-	-	-	-	-	-	**212.468**
Available-for-sale debt securities	1.388.827	-	55.266	-	-	-	-	**1.444.093**
Held-to-maturity investments		-	-	-	-	-	-	-
Derivative financial instruments		-	4.319	-	-	-	-	**4.319**
Other assets		-	-	-	-	-	582	**582**
As at 31 December 2008	**1.601.295**	**300.147**	**11.558.770**	**43.174**	**70.551**	**37.065**	**48.698**	**13.659.700**

3 Financial risk management (continued)

3.1.1.3 Concentration of credit risk (continued)

(b) Geographical sectors

The following table breaks down the Bank's credit exposure at their carrying amounts, as categorised by geographical region as at 31 December 2009.

For this table, the Bank has allocated exposures to regions based on the country of domicile of counterparties.

	Greece €'000	Cyprus €'000	Other Western European countries €'000	New Europe countries €'000	Other countries €'000	**Total €'000**
Loans and advances to banks	12.920.286	269	7	-	-	**12.920.562**
Loans and advances to customers:						
- Wholesale lending	2.228.317	498.945	855.380	114.714	60.318	**3.757.674**
- Consumer lending	-	1.133	-	-	-	**1.133**
- Mortgage lending	-	7.686	-	-	-	**7.686**
Debt securities lending	743.587	-	54.417	123.605	14.172	**935.781**
Available-for-sale debt securities	1.990.027	-	523.124	37.114	312.110	**2.862.375**
Held-to-maturity investments	572.581	96.797	-	-	-	**669.378**
Derivative financial instruments	8.466	-	-	-	-	**8.466**
Other assets	-	133	-	-	-	**133**
As at 31 December 2009	**18.463.264**	**604.963**	**1.432.928**	**275.433**	**386.600**	**21.163.188**

	Greece €'000	Cyprus €'000	Other Western European countries €'000	New Europe countries €'000	Other countries €'000	**Total €'000**
Loans and advances to banks	10.746.006	496	-	-	-	**10.746.502**
Loans and advances to customers:						
- Wholesale lending	15.423	315.985	53.611	832.513	24.806	**1.242.338**
- Consumer lending	-	1.738	1.230	-	-	**2.968**
- Mortgage lending	-	6.430	-	-	-	**6.430**
Debt securities lending	212.468	-	-	-	-	**212.468**
Available-for-sale debt securities	1.075.782	-	220.303	21.472	126.536	**1.444.093**
Held-to-maturity investments	-	-	-	-	-	**-**
Derivative financial instruments	4.319	-	-	-	-	**4.319**
Other assets	-	582	-	-		**582**
As at 31 December 2008	**12.053.998**	**325.231**	**275.144**	**853.985**	**151.342**	**13.659.700**

3 Financial risk management (continued)

3.1.1.4 Credit quality

As at 31 December 2009 loans and advances to customers of the Bank amounting to €11.796 thousand (2008: €101 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These receivables are up to 3 months. The fair value of the collaterals for these receivables is €65.9 million (2008: €1.9 million).

A provision for loans and advances to customers amounting to €19.624 thousand (2008: €321 thousand) was recognised in the income statement which related to large corporate loans.

The majority of placements with banks are held with EFG Eurobank Ergasias S.A. which as at 31 December 2009 and 2008 had a Long-term Bank Deposits rating of A2 (Moody's) and A1 (Moody's) respectively. Also for many of the loans receivable and bonds, there are lien agreements between the Bank and EFG Eurobank Ergasias S.A. (Note 32(ii)).

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 satisfactory as at 31 December 2009 and 2008.

3.1.2 Market risk

Market risk is the risk of loss arising from adverse movements in interest rates, currency and equity products.

The Bank's monitoring of market risk is performed by EFG Eurobank Ergasias S.A. 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.

Actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in VaR calculation.

3.1.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Bank's functional currency. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial positions and cash flows. The Bank generally hedges against currency risk by placing foreign currency deposits into placements with matching currency.

In the normal course of business, certain currency mismatches may arise despite their daily monitoring by both EFG Eurobank Ergasias S.A. and the Bank's management.

3 Financial risk management (continued)

3.1.2 Market risk (continued)

3.1.2.2 Interest rate risk

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. The Bank's placements, takings and loans and receivables, which carry variable rates, expose the Bank to cash flow interest rate risk.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes which may increase losses in the event that unexpected adverse movements arise.

The interest rate risk associated with these financial instruments is minimal because substantially all interest-bearing financial assets are appropriately matched with interest bearing financial liabilities. In the course of business technical mismatches arise. For these mismatches, the Board's Risk Committee (ERC) at EFG Eurobank Ergasias S.A. level, sets limits on the level of mismatch interest rate reprising that may be undertaken and exposures are monitored daily .

The Bank also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising on bonds classified as available-for-sale financial assets or as debt securities lending.

3.1.2.3 Equity 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 risk that the Bank undertakes, arises mainly from available-for-sale financial assets. The ERC sets limits on the level of the exposures which are monitored daily.

3.1.2.4 VaR summary

In 2009 market risk is managed and monitored using Value at Risk (VaR) methodology. Market risk in 2008 was managed and monitored using mainly sensitivity analyses. The exposures to interest rate risk and currency risk and relevant sensitivity analysis for 2008 are disclosed in Notes 29 and 30.

VaR is a methodology used in measuring financial risk by estimating the potential negative in the market value of 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.

3 Financial risk management (continued)

3.1.2 Market risk (continued)

3.1.2.4 VaR summary (continued)

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 validity of the assumptions and the parameters used in the VaR calculation.

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 type of risk type (trading and investment portfolios)

	2009
	€'000
Interest Rate Risk	13.782
Foreign Exchange Risk	-
Equities Risk	1.446
Total VaR	**14.115**

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.

3.1.3 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 risks on its available cash resources. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets 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 interest rates and exchange rates.

The Bank's management considers the matching of assets and liabilities maturity dates as fundamental. Rarely do maturity dates of assets and liabilities within banking organisations, exactly match, as the products offered and the payment/deposit terms vary.

The table in Note 31 analyses the contractual undiscounted cash flows of the liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

3 Financial risk management (continued)

3.1.4 Financial and operating risks

During 2009 and 2010, the Greek Government debt credit spreads have deteriorated significantly. The macroeconomic risks affecting the Bank and the measures announced by the Greek Government in 2010 are under close review by the Bank. In this environment, the Bank remains profitable adjusting continuously to the new requirements and improving continuously the effectiveness of its balance sheet management and reinforcing its capital and liquidity

3.2 Off balance sheet instruments

In common with other banks, the Bank conducts business involving guarantees, documentary letters of credit and acceptances (Note 27).

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.

3.3 Capital risk management

	2009 €'000	2008 €'000
Ordinary shareholders' equity	231.319	181.700
Less: other regulatory adjustments	-	(28.937)
Total Tier 1 capital	**231.319**	152.763
Risk Weighted Assets	**2.056.688**	1.681.361
Capital Adequacy Ratio	**11,3%**	9,1%

	2009 **%**	2008 %
Ratios:		
Core Tier 1	**11,3**	10,8
Tier 1	**11,3**	9,1
Capital Adequacy Ratio	**11,3**	9,1

Tier 1 capital represents ordinary share capital, share premium and reserves less intangible assets as at 31 December.

3 Financial risk management (continued)

3.3 Capital risk management (continued)

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.

3.4 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 rated 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 with the exceptions of debt securities lending securities and held-to-maturity investments. Debt securities lending are hedged for fair value interest rate risk using interest rate swaps. Therefore, their carrying amount is not significantly different from fair value. The fair value of held-to-maturity investments as of 31 December 2009 amounts to €675.923 thousand. 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.

c) IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or non observable. Observable inputs reflect market data obtained from independent sources; non observable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

   i) Level 1 - Inputs must be quoted prices in active markets. Quoted prices must be readily and regularly available from an exchange or active index/market location (e.g. ASE, NYSE) 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.

3 Financial risk management (continued)

3.4 Financial assets and liabilities measured at fair value (continued)

ii) Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices). Inputs are observable for substantially the full term of the instrument. This level includes the majority of the OTC derivative contracts and some available-for-sale financial assets. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

iii) Level 3 - Inputs for the asset or liability that are not based on observable market data (non observable inputs). This level includes equity instruments and debt instruments with significant non observable components which may include information derived through extrapolation and not corroborated by observable data. Inputs generally reflect the entity's own assumption about the market.

The classification of the Bank's financial assets and liabilities using the fair value hierarchy as at 31 December 2009 is presented in the following table:

At 31 December 2009	Quoted prices in active market (Level 1) €'000	Valuation technique observable parameters (Level 2) €'000	Valuation technique non observable parameters (Level 3) €000	**Total €'000**
Financial assets measured at fair value:				
Derivative financial instruments	-	8.466	-	**8.466**
Available for sale investment securities	2.660.581	241.102	-	**2.901.683**
Total financial assets	**2.660.581**	**249.568**	-	**2.910.149**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	103.955	-	**103.955**
Total financial liabilities	**-**	**103.955**	-	**103.955**

4 Significant accounting judgements and estimates

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) 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 judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with 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.

(b) Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

4 Significant accounting judgements and estimates (continued)

(c) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(d) Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost. The fair value of held-to-maturity investments as of 31 December 2009 was €675.923 thousand.

During the year, the Bank sold 5% of its held-to-maturity portfolio. Management has assessed that the portion of the held-to-maturity portfolio which was disposed was not more than an insignificant amount of the portfolio held and as such, management has concluded that this did not trigger any tainting implications for the held-to-maturity portfolio.

(e) Debt securities lending

In accordance with IAS39 guidance, the Bank has classified some non-derivative financial assets with fixed or determinable payments and fixed maturity as loans and receivables, in the category “debt securities lending” following assessment that the market on which these debt securities were listed was not active at the time of the acquisition of these bonds. The assessment as to whether the market for these debt securities was inactive at the time of the acquisition of these bonds involves significant judgement. The fair value of debt securities lending as of 31 December 2009 was €909.152 thousand.

5 Net interest income

	2009	2008
	€'000	€'000
Interest income		
Interest from loans and advances to customers	**151.688**	38.968
Interest from available-for-sale investments	**125.019**	2.792
Interest from debt securities lending	**31.370**	469
Interest from other banks	**339.480**	118.822
Interest from interest rate swaps	**59.601**	2.233
Interest from other derivatives	**564**	174
Interest from reverse repurchase agreements	**1.143**	-
Interest from held to maturity investments	**26.667**	-
Interest on bonds at fair value through profit or loss-held for trading	**93**	2.937
	735.625	166.395
Interest expense		
Interest on customer deposits	**(42.708)**	(23.742)
Interest on due to other banks	**(289.554)**	(89.773)
Interest on interest rate swaps	**(89.416)**	(2.423)
Interest on other derivatives	**(626)**	(167)
Interest on repurchase agreements	**(175.449)**	(24.431)
	(597.753)	(140.536)
Net interest income	**137.872**	25.859

Interest income includes €26 thousand (2008: €NIL) of interest income accrued on impaired financial assets. This represents the unwinding of discounting in accordance with IAS39.

6 Net banking fee and commission (expense) / income

	2009	2008
	€'000	€'000
Banking fee and commission income		
Bank transfer commissions	**2.176**	1.028
Other fees and commissions	**1.206**	780
	3.382	1.808
Banking fee and commission expense		
Fees on lien agreements (Note 32 (ii))	**(27.120)**	-
Other fees and commissions	**(870)**	(552)
	(27.990)	(552)
Net banking fee and commission (expense) / income	**(24.608)**	1.256

7 Net trading income

	2009	2008
	€'000	€'000
Losses on hedging instruments	**(30.607)**	(12.358)
Gains on hedged items attributable to the hedged risk (Note 16)	**28.698**	14.216
Net (losses)/gains representing ineffective portions of fair value hedges	**(1.909)**	1.858
Foreign exchange income	**2.121**	1.040
Gains less losses on financial instruments at fair value through profit or loss-held for trading	**554**	68
	766	2.966

7 Net trading income (continued)

Losses on hedging instruments include €32 million losses (2008: €12.9 million losses) on interest rate swaps and gains of €1.42million (2008: gains of €500 thousand) on currency interest rate swaps.

Gains on hedged items attributable to the hedged risk include an amount equal to €28.4million (2008: €14.5 million) arising from hedging using interest rate swaps and €322 thousand (2008: losses of €301 thousand) arising from hedging using currency interest rate swaps.

8 Gains less losses from investment securities

	2009	2008
	€'000	€'000
Gains less losses on disposal of available-for-sale financial assets	**50.909**	-
Gains less losses on disposal of held-to-maturity financial assets	**2.450**	-
Losses on unwinding of hedging instruments following disposal of hedged available-for-sale financial assets	**(7.885)**	-
	45.474	**-**

9 Staff costs

	2009	2008
	€'000	€'000
Salaries and staff bonuses	**5.160**	2.788
Social insurance and other costs	**795**	248
Directors' fees and remuneration	**833**	696
Retirement benefit costs – defined benefits scheme	**(584)**	839
	6.204	4.571

The average number of employees of the Bank during the year was 103 (2008: 65).

According to the actuarial valuation conducted for the year ended 31 December 2009, the amounts appearing in the balance sheet of the Bank are as follows:

	2009	2008
	€'000	€'000
Present value of the obligation – unfunded	**4.904**	5.464
Retirement benefit obligations recognised in balance sheet	**4.904**	5.464

The principal actuarial assumptions used for the actuarial valuation were:

	2009	2008
	%	%
Discount rate of obligations	**5,50**	5,25
Future salary increases	**4,00**	5,00
Future price inflation	**2,00**	2,50
Average future working life	**26,11**	26,39

9 Staff costs (continued)

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

	2009	2008
	€'000	€'000
Service cost	544	282
Interest cost	287	131
Net actuarial (gain)/loss recognised in the year/period	(1.464)	(141)
Past service cost	49	567
Total income statement (credit)/ charge	(584)	839

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

	2009	2008
	€'000	€'000
Liability at the beginning of year/period	5.464	-
Liability transferred from Branch [Note 32(iii)]	-	3.733
Current service cost	544	281
Interest cost	287	131
Actuarial (gains)/losses	(1.464)	(140)
Net benefits paid out	(93)	-
Past service cost	49	567
Other (1)	117	892
	4.904	5.464

(1) The amount of €117K (2008: €892K) represents past service obligations for the members of staff following their transfer from their previous employers and was placed by these members of staff on their commencement of employment with the Bank.

10 Other operating expenses

	2009	2008
	€'000	€'000
Depreciation of property, plant and equipment (Note 19)	490	240
Amortisation of computer software (Note 20)	443	171
Operating lease rentals	541	211
Repairs and maintenance	637	254
Auditors' remuneration	126	122
Professional fees	646	527
Advertising and promotion	854	170
Other administrative expenses	1.535	573
	5.272	2.268

11 Tax

	2009 €'000	2008 €'000
Current tax:		
Corporation tax	**8.582**	2.009
Withholding tax	**370**	48
Total current tax	**8.952**	2.057
Deferred tax charge	**2**	316
Income tax expense	**8.954**	2.373

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

	2009 €'000	2008 €'000
Profit before tax	**128.957**	22.930
Tax calculated at the applicable corporation tax rate of 10%	**12.896**	2.293
Tax effect of expenses not deductible for tax purposes	**683**	278
Tax effect of allowances and income not subject to tax	**(4.625)**	(198)
Tax charge	**8.954**	2.373

Corporation tax in Cyprus is calculated at the rate of 10% on the taxable income.

There is no income tax effect relating to components of other comprehensive income (2008: €NIL).

The movement in deferred income tax assets and liabilities (non-current) during the year, without taking into consideration the offsetting of balances within the same jurisdiction is as follows:

	Tax losses €'000	Differences between wear & tear and depreciation €'000	Total €'000
Transfer from Branch (Note 32 (iii))	(287)	42	(245)
Charged to income statement	287	29	316
Balance at 1 January 2009	-	71	71
Charged to income statement	-	2	2
Balance at 31 December 2009 (included in Other Liabilities Note 24)	**-**	**73**	**73**

12 Cash and balances with central banks

	2009	2008
	€'000	€'000
Cash in hand	1.806	989
Balances with central banks	23.355	9.773
	25.161	10.762
Out of which:		
Mandatory deposits with central banks	23.355	9.773
Included in cash and cash equivalents (Note 28)	1.806	989

	2009	2008
	€'000	€'000
Current	25.161	10.762
Non-current	-	-
	25.161	10.762

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.

13 Loans and advances to banks

	2009	2008
	€'000	€'000
Bonds held as part of assets securitisation transactions	7.170.677	5.272.241
Reverse repurchase receivables	132.696	-
Placements with other banks	5.617.189	5.474.261
	12.920.562	10.746.502
Maturity analysis		
- on demand up to 7 days	4.489.290	148.944
- between 7 days and three months	856.776	2.422.812
- between three months and one year	383.399	2.926.246
- more than one year	7.191.097	5.248.500
	12.920.562	10.746.502

As of 31 December 2009, the Bank holds bonds issued by special purpose entities (SPEs) of EFG Eurobank Ergasias S.A. incorporated for the purpose of asset securitisation transactions, amounting to €7.170.677 (2008: €5.272.241).

Bonds held as part of assets securitisation transactions are classified as loan and advances to banks as they are issued by special purpose entities of EFG Eurobank Ergasias S.A. and as a result they are considered as receivables from EFG Eurobank Ergasias S.A.

As of 31 December 2009, bonds held as part of asset securitisation transactions amounting to €4.814.274 thousand (2008: €4.175.261 thousand) are pledged as collateral in connection with repurchase agreements with EFG Eurobank Ergasias S.A. Refer to Note 22.

Placements and takings bear interest which is based on the interbank rate of the relevant term and currency.

Loans and advances to banks are categorised as loans and receivables.

14 Derivative financial instruments and hedge accounting

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 organized financial market. Since future contracts are collateralized by cash or marketable securities and changes in the future 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 an EFG group entity.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchases (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 recognized 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 favorable (assets) or unfavorable (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 favorable or unfavorable 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 are set out in the following table:

	Fair Values			
	2009		2008	
	Assets €'000	**Liabilities €'000**	Assets €'000	Liabilities €'000
Derivatives designated as fair value hedges				
Cross currency / interest rate swaps	**4.962**	**103.300**	256	15.533
Derivatives held for trading				
Foreign exchange derivatives – held-for-trading	**3.504**	**655**	4.063	2.547
	8.466	**103.955**	4.319	18.080

14 Derivative financial instruments and hedge accounting (continued)

	Fair Values			
	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	€'000	**€'000**	€'000	€'000
Analysed as follows:				
Current	**3.637**	**6.286**	561	166
Non-current	**4.829**	**97.669**	3.758	17.914
	8.466	**103.955**	4.319	18.080

(a) Cross currency/interest rate swaps

The notional principal amounts of the outstanding cross currency/interest rate swap contracts at 31 December 2009 were €2.256 million (2008: €1.204 million).

At 31 December 2009, the fixed interest rates vary from 1,5275% to 21,93% (2008: 2,3869% to 10,3504%) 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 2009 were €20.9 million (2008: €40.4 million).

Derivative financial instruments are categorised as derivatives used for hedging.

(c) Foreign exchange options

The notional principal amounts of foreign exchange options at 31 December 2009 were €87 million (2008: €Nil).

(d) Foreign exchange swaps

The notional principal amounts of foreign exchange options at 31 December 2009 were €39 million (2008: €Nil).

15 Loans and advances to customers

	2009	2008
	€'000	€'000
Private individuals:		
- Overdrafts	**498**	692
- Term loans	**635**	2.276
- Mortgages	**7.686**	6.430
	8.819	9.398
Corporate entities:		
- Large corporate loans	**3.619.108**	1.162.799
- Private banking loans	**147.170**	74.229
- International business banking loans	**11.341**	5.631
	3.777.619	1.242.659
Total	**3.786.438**	1.252.057
Gross loans and advances to customers	**3.786.438**	1.252.057
Less: loan loss impairment provision	**(19.945)**	(321)
Net amount of loans and advances to customers	**3.766.493**	1.251.736

15 Loans and advances to customers (continued)

	2009	2008
Analysed as follows:		
Current	**2.095.720**	1.243.091
Non current	**1.670.773**	8.645
	3.766.493	1.251.736

	2009 €'000	2008 €'000
Analysis by Group sector		
Wholesale lending	**3.757.674**	1.242.338
Consumer lending	**1.133**	2.968
Mortgage lending	**7.686**	6.430
	3.766.493	1.251.736

	2009 €'000	2008 €'000
Analysis by industry sector		
Commerce and Services	**1.202.737**	300.147
Private individuals	**144.247**	43.174
Construction	**149.551**	70.551
Financial Institutions	**2.069.154**	752.683
Manufacturing	**169.237**	37.065
Other	**31.567**	48.116
	3.766.493	1.251.736

	2009 €'000	2008 €'000
Analysis by geographical area		
Greece	**2.228.317**	15.423
Cyprus	**507.764**	324.153
Other Western European countries	**855.380**	54.841
New Europe countries	**114.714**	832.513
Other countries	**60.318**	24.806
	3.766.493	1.251.736

A reconciliation of the provision for impairment losses on loans and advances is as follows:

	2009 €'000	2008 €'000
Large corporate loans:		
Balance at beginning of year / period	**321**	-
Impairment losses on loans and advances charged in the year / period	**19.624**	321
Balance at 31 December	**19.945**	321

As at 31 December 2009, loan impairment provision amounted to €19.945 thousand (2008: €321 thousand), of which €19.445 thousand (2008: €321 thousand) relates to one loan receivable from a related company with a carrying amount before provisions amounting to €835.374 thousand as of 31 December 2009 (2008: €735.313 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

	2009 €'000	2008 €'000
Issued by public organisations – government bonds:		
- Greece	**1.980.586**	1.142.242
- Germany	**79.645**	175.299
- Hungary	**10.701**	9.617
- USA	**51.730**	40.622
- Russia	**39.914**	35.002
- Lithuania	**12.744**	11.857
- Poland	**34.247**	-
- Romania	**2.868**	-
- France	**39.289**	-
- Serbia	**194.133**	-
	2.445.857	1.414.639
Issued by other issuers:		
- Banks	**39.582**	14.413
- Other	**416.244**	40.641
	455.826	55.054
Total	**2.901.683**	1.469.693
Listed	**2.901.683**	1.469.693
Unlisted	**-**	-
	2.901.683	1.469.693

	2009	2008
Equity	**39.308**	25.600
Debt	**2.862.375**	1.444.093
	2.901.683	1.469.693
Pledged securities under repurchase agreements (Note 22)	**2.449.882**	1.444.093

	2009 €'000	2008 €'000
Current	**196.913**	51.902
Non current	**2.704.770**	1.417.791
	2.901.683	1.469.693

The movement in the account is as follows:

	2009 €'000	2008 €'000
Movement:		
Balance at beginning of year / period	**1.469.693**	-
Additions	**3.817.535**	1.490.315
Disposals and redemptions	**(2.350.559)**	-
Accrued Interest	**10.684**	-
Net losses from changes in fair values for the year / period	**(41.540)**	(20.622)
FX Differences	**(4.130)**	-
Balance as at 31 December	**2.901.683**	1.469.693

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:

	2009	2008
	€'000	€'000
Balance at beginning of year / period	(34.838)	-
Net losses from changes in fair value	(41.540)	(20.622)
Net losses / (gains) transferred to net profit from fair value hedges (Note 7)	(28.698)	(14.216)
Balance at 31 December	(105.076)	(34.838)

17 Debt securities lending

Debt securities lending represent government bonds acquired during the year which are classified and treated as “loans and receivables”.

Debt securities lending include Greek government bonds with a carrying amount as of 31 December 2009 of €743.587 thousand (2008: €212.468 thousand).

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities. None of these financial assets are either past due or impaired.

Debt securities lending pledged under repurchase agreements are disclosed in Note 22.

	2009	2008
	€'000	€'000
Current	17.909	3.797
Non-current	917.872	208.671
	935.781	212.468

18 Held-to-maturity investments

	2009	2008
	€'000	€'000
Movement:		
Balance at beginning of year / period	-	-
Additions	729.155	-
Disposals and redemptions	(83.800)	-
Accrued interest	23.031	-
Amortisation of premium discount	992	-
Balance as at 31 December	669.378	-

Held-to-maturity investments comprise Greek governments and Cyprus government bonds with a carrying amount as of 31 December 2009 of €572.581 thousand (2008: €Nil) and €96.797 thousand respectively.

	2009	2008
	€'000	€'000
Current	23.052	-
Non-current	646.326	-
	669.378	-

19 Property, plant and equipment

	Leasehold improvements	Motor vehicles and motor cycles	Equipment	**Total**
	€'000	€'000	€'000	**€'000**
Period ended 31 December 2008				
Transfer from Branch – cost (Note 32(iii))	455	264	558	**1.277**
Transfer from Branch – accumulated depreciation (Note 32(iii))	(25)	(24)	(72)	**(121)**
Additions	1.663	63	424	**2.150**
Depreciation charge (Note 10)	(72)	(47)	(121)	**(240)**
Net book value	**2.021**	**256**	**789**	**3.066**
At 31 December 2008				
Cost	2.118	327	982	**3.427**
Accumulated depreciation	(97)	(71)	(193)	**(361)**
	2.021	**256**	**789**	**3.066**
Year ended 31 December 2009				
At 1 January 2009	2.021	256	789	**3.066**
Additions	999	63	430	**1.492**
Depreciation charge (Note 10)	(203)	(68)	(219)	**(490)**
Net book value	**2.817**	**251**	**1.000**	**4.068**
At 31 December 2009				
Cost	3.117	390	1.412	**4.919**
Accumulated depreciation	(300)	(139)	(412)	**(851)**
	2.817	**251**	**1.000**	**4.068**

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

20 Intangible assets

	Computer licences & software €'000	**Total €'000**
Period ended 31 December 2008		
Transfer from Branch – cost (Note 32(iii))	1.171	**1.171**
Transfer from Branch – accumulated deprecation (Note 32(iii))	(152)	**(152)**
Additions	555	**555**
Amortisation charge (Note 10)	(171)	**(171)**
Net book value	**1.403**	**1.403**
At 31 December 2008		
Cost	1.726	**1.726**
Accumulated amortisation	(323)	**(323)**
	1.403	**1.403**
Year ended 31 December 2009		
At 1 January 2009	1.403	**1.403**
Additions	589	**589**
Amortisation charge (Note 10)	(443)	**(443)**
Net book value	**1.549**	**1.549**
At 31 December 2009		
Cost	2.315	**2.315**
Accumulated amortisation	(766)	**(766)**
	1.549	**1.549**

21 Other assets

	2009 €'000	2008 €'000
Prepaid expenses	**124**	2.384
Other assets	**133**	582
	257	2.966

22 Due to other banks

	2009	2008
	€'000	€'000
Placements from other banks	**15.241.152**	7.919.244
	15.241.152	7.919.244
Maturity analysis		
- on demand up to 7 days	**3.594.868**	843.418
- 7 days up to 3 months	**3.363.203**	4.424.359
- 3 months to 1 year	**121.509**	2.636.997
- 1 to 5 years	**8.161.572**	14.470
	15.241.152	7.919.244

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

Amounts related to repurchase agreements with banks are presented in a separate line on the face of the balance sheet. The repurchase agreements are classified as follows:

	2009	2008
	€'000	€'000
- Current	**4.060.320**	4.652.262
- Non – current	**-**	-
	4.060.320	4.652.262

The carrying amount of repurchase agreements approximates the fair value as they are all due within twelve months from the balance sheet date. The interest rates on repurchase agreements are 1,99% - 5,90% (2008: 1,04% - 5,85%).

The carrying amount of pledged assets relating to repurchase agreements is as follows:

	2009	2008
	€'000	€'000
Available-for-sale financial assets (Note 16)	**2.449.882**	1.444.093
Loans to banks (Note 13)	**4.814.274**	4.175.261
Loans to customers	**505.732**	-
Debt securities lending	**284.699**	212.468
	8.054.587	5.831.822

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

23 Due to customers

	2009	2008
	€'000	€'000
Current accounts	**177.986**	70.348
Notice accounts	**3.532**	1.439
Term deposits	**1.404.825**	850.268
	1.586.343	922.055
Maturity analysis		
- up to 1 month	**727.789**	421.401
- between 1 month and three months	**423.274**	158.640
- between three months and one year	**399.048**	342.014
- between one year and five years	**36.232**	-
	1.586.343	922.055

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

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2009 amounted to €309.6 million (2008: €276.4 million).

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

24 Other liabilities

	2009	2008
	€'000	€'000
Other liabilities and accruals	**3.856**	2.707
	3.856	2.707

25 Share capital

	No. of shares	Ordinary shares €'000	Share premium €'000	**Total €'000**
Authorised				
At 21 December 2007	1.000	10.000	-	**10.000**
Increase in authorised share capital during 2008	500	5.000	-	**5.000**
Total 31 December 2008 & 2009	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 21 December 2007	1	10	-	**10**
New share issues:				
at 26 March 2008 (Note 32 (iii))	750	7.500	39.874	**47.374**
at 12 June 2008	249	2.490	97.510	**100.000**
at 21 December 2008	100	1.000	49.000	**50.000**
Total 31 December 2008 & 2009	**1.100**	**11.000**	**186.384**	**197.384**

The consideration for the issue of 750 shares on 26 March 2008 was the assets and liabilities of the Cyprus branch of EFG Eurobank Ergasias S.A.. The other issues of shares amounting to €150.010 thousand were for cash consideration.

All the shares have the same rights. The share premium is a non-distributable reserve.

26 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:

	2009	2008
	€'000	€'000
Not later than one year	**615**	339
Later than one year and not later than five years	**1.091**	1.044
	1.706	1.383

27 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:

	2009	2008
	€'000	€'000
Contingent liabilities		
Guarantees	**20.614**	6.211
Other	**12.716**	1.659
	33.330	7.870
Commitments		
Approved unutilised credit facilities	**55.429**	82.007
	55.429	82.007

Capital commitments
As at 31 December 2009, commitments for contracted capital expenditures for the Bank amount to 182 thousand (2008: €440 thousand).

Legal proceedings
As at 31 December 2009 and 2008 there were no legal proceedings outstanding against the Bank.

28 Net cash flow from operating activities

	2009 €'000	2008 €'000
Profit before tax	**128.957**	22.930
Adjustments for:		
Provision for defined benefit retirement obligation (Note 9)	**(584)**	839
Depreciation of property, plant and equipment (Note 19)	**490**	240
Amortisation of intangible assets (Note 20)	**443**	171
Interest income on available-to sale financial assets (Note 5)	**(125.019)**	(2.792)
Interest income on debt securities lending (Note 5)	**(31.370)**	(469)
Interest income on held to maturity instruments (Note 5)	**(26.667)**	-
Foreign exchange differences on investing activities	**4.130**	-
Profit on disposal of available-for-sale available-for-sale financial assets (Note 8)	**(50.909)**	-
Profit on disposal of held-to-maturity investments (Note 8)	**(2.450)**	-
Net fair value gain on available-for-sale financial assets transferred to income statement (Note 16)	**(28.698)**	(14.216)
	(131.677)	6.703
Decrease/(increase) in operating assets		
Cash and balances with central banks	**(13.582)**	(1.157)
Loans and advances to banks	**600.250**	(8.077.936)
Loans and advances to customers	**(2.514.757)**	(1.046.454)
Derivative financial instruments	**(4.147)**	(4.319)
Other assets	**2.709**	(2.622)
Increase/(decrease) in operating liabilities		
Due to other banks	**7.321.908**	7.880.952
Repurchase agreements with banks	**(591.942)**	4.652.262
Derivative financial instruments	**85.875**	18.080
Due to customers	**664.288**	526.507
Provision for retirement obligations	**-**	892
Other liabilities	**1.527**	(407)
Cash generated from operations	**5.420.452**	3.952.501
Tax paid	**(9.308)**	(1.473)
Net cash flow from operating activities	**5.411.144**	3.951.028

Non-cash transactions

The principal non-cash transaction during 2008 was the issue of 750 shares on 26 March 2008 (Note 25) as consideration for the acquisition of the assets and liabilities of Cyprus branch of EFG Eurobank Ergasias S.A.

Cash and cash equivalents

	2009 €'000	2008 €'000
Cash and balances with central banks (Note 12)	**1.806**	989
Placements with other banks (Note 13)	**5.346.066**	2.571.756
	5.347.872	2.572.745

29 Currency risk

Currency risk sensitivity

At 31 December 2008, if the Euro had weakened/strengthened by 10% against the US Dollar with all other variables held constant, the effect in the income statement for the period would have been €262 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated cash balances, placements/takings with banks, loans and advances and customer deposits.

At 31 December 2008, if the Euro had weakened/strengthened by 10% against the British Pound with all other variables held constant, the effect in the income statement for the period would have been €27 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of British Pound denominated cash balances, placements/takings with banks, loans and advances and customer deposits.

At 31 December 2008, if the Euro had weakened/strengthened by 10% against other currencies with all other variables held constant, the effect in the income statement for the period would have been €77 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of Swiss Franc denominated cash balances, placements/takings with banks, loans and advances and customer deposits.

30 Interest rate risk

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2008.

	At 31 December 2008					
	Up to 1 month €'000	1-3 Months €'000	3-12 months €'000	More than 12 months €'000	Non-interest bearing €'000	**Total** **€'000**
Assets						
Cash and balances with central banks	9.773	-	-	-	989	**10.762**
Loans and advances to banks	508.909	7.311.347	2.926.246	-	-	**10.746.502**
Derivative financial instruments	-	-	-	-	4.319	**4.319**
Loans and advances to customers	977.420	171.519	94.152	8.645	-	**1.251.736**
Available-for-sale financial assets	276.277	164.849	1.002.967	-	25.600	**1.469.693**
Debt securities lending	77.763	81.101	53.604	-	-	**212.468**
Property, plant and equipment	-	-	-	-	3.066	**3.066**
Intangible assets	-	-	-	-	1.403	**1.403**
Other assets	-	-	-	-	2.966	**2.966**
Total assets	**1.850.142**	**7.728.816**	**4.076.969**	**8.645**	**38.343**	**13.702.915**

30 Interest rate risk (continued)

	At 31 December 2008					
	Up to 1 month €'000	1-3 Months €'000	3-12 months €'000	More than 12 months €'000	Non-interest bearing €'000	**Total €'000**
Liabilities						
Due to other banks	905.548	4.407.584	2.583.634	-	22.478	**7.919.244**
Repurchase agreements	3.320.220	147.587	1.184.455	-	-	**4.652.262**
Derivative financial instruments	-	-	-	-	18.080	**18.080**
Due to customers	426.363	149.982	342.208	3.502	-	**922.055**
Other liabilities including income tax liabilities	-	-	-	-	2.636	**2.636**
Deferred tax liability	-	-	-	-	71	**71**
Retirement benefit obligations	-	-	-	-	5.464	**5.464**
Total liabilities	**4.652.131**	**4.705.153**	**4.110.297**	**3.502**	**48.729**	**13.519.812**
Interest sensitivity gap	**(2.801.989)**	**3.023.663**	**(33.328)**	**5.143**	**(10.386)**	**183.103**

Interest rate risk sensitivity

At 31 December 2008, if interest rates of interest bearing assets and liabilities had been 0,5% higher/lower with all other variables held constant, the effect in the income statement for the year would have been €480 thousand lower/higher, mainly as a result of higher/lower net interest income/expense on floating rate assets and liabilities.

31 Maturity of financial liabilities (liquidity risk)

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.

	31 December 2009					
	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	**Gross nominal (inflow) / outflow**
	€'000	€'000	€'000	€'000	€'000	**€'000**
Non-derivative liabilities:						
- Due to other banks and repurchase agreements with banks	7.015.674	4.392.661	754.448	1.299.749	9.327.396	**22.789.928**
- Due to customers	723.914	511.738	315.177	42.298	-	**1.593.127**
- Other liabilities	3.856	-	-	-	-	**3.856**
Derivative financial instruments:						
- Outflows from gross and net settled	57.123	5.429	42.130	175.505	184.802	**464.989**
- Inflows from gross settled	(55.425)	(5.452)	(1.489)	(8.637)	(47.587)	**(118.590)**
	7.745.142	**4.904.376**	**1.110.266**	**1.508.915**	**9.464.611**	**24.733.310**

Off-balance sheet items

	Less than 1 year	1 – 5 years	Over 5 years
	€'000	€'000	€'000
Guarantees and standby letters of credit	33.330	-	-
Loan commitments	55.429		
Capital expenditure	182	-	-
Operating lease commitments	615	1.091	-
	89.556	**1.091**	**-**

31 Maturity of financial liabilities (liquidity risk) (continued)

	31 December 2008					
	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	**Gross nominal (inflow) / outflow**
	€'000	€'000	€'000	€'000	€'000	**€'000**
Non-derivative liabilities:						
- Due to other banks and repurchase agreements with banks	4.163.638	4.424.359	3.969.039	14.470	-	**12.571.506**
- Due to customers	421.401	158.640	342.014	-	-	**922.055**
- Other liabilities	2.052	-	-	-	5.464	**7.516**
Derivative financial instruments:						
- Outflows from gross and net settled	(15.932)	(30.433)	(123.353)	(3.169)	(44.471)	**(217.358)**
- Inflows from gross settled	15.938	30.428	123.143	3.165	42.972	**215.646**
	4.587.097	**4.582.994**	**4.310.843**	**14.466**	**3.965**	**13.499.365**

<u>Off-balance sheet items</u>

	Less than 1 year	1 – 5 years	Over 5 years
	€'000	€'000	€'000
Guarantees and standby letters of credit	7.870	-	-
Loan commitments	82.007		
Capital expenditure	440	-	-
Operating lease commitments	339	1.044	-
	90.656	**1.044**	

32 Related party transactions and balances

The Bank is a member of the worldwide EFG Bank, which consists of credit institutions, financial services and financial holding companies. The Bank is a wholly owned subsidiary of EFG New Europe Holding B.V. registered in the Netherlands who is in turn a wholly subsidiary of EFG Eurobank Ergasias S.A, a listed entity in Greece. The ultimate parent company of EFG Eurobank Ergasias S.A is Private Financial Holdings Limited, which is owned and controlled indirectly by members of the Latsis family. As at 31 December 2009, the EFG Bank held 44% of the ordinary shares and voting rights of the EFG Eurobank Ergasias S.A through 100% controlled subsidiaries. The remaining ordinary shares and voting rights are held by institutional and retail investors, none of which, to the knowledge of the Eurobank Ergasias S.A holds 5% or more. Private Financial Holdings Limited (PFH) became the ultimate parent company on 6 August 2009, after the restructuring of the EFG Bank. Until 6 August 2009, the ultimate parent company of EFG Bank was EFG Bank European Financial (EFGB).

32 Related party transactions and balances (continued)

During the period a number of banking transactions were entered into with related parties in the normal course of business and are conducted on an arms length basis. These included loans, deposits, derivatives and repurchase agreements. In addition as part of its normal course of business in investment banking activities, the Bank holds positions in debt instruments of related parties. The volume of related party transactions and outstanding balances are disclosed below:

(i) Related party transactions and outstanding balances

	With EFG Eurobank Ergasias S.A.		With EFG Eurobank Ergasias S.A. Group (other than EFG Eurobank Ergasias S.A.)		With key management personnel	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
Loans and advances to banks	**5.749.681**	4.964.065	**7.170.677**	5.301.178	**-**	-
Loans and advances to customers	**-**	-	**2.092.306**	734.993	**6.475**	709
Derivative financial instruments – assets	**8.466**	4.319	**-**	-	**-**	-
Derivative financial instruments – liabilities	**103.955**	18.080	**-**	-	**-**	-
Available-for-sale financial assets	**-**	-	**322.310**	-	**-**	
Due to other banks	**15.238.554**	7.919.244	**-**	-	**-**	-
Repurchase agreements with Banks	**4.060.320**	3.541.577	**-**	-	**-**	-
Due to customers	**-**	-	**54.305**	7.970	**2.178**	783
Interest income	**221.774**	121.325	**290.405**	21.284	**84**	5
Interest expense	**554.252**	102.863	**193**	37	**37**	7
Banking fee and commission expense	**27.120**	-	**-**	-	**-**	-
Provisions for impairment of loans and advances	**-**	-	**19.124**	321	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	**-**	-	**890**	700
Retirement benefit cost	**-**	-	**-**	-	**201**	192
Directors' remuneration	**-**	-	**-**	-	**833**	696

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

Loans and advances to customers with EFG Eurobank Ergasias S.A. Group includes the securitisation bond of Andromeda Plc with a balance of €843.003 thousand as of 31 December 2009 (2008: nil).

32 Related party transactions and balances (continued)

(ii) Lien agreements

As of 31 December 2009, the Bank has in place lien agreements from EFG Eurobank Ergasias S.A, which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2009 **€'000**	2008 €'000
Loans and advances to banks	**7.303.373**	5.272.241
Loans and advances to customers	**2.451.439**	103.407
Available-for-sale financial assets	**2.862.375**	1.399.281
Debt securities lending	**935.781**	212.468
Held-to-maturity investments	**524.469**	-
	14.077.436	6.987.397

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

(iii) Reorganisation

On 26 March 2008, following the permit granted by the Central Bank of Cyprus dated 11 March 2008 for EFG Eurobank Ergasias S.A. to carry out banking services through the operations of a Cyprus subsidiary company, all the assets and liabilities the Cyprus branch were transferred to the Bank. The Bank issued 750 ordinary shares for €47.374 thousand to EFG Eurobank Ergasias S.A., as a consideration. This transaction was considered as a restructuring of EFG Eurobank Ergasias S.A. (common control transaction). The assets and liabilities transferred to the Bank are summarised in the next table.

	€'000
Assets	
Cash and balances with central banks (of which €8.616 are mandatory deposits)	9.406
Placements with banks	269.954
Loans and advances to customers	205.282
Property, plant and equipment	1.156
Intangible assets	1.019
Other assets	344
Deferred tax asset	287
Total assets	**487.448**
Liabilities	
Due to other banks	38.292
Due to customers	395.548
Other liabilities	2.459
Deferred tax liabilities	42
Retirement benefit obligations (Note 9)	3.733
Total liabilities	**440.074**
Net assets transferred	**47.374**
Consideration – issue of 750 shares on 26 March 2008 (Note 25)	**47.374**

32 Related party transactions and balances (continued)

(iv) Cash and cash equivalents transferred from Branch as at 26 March 2008

	€'000
Cash and balances with central banks	9.406
Placements with other banks	173.144
	182.550
Less Mandatory Deposits with Central Bank	(8.616)
Total	**173.934**

(v) Offsetting

During the year 2009, the Bank has offset loans and advances to banks and amounts payable under repurchase agreements with EFG Eurobank Ergasias S.A. amounting to €4.558.987 thousand (2008: NIL) pursuant to a legally binding offsetting agreement entered into between the two parties during the year and based on management's intention to settle these balances net or to revalue the asset and settle the liability simultaneously.

33 Post balance sheet events

In the context of a group reorganisation, the Bank will undertake the assets and liabilities of the company Eurocredit Retail Services Limited, a group related company, incorporated in Cyprus. The reorganisation is subject to approval by the shareholders and creditors of Eurocredit Retail Services Limited and to court approval under the provisions of Cap.113, Articles 198-200. The financial effect of this proposed reorganisation cannot be currently assessed. The total assets and net liabilities of Eurocredit Rental Services Limited as of 31 December 2009 based on its audited financial statements amount to €2.285 thousand and €8.159 thousand respectively.

On 25 February 2010 the Bank proceeded with a new share capital increase. The increase comprised the issue of 100 new shares in the capital of the Bank to EFG New Europe Holding B.V. of nominal value €10.000 and issuance price of €600.000 per share, amounting to a total of €60 million.

On 31 March 2010 EFG Eurobank Ergasias S.A. extended to the Bank a subordinated loan of €40 million.

During 2009 and 2010, the Greek Government debt credit spreads have deteriorated significantly. The macroeconomic risks affecting the Bank and the measures announced by the Greek Government in 2010 are under close review by the Bank.

Independent Auditors' Report on pages 5 and 6.

Eurobank EFG Cyprus Ltd

Pillar 3 disclosures

1 Regulatory capital as at 31 December 2009

	€'000
Core Tier 1 capital	231.319
Tier 2 capital	-
Deductions from Tier 1 capital	-
Total capital after deductions	**231.319**

Tier 1 capital represents ordinary share capital, share premium and reserves less intangible assets as at 31 December 2009.

Deductions from capital represent the Bank's participation in Tier 2 capital of a group related Bank.

2 Capital adequacy ratio summary calculation

	€'000	€'000
Total own funds		**231.319**
Own funds requirements for credit risk – per exposure class		149.957
Institutions	59.082	
Corporates	81.922	
Retail	1.769	
Secured by real estate property	4.370	
Other items	2.814	
Own funds requirements for market risk		-
Own funds requirements for operational risk		14.578
Total Tier 1 capital		**231.319**
Total Tier 2 capital		**-**
Total risk weighted assets		**2.056.688**
Total capital adequacy ratio as at 31.12.2009		**11,25%**
Capital surplus as at 31.12.2009		66.785