



EUROBANK CYPRUS LTD

**Report and
Financial Statements**

For the year ended 31 December 2012

Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2012

Contents

	Page
Board of Directors and Other Officers	1
Report of the Board of Directors	2 – 5
Independent Auditor’s Report	6 – 7
Income Statement	8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the Financial Statements	13 - 71

Eurobank 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. Vasiliou	Non Executive
D. Hadjiargyrou	Non Executive
V. Nicolaides	Non Executive
C. Papaellinas	Non Executive
C. Zachariou	Non Executive
L. Demosthenous	Non Executive (appointed on 25 June 2012)
R. Kyprianou	Non Executive (appointed on 25 June 2012)

Executive Committee

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

Company Secretary

D. Shacallis

Registered office

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

Eurobank Cyprus Ltd

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2012.

Principal activity

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

Branches

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

Change of the Bank's name

At the Extraordinary General Meeting of the shareholders of the Bank which was held on 14 September 2012 it was resolved that the Bank's name would change from Eurobank EFG Cyprus Ltd to Eurobank Cyprus Ltd. The change was effected on 31 October 2012. Details are provided in Note 30.

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

The main financial highlights for the year are as follows:

	2012	2011
	€'000	€'000
Operating income	100.346	68.877
Operating expenses including provision for impairment of loans and advances	45.019	43.788
Profit before tax	55.327	25.089
Profit for the year	48.365	16.639
Customer deposits	3.137.971	2.390.133
Loans and advances to customers	2.248.842	2.999.128
Total assets	4.494.200	6.711.228

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

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Business outlook and risks

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

The Cyprus economy

The Cyprus economy has been adversely affected over the last few years by the world financial crisis, the instability in the financial markets and above all the Greek fiscal and debt crisis.

During 2012 there was a considerable tightening of financing availability, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following the credit rating downgrades the ability of the Republic of Cyprus to borrow from international markets has been significantly affected.

Further to the negotiations of the Cyprus government with the European Commission, the European Central Bank and the International Monetary Fund (the 'Troika') for the purpose of obtaining financing, on 25 March 2013 it was agreed that financial assistance will be provided to Cyprus in conjunction with a package of measures including the restructuring of the two major banks aiming at bringing the size of the banking sector as a percentage of the country's GDP closer to the EU average. Additionally, legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and they were enforced on 28 March 2013. The Bank's operations will be affected by the extent and duration of these restrictive measures.

In these economic conditions the underlying values of mortgaged properties held as collaterals for credit facilities extended by the Bank are expected to be affected although, still it is not clear the extent and the impact that any modifications in the values of the underlying assets will have. The Bank's management is in continuous communication with the borrowers in an effort to further strengthen its position by obtaining additional collaterals if the need arises. A sensitivity analysis has been performed on the recoverable amounts of its loan portfolio as it stood at 31 December 2012 as per Note 3(a).

The Bank's management has also reviewed the liquidity position in light of the above and evaluated its ability to repay customer deposits by mainly taking into account the maturity of deposits, deposit collateralisations, its relationships with its clients etc., and is of the opinion that the Bank may withstand liquidity attrition.

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Business outlook and risks (continued)

The Cyprus economy (continued)

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

Recapitalisation of the parent

The Bank's management is also closely monitoring the planned actions to restore the capital adequacy of the parent, as well as the existing uncertainties in Greece which could adversely affect the operations of both the parent and the Bank. The current status of the recapitalisation process together with the underlying risks are disclosed in Note 2.1 of the financial statements.

Future developments of the Bank

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

Results

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

Share capital

There were no changes in the Bank's share capital in the year ended 31 December 2012.

Capital adequacy

The capital adequacy of the Bank as at 31 December 2012, as disclosed in Note 4.4 of the financial statements, stands at 32,3% (2011: 27,4%).

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2012 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2012 and up to the date of this report, except from Messrs L. Demosthenous and R. Kyprianou who are appointed as members of the Board on 25 June 2012.

Eurobank Cyprus Ltd

Report of the Board of Directors (continued)

Bank Management

The Bank's Executive Committee as at 31 December 2012 and at the date of this report is shown on page 1.

Events after the balance sheet date

There were no other material post balance sheet events, which have a bearing on the understanding of the financial statements, other than those disclosed in Note 32 of the financial statements.

Auditors

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

By Order of the Board



Michalis Louis
Chief Executive Officer

Nicosia, 14 June 2013



Independent auditor's report To the Members of Eurobank Cyprus Limited

Report on the financial statements

We have audited the accompanying financial statements of Eurobank Cyprus Limited (the "Bank"), which comprise the balance sheet as at 31 December 2012, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

*PricewaterhouseCoopers Ltd, Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus
P O Box 21612, CY-1591 Nicosia, Cyprus
T: +357 - 22 555 000, F: +357 - 22 555 001, www.pwc.com/cy*

PricewaterhouseCoopers Ltd is a member firm of PricewaterhouseCoopers International Ltd, each member firm of which is a separate legal entity. PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No. 143594). A list of the company's directors including for individuals the present name and surname, as well as any previous names and for legal entities the corporate name, is kept by the Secretary of the company at its registered office at 3 Themistocles Dervis Street, 1066 Nicosia and appears on the company's web site. Offices in Nicosia, Limassol, Larnaca and Paphos.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eurobank Cyprus Limited as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw attention to the disclosures in note 2.1 which describe that there is a material uncertainty regarding the impact on the Bank's operations of the financial instability in the economy and the imposition of capital restrictions in Cyprus as well as the planned actions to restore the capital adequacy of the parent, which may cast significant doubt over the Bank's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

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

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

Other matter

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

Androulla S. Pittas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 14 June 2013

Eurobank Cyprus Ltd

Income Statement for the year ended 31 December 2012

	Note	2012 €'000	2011 €'000
Interest income	5	210.165	424.013
Interest expense	5	(130.381)	(290.673)
Net interest income		79.784	133.340
Banking fee and commission income	6	25.178	21.090
Banking fee and commission expense	6	(18.400)	(52.096)
Net banking fee and commission income/(expense)		6.778	(31.006)
Dividend income		317	356
Net trading income	7	6.621	4.223
Gains less losses from investment securities	8	6.846	(38.036)
		13.784	(33.457)
Operating income		100.346	68.877
Staff costs	9	(11.620)	(10.946)
Other operating expenses	10	(8.021)	(6.931)
Profit from operations before impairment losses on loans and advances		80.705	51.000
Impairment losses on loans and advances	15	(25.378)	(25.911)
Profit before tax		55.327	25.089
Income tax expense	11	(6.962)	(8.450)
Profit for the year		48.365	16.639

The notes on pages 13 to 71 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2012

	2012 €'000	2011 €'000
Profit for the year	<u>48.365</u>	<u>16.639</u>
Other comprehensive income:		
Available-for-sale financial assets (Note 16)		
- net changes in fair value, net of tax	27.653	147.349
- transfer to net profit, net of tax	<u>(12.459)</u>	<u>17.642</u>
	<u>15.194</u>	<u>164.991</u>
Other comprehensive income for the year, net of tax	<u>15.194</u>	<u>164.991</u>
Total comprehensive income for the year	<u><u>63.559</u></u>	<u><u>181.630</u></u>

The notes on pages 13 to 71 form an integral part of these financial statements.

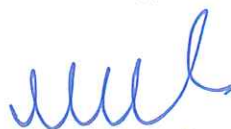
Eurobank Cyprus Ltd

Balance Sheet at 31 December 2012

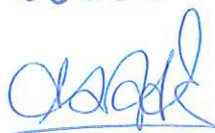
	Note	2012 €'000	2011 €'000
Assets			
Cash and balances with central banks	12	136.781	47.920
Loans and advances to banks	13	1.688.099	2.336.932
Derivative financial instruments	14	659	5.063
Loans and advances to customers	15	2.248.842	2.999.128
Available-for-sale financial assets	16	242.795	531.314
Debt securities lending	17	-	603.976
Held-to-maturity investments	18	164.608	163.673
Intangible assets	19	1.867	2.075
Property, plant and equipment	20	5.025	5.447
Other assets	21	5.524	15.700
Total assets		4.494.200	6.711.228
Liabilities			
Due to other banks	22	818.092	3.784.229
Derivative financial instruments	14	1.359	58.385
Due to customers	23	3.137.971	2.390.133
Other liabilities	24	7.881	13.143
Total liabilities		3.965.303	6.245.890
Equity			
Share capital	25	12.010	12.010
Share premium	25	245.384	245.384
Other reserves		8.146	(7.048)
Retained earnings		263.357	214.992
Total equity		528.897	465.338
Total equity and liabilities		4.494.200	6.711.228

On 14 June 2013 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Michalis Louis, Chief Executive Officer



Demetris Shacallis, Chief Financial Officer



The notes on pages 13 to 71 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity for the year ended 31 December 2012

	Note	Share capital €'000	Share premium €'000	Available- for-sale revaluation reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2011		12.000	245.384	(172.039)	207.360	292.705
Retained losses undertaken from Eurocredit Retail Services Limited (Note 31)					(9.007)	(9.007)
Other comprehensive income for the year		-	-	164.991	-	164.991
Profit for the year		-	-	-	16.639	16.639
Total comprehensive income for the year		-	-	164.991	7.632	172.623
Share capital increase	25	10	-	-	-	10
		10	-	-	-	10
Balance at 31 December 2011		12.010	245.384	(7.048)	214.992	465.338
Balance at 1 January 2012		12.010	245.384	(7.048)	214.992	465.338
Other comprehensive income for the year		-	-	15.194	-	15.194
Profit for the year		-	-	-	48.365	48.365
Total comprehensive income for the year		-	-	15.194	48.365	63.559
Balance at 31 December 2012		12.010	245.384	8.146	263.357	528.897

The notes on pages 13 to 71 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement for the year ended 31 December 2012

	Note	2012 €'000	2011 €'000
Net cash flows used in operating activities	29	(863.405)	(6.181.349)
Cash flows from investing activities			
Purchases of intangible assets	19	(132)	(231)
Purchases of property, plant and equipment	20	(338)	(1.270)
Proceeds from sale of property, plant and equipment		45	41
Net proceeds/payments for of available-for-sale financial assets	16	320.056	(45.154)
Interest received on available-for-sale financial assets		12.996	12.153
Purchase of debt securities lending		-	(1.302.033)
Proceeds from sale/redemption of debt securities lending		605.054	6.351.713
Interest received on debt security lending		13.619	27.615
Net proceeds from redemption of held-to-maturity investments	18	-	523.056
Interest received on held-to-maturity investments		6.800	31.074
Dividend income received from investment securities		317	356
Acquisition of assets and liabilities of Eurocredit Retail Services Limited, net of cash acquired	31	-	120
Net cash from/(used in) investing activities		958.417	5.597.440
Cash flows from financing activities			
Proceeds from issue of ordinary shares	25	-	10
Net cash from financing activities		-	10
Net increase/(decrease) in cash and cash equivalents		95.012	(583.899)
Cash and cash equivalents at beginning of year		1.233.297	1.817.196
Cash and cash equivalents at end of year	29	1.328.309	1.233.297

The notes on pages 13 to 71 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

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

Principal activity

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

On 31 October 2012 Eurobank EFG Cyprus Ltd changed its name to Eurobank Cyprus Ltd. Details are provided in Note 30.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

As of the date of the authorisation of the financial statements, all IFRSs issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2012 have been endorsed by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39, "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern consideration:

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

a) Impact of economic crisis in Greece

Greece entered into a new funding and restructuring programme with the European Commission, the ECB and the eurozone member-states as agreed in the Eurogroup meeting of 21 February 2012. The programme aimed at bringing the country's public debt-to-GDP ratio below 120,0% by 2020.

The new funding and reform programme improved the country's financial position and outlook, via the reduction of public debt and its servicing costs from 2012 onwards.

On the back of these developments, and after the implementation/legislation of a long list of structural reforms and fiscal austerity measures for 2013-16 by the Greek Government, the Eurogroup reached on 26 November 2012 an agreement on a set of new measures for the reduction of Greek public debt to 124,0% of GDP by 2020 and 110,0% of GDP in 2022. This debt path is consistent with the debt sustainability required by the IMF.

b) Position of the Group

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bail out programme for Greece, including financial assistance from the Official Sector and a voluntary debt exchange agreed with the Private Sector forgiving 53,5% of the face value of Greek debt. All exchanged bonds were derecognised and the new Greek government bonds (nGGBs) recognised at fair value, based on market quotes at the date of recognition.

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

Recapitalisation Framework and Process

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

Recapitalisation of Eurobank Ergasias S.A.

The Bank of Greece (BoG), after assessing the business plan and the capital needs of Eurobank Ergasias S.A. has concluded on 19 April 2012 that Eurobank Ergasias S.A. is a viable bank and, on 8 November 2012, notified Eurobank Ergasias S.A. that its Tier I capital should increase by €5.839 million. Eurobank Ergasias S.A., the HFSF and the European Financial Stability Facility (EFSF) signed on 28 May 2012, on 21

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern consideration (continued):

b) Position of the Group (continued)

Recapitalisation of Eurobank Ergasias S.A.(continued)

December 2012 and on 30 April 2013 a trilateral presubscription agreement (PSA) for the advance to Eurobank Ergasias S.A. of EFSF notes of face value of €3.970 million, €1.341 million and €528 million, respectively, (total €5.839 million), as advance payment of its participation in the share capital increase of Eurobank Ergasias S.A..

On 7 April 2013, the relevant regulatory authorities, with the consent of the management of both banks, decided that National Bank of Greece S.A. (NBG) and Eurobank Ergasias S.A. will be independently recapitalised in full. As a consequence, the merger process of the two Banks was suspended. Following the above decision, the Board of Directors of Eurobank Ergasias S.A. evaluated the specificities of the exercise in relation with the attraction of capital from private investors and, in particular, the uncertainty regarding the completion or not of the merger with NBG, and the ensuing inability of properly assessing the investment proposal, as well as the absence of tens of thousands of Eurobank Ergasias S.A.'s traditional shareholders who were substituted, due to the recent Voluntary Tender Offer, by NBG's stake of approximately 85% in Eurobank Ergasias S.A.'s capital. As a consequence, the Board of Directors of Eurobank Ergasias S.A. proposed to the Extraordinary General Meeting on 30 April 2013 that the share capital increase of €5.839 million be fully subscribed by the HFSF.

On 30 April 2013, Eurobank Ergasias S.A.'s Extraordinary Shareholders General Meeting:

1. Approved the decrease of the share capital of the Bank by means of the parallel (i) increase of the nominal value of each ordinary share with voting rights and decrease of the total number of the existing ordinary shares thereof through reverse split, at a ratio of 10 old shares for each 1 new share, and (ii) decrease of the nominal value of the ordinary share of Eurobank Ergasias S.A. (as it will result after the reverse split) to €0,30, for the purpose of forming a special reserve of an equal amount, in accordance with Greek commercial legislation.
2. Approved the increase of the share capital of Eurobank Ergasias S.A., in accordance with the provisions of Law 3864/2010 and the Act of the Cabinet 38/9.11.2012, in order to raise €5.839 million, covered entirely by the HFSF with the contribution of bonds, issued by the EFSF and owned by the HFSF. The capital increase was certified on 31 May and the listing of the new shares will take place on June 19, 2013, following the relevant approvals received from the Greek regulatory authorities

On 28 March 2013, the BoG issued an Executive Committee Act (13/28.03.2013) bringing the limit for the Core Tier I capital to 9% of Risk Weighted Assets and for Equity Core Tier I to 6%, effective from 31 March 2013. According to the new definition of Core Tier I capital, AFS reserve is fully recognised, while deferred tax asset's recognition is limited to 20% of Core Tier I capital. According to the Group's capital adequacy figures, which are unaudited, at 31 March 2013 and taking into consideration the share capital increase completed on 31 May, total Capital Adequacy ratio (CAD) stood at 8.9% and Core Tier I and Equity Core Tier I ratios at 7.8%. The Group has examined and is implementing alternative ways of complying with the new regulation such as the redemption of preferred securities and subordinated debt securities at par, with an

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern consideration (continued):

equivalent increase in the Bank's share capital, which bring total CAD at 9.8% and Core Tier I ratio at 9.5%.

c) The Cyprus economy

The Cyprus economy has been adversely affected over the last few years by the world financial crisis, the instability in the financial markets and above all the Greek fiscal and debt crisis. During 2012 there was a considerable tightening of financing availability, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following the credit rating downgrades the ability of the Republic of Cyprus to borrow from international markets has been significantly affected.

Further to the negotiations of the Cyprus government with the European Commission, the European Central Bank and the International Monetary Fund (the 'Troika') for the purpose of obtaining financing, on 25 March 2013 it was agreed that financial assistance will be provided to Cyprus in conjunction with a package of measures including the restructuring of the two major banks aiming at bringing the size of the banking sector as a percentage of the country's GDP closer to the EU average.

Additionally, legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and they were enforced on 28 March 2013. The Bank's operations and revenues will be affected by the extent and duration of these restrictive measures.

In these economic conditions the underlying values of mortgaged properties held as collaterals for credit facilities extended by the Bank are expected to be affected although, still it is not clear the extent and the impact that any modifications in the values of the underlying assets will have. The Bank's management is in continuous communication with the borrowers in an effort to further strengthen its position by obtaining additional collaterals if the need arises. A sensitivity analysis has been performed on the recoverable amounts of its loan portfolio as it stood at 31 December 2012 as per Note 3 (a).

The Bank's management has also reviewed the liquidity position in light of the above and evaluated its ability to repay customer deposits by mainly taking into account the maturity of deposits, deposit collateralisations, its relationships with its clients etc., and is of the opinion that the Bank may withstand liquidity attrition. Therefore, the Bank's management believes that the going concern status is applicable, notwithstanding the material uncertainties outlined above.

The Bank's management is monitoring continuously the market conditions and adjusts its strategy in order to better manage risks under the prevailing conditions but also, at the same time to take advantage of business opportunities that emerge.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

2.2 Adoption of new and revised IFRS

During the current year the Bank adopted all the new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. This adoption did not have a material effect on the accounting policies of the Bank.

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

(i) *Endorsed by the European Union*

New standards

- IFRS 10, "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, "Disclosure of Interests in Other entities" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 13, "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27, "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2014).
- IAS 28, "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2014).

Amendments

- Amendment to IAS 12 "Income Taxes" on deferred tax relating to recovery of underlying assets (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" on severe hyperinflation and removal of fixed dates for First Time Adopters (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IAS 1 "Financial Statements Presentation" on Presentation of Items of Other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- Amendments to IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 7 "Financial Instruments: Disclosures" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 32 "Financial Instruments: Presentation" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

(ii) *Not endorsed by the European Union*

New standards

- IFRS 9 “Financial Instruments” (and subsequent amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2015).

Amendments

- Amendment to IFRS 1 “First-time adoption of International Financial Reporting Standards” on IAS 20 ‘Accounting for Government Grants and Disclosure on Government Assistance’ - exemption on the retrospective application of IFRSs in relation to government grants (effective for annual periods beginning on or after 1 January 2013).
- Annual Improvements 2011 (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 10, IFRS 11 and IFRS 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013).

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Bank.

2.3 Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

Foreign currency transactions that are transactions denominated, or 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. 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.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation (continued)

(ii) 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.

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

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

2.4 Derivative financial instruments and hedge accounting

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

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

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

The method of 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 the exposure to changes in the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.4 Derivative financial instruments and hedge accounting (continued)

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

(i) *Fair value hedge*

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

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

(ii) *Derivatives that do not qualify for hedge accounting*

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

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

2.5 Interest income and expense

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.6 Fees and commissions

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

2.7 Operating leases

Accounting for leases as lessee

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

2.8 Income taxation

(i) Current income tax

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

Where the Bank has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance.

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 consolidated statement of financial position.

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

(ii) Deferred income tax

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.8 Income taxation (continued)

(ii) *Deferred income tax (continued)*

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.

2.9 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 in a separate trustee-administered fund. 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 funded by the Bank. The Bank's contributions are expensed as incurred and are included in staff costs. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

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.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment

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

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

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

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

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.

2.11 Computer software

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

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

2.12 Impairment of non-financial assets

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.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities

2.13.1 Financial assets

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

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

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

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

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

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

(ii) *Loans and receivables*

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.1 Financial assets (continued)

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

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

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

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

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

(v) *Accounting treatment*

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method is recognised in the income statement.

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.2 Financial liabilities

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

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

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

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

2.13.3 Derecognition

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.4 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".

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.

2.14 Impairment of financial assets

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(i) Assets carried at amortised cost

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

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

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.

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "impairment losses on loans and advances" whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in "Gains less losses from investment securities".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Available-for-sale assets

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.15 Sale and repurchase agreements and securities lending

(i) *Sale and repurchase agreements*

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

(ii) *Securities lending*

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

2.16 Fiduciary activities

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

2.17 Related party transactions

Related parties include fellow subsidiaries, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis.

2.18 Trade/other payables

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

2.19 Provisions

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.20 Share capital

Ordinary shares are classified as equity.

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

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

2.21 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.

2.22 Financial guarantees

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

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

2.23 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current accounts and placements with banks, with contractual maturity less than three months.

Eurobank Cyprus Ltd

Notes to the financial statements

3 Critical accounting estimates and judgments in applying accounting policies

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

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

At 31 December 2012, if the recoverable amounts which are based on force sale values increased/decreased by 10%, provision for impairment losses on loans and advances to customer would have been €3.821 thousand lower/higher.

(b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market 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 are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the personnel that created 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 practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Eurobank Cyprus Ltd

Notes to the financial statements

3 Critical accounting estimates and judgments in applying accounting policies (continued)

(c) 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 of the equity investments below their cost. In determining what is significant or prolonged the Bank's management exercises judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) Income taxes

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 the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

At 31 December 2012, if the corporation tax rate had been 2,5% higher/lower, corporation tax would have been €1.152 thousand higher/lower.

(e) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate, future salary increases and inflation rate. The Bank determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate the Bank uses interest rates of government securities which have terms to maturity approximating the terms of the related liability. Other key assumptions for pension obligations are based in part on current market conditions.

At 31 December 2012, if the discount rate of obligations and the future salary increases rate had been 0,5% higher/lower, the retirement benefit costs charge would have been higher/lower as follows:

Assumption:	€'000
Discount rate of obligations +0,5%	(80)
Discount rate of obligations -0,5%	87
Future salary increases rate +0,5%	135
Future salary increases rate -0,5%	(121)

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management

4.1 Use of financial instruments

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

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

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

4.2 Financial risk factors

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

4.2.1 Credit risk

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

The Bank minimises the risk by spreading its loan portfolio over all economic sectors (Note 4.2.1.5) and by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.

In addition, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted (excluding related party balances, Note 30). Facilities higher than these limits are authorised and monitored by Eurobank Ergasias S.A.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

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

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

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

(b) Credit risk measurement – Loans and advances

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

Risk limit control and mitigation policies – Collateral

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

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held

The table below represents the maximum credit risk exposure to the Bank at 31 December 2012 and 2011, without taking account of any collateral held:

	2012 €'000	2011 €'000
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	1.688.099	2.336.932
Derivative financial instruments	659	5.063
Loans and advances to customers:		
- Wholesale lending	2.231.820	2.983.769
- Consumer lending	4.173	3.358
- Mortgage lending	12.849	12.001
Available-for-sale financial assets - debt securities	219.896	514.471
Debt securities lending	-	603.976
Held-to-maturity investments	164.608	163.673
Other assets	4.652	15.542
Total	4.326.756	6.638.785
Credit risk exposures relating to off-balance sheet items (Note 27):		
Guarantees and letters of credit	85.965	58.537
Approved unutilised credit facilities	286.035	411.168
Total	372.000	469.705

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

4.2.1.2 Loans and advances to banks

The credit quality of placements and settlement balances with banks, based on rating agencies' counterparty country ratings, is graded as follows as at 31 December 2012 and 2011:

	2012 €'000	2011 €'000
Aaa to Aa3	367.632	213.174
A1 to A3	259	-
Baa1 to Baa3	-	235
B1 to B3	50.473	-
Caa1 and below	690.352	1.253.042
	1.108.716	1.466.451

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers

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

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired as at year end can be assessed by reference to the Bank's standard grading system. Based on the Bank's credit assessment methodology, the credit quality of the total portfolio of loans and advances to customers is graded as follows as at 31 December 2012 and 2011:

	2012 €'000	2011 €'000
Satisfactory risk	1.608.316	1.134.055
Watch list	19.776	14.482
Total	1.628.092	1.148.537

The remaining loan portfolio which is covered by liens is disclosed in Note 30.

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

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

	31 December 2011			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Past due up to 29 days	8.492	120	-	8.612
Past due 30 - 89 days	13.315	84	-	13.399
Past due 90 - 180 days	3.952	8	-	3.960
Past due more than 180 days and less than a year	1.441	-	-	1.441
Total	27.200	212	-	27.412
Fair value of collateral	27.200	-	-	27.200

The total wholesale portfolio is covered by collateral 65,9% (in 2011: 73,3%). Consumer loans are generally not collateralised by tangible securities with exception of cash deposits taken as collateral in certain circumstances. Mortgage loans are fully collateralised.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2012 and 2011 based on Moody's ratings or their equivalent:

	31 December 2012				Total €'000
	Loans and advances to banks (1) €'000	Available- for-sale debt securities €'000	Held-to-maturity investments (2) €'000	Debt securities lending €'000	
Aaa	-	137.608	-	-	137.608
Aa1 to Aa3	-	63.305	-	-	63.305
A1 to A3	-	-	-	-	-
Lower than A3	-	18.983	164.608	-	183.591
Total	-	219.896	164.608	-	384.504

	31 December 2011				Total €'000
	Loans and advances to banks €'000	Available- for-sale debt securities €'000	Held-to- maturity investments €'000	Debt securities lending €'000	
Aaa	-	263.235	-	-	263.235
Aa1 to Aa3	-	11.059	-	48.828	59.887
A1 to A3	-	32.324	-	-	32.324
Lower than A3	-	207.351	128.564	555.148	891.063
Unrated	870.481	502	35.109	-	906.092
Total	870.481	514.471	163.673	603.976	2.152.601

(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 Eurobank Ergasias S.A. (Long-term Deposits rating: Caa2 (Moody's) in 2012 (Ca (Moody's) in 2011)) since there are lien agreements with Eurobank Ergasias S.A. for these debt securities (Note 30(ii)). As at the date of finalisation of the financial statements the Long-term Deposits rating was Caa2 (Moody's).

(2) The credit quality of Cyprus government bonds classified as held-to-maturity investments is B3 (Moody's) as at 31 December 2012 (Baa3 (Moody's) as at 31 December 2011). As at the date of finalisation of the financial statements the rating was Caa3 (Moody's).

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by geographical region as at 31 December 2012 and 2011. For this table, the Bank has allocated exposures to regions based on the country of domicile of counterparties.

	Greece	Cyprus	Other Western European countries	New Europe countries	Other countries	Total
	€'000	€'000	€'000	€'000	€'000	€'000
On-balance sheet assets						
Loans and advances to banks	1,269,736	50,472	237,315	-	130,576	1,688,099
Derivative financial instruments	564	69	-	26	-	659
Loans and advances to customers:						
- Wholesale lending	165,296	1,013,995	599,276	151,803	301,450	2,231,820
- Consumer lending	1	2,076	2,096	-	-	4,173
- Mortgage lending	-	12,849	-	-	-	12,849
Available-for-sale financial assets - debt securities	-	-	140,353	18,983	60,560	219,896
Debt securities lending	-	-	-	-	-	-
Held-to-maturity investments	-	164,608	-	-	-	164,608
Other assets	4,213	172	194	54	19	4,652
As at 31 December 2012	1,439,810	1,244,241	979,234	170,866	492,605	4,326,756
Off-balance sheet items						
Guarantees and letters of credit	1,891	82,090	2	7	1,975	85,965
Approved unutilised credit facilities	1,878	103,194	3,436	2	177,525	286,035
As at 31 December 2012	3,769	185,284	3,438	9	179,500	372,000

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	Greece	Cyprus	Other Western European countries	New Europe countries	Other countries	Total
	€'000	€'000	€'000	€'000	€'000	€'000
On-balance sheet assets						
Loans and advances to banks	2,123,999	301	212,632	-	-	2,336,932
Derivative financial instruments	4,239	808	-	-	16	5,063
Loans and advances to customers:						
- Wholesale lending	1,052,652	925,913	699,137	151,054	155,013	2,983,769
- Consumer lending	-	3,358	-	-	-	3,358
- Mortgage lending	-	12,001	-	-	-	12,001
Available-for-sale financial assets - debt securities	3,533	-	223,783	23,212	263,943	514,471
Debt securities lending	57,466	-	424,385	122,125	-	603,976
Held-to-maturity investments	201	163,472	-	-	-	163,673
Other assets	15,148	343	24	-	27	15,542
As at 31 December 2011	3,257,238	1,106,196	1,559,961	296,391	418,999	6,638,785
Off-balance sheet items						
Guarantees and letters of credit	2,307	50,698	-	-	5,532	58,537
Approved unutilised credit facilities	823	156,935	105,628	-	147,782	411,168
As at 31 December 2011	3,130	207,633	105,628	-	153,314	469,705

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following table breaks down the Bank's main credit risk exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by the industry sectors of the Bank's counterparties as at 31 December 2012 and 2011:

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru- ction €'000	Manufa- cturing €'000	Other €'000	Total €'000
On-balance sheet assets								
Loans and advances to banks	-	-	1,688,099	-	-	-	-	1,688,099
Derivative financial instruments	-	28	563	32	-	36	-	659
Loans and advances to customers:								
- Wholesale lending	-	1,169,185	639,232	229,396	22,498	164,342	7,167	2,231,820
- Consumer lending	-	380	-	3,783	-	-	10	4,173
- Mortgage lending	-	-	-	12,849	-	-	-	12,849
Available-for-sale financial assets								
- debt securities	142,848	38,562	38,486	-	-	-	-	219,896
Debt securities lending	-	-	-	-	-	-	-	-
Held-to-maturity investments	164,608	-	-	-	-	-	-	164,608
Other assets	-	148	4,408	-	-	-	96	4,652
As at 31 December 2012	307,456	1,208,303	2,370,788	246,060	22,498	164,378	7,273	4,326,756

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	Total €'000
Off-balance sheet items					
Guarantees and letters of credit	13,237	60,490	431	11,807	85,965
Approved unutilised credit facilities	-	-	9,085	276,950	286,035
As at 31 December 2012	13,237	60,490	9,516	288,757	372,000

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru- ction €'000	Manufa- cturing €'000	Other €'000	Total €'000
Loans and advances to banks	-	-	2.336.932	-	-	-	-	2.336.932
Derivative financial instruments	-	39	4.239	-	-	785	-	5.063
Loans and advances to customers:								
- Wholesale lending	-	1.065.879	1.461.595	251.474	23.084	168.884	12.853	2.983.769
- Consumer lending	-	15	-	3.343	-	-	-	3.358
- Mortgage lending	-	-	-	12.001	-	-	-	12.001
Available-for-sale financial assets								
- debt securities	397.773	54.634	59.300	-	-	2.764	-	514.471
Debt securities lending	179.491	10.929	404.366	-	-	9.190	-	603.976
Held-to-maturity investments	163.472	-	201	-	-	-	-	163.673
Other assets	17	-	15.173	325	-	-	27	15.542
As at 31 December 2011	740.753	1.131.496	4.281.806	267.143	23.084	181.623	12.880	6.638.785

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	Total €'000
Off-balance sheet items					
Guarantees and letters of credit	12.229	35.520	693	10.095	58.537
Approved unutilised credit facilities	-	-	7.096	404.072	411.168
As at 31 December 2011	12.229	35.520	7.789	414.167	469.705

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

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

(a) Interest rate risk

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

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

(b) Currency risk

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

(c) Equity 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 Risk Committee sets limits on the level of the exposures which are monitored daily.

The Bank's monitoring of market risk is performed by 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.

VaR summary for 2012 and 2011

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

(c) Equity risk (continued)

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

Average VaR by risk type:

	2012	2011
	€'000	€'000
Interest Rate Risk	206	1.504
Foreign Exchange Risk	6	15
Equities Risk	847	1.191
Total VaR	885	1.766

The VaR calculation is applied to all positions.

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

4.2.3 Liquidity risk

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

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

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

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

31 December 2012					Gross nominal (inflow) / outflow
	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	€'000
	€'000	€'000	€'000	€'000	€'000
Non-derivative liabilities:					
- Due to other banks	394.757	309.782	58.087	60.804	823.430
- Due to customers	1.400.420	1.120.405	617.704	114	3.138.643
- Other liabilities	5.878	801	44	43	6.766
	1.801.055	1.430.988	675.835	60.961	3.968.839
Derivative financial instruments:	978	87	255	39	1.359

Off-balance sheet items

	Less than 1 year €'000	Over 1 year €'000	Total €'000
Guarantees and letters of credit	43.488	42.477	85.965
Approved unutilised credit facilities	209.343	76.692	286.035
Capital expenditure	32	-	32
Operating lease commitments	689	533	1.222
	253.552	119.702	373.254

31 December 2011					Gross nominal (inflow) / outflow
	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	€'000
	€'000	€'000	€'000	€'000	€'000
Non-derivative liabilities:					
- Due to other banks	325.599	155.241	423.995	3.316.038	4.220.873
- Due to customers	1.218.238	913.985	215.956	39.880	2.388.059
- Other liabilities	11.518	2	18	457	11.995
	1.555.355	1.069.228	639.969	3.356.375	6.620.927
Derivative financial instruments:	696	492	11.648	45.549	58.385

Off-balance sheet items

	Less than 1 year €'000	Over 1 year €'000	Total €'000
Guarantees and letters of credit	29.688	28.849	58.537
Approved unutilised credit facilities	57.382	353.786	411.168
Capital expenditure	72	-	72
Operating lease commitments	764	621	1.385
	87.906	383.256	471.162

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The liabilities from derivatives are reported in the liquidity analysis using the current market values of them. Trading derivatives are presented in the first time bucket. Derivatives for hedging purposes are presented according to their expected holding period.

The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

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

4.3 Off balance sheet instruments

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.4 Capital management

	2012 €'000	2011 €'000
Ordinary shareholders' equity	528.897	465.338
Less: other regulatory adjustments	(10.703)	(2.074)
Total Tier 1 capital	518.194	463.264
Tier 2 capital	48.836	40.000
Less: other regulatory adjustments	-	-
Total regulatory capital	567.030	503.264
Risk Weighted Assets	1.753.755	1.835.275

	2012 %	2011 %
Ratios:		
Core Tier 1	29,5	25,2
Tier 1	29,5	25,2
Tier 2	2,8	2,2
Capital Adequacy Ratio	32,3	27,4

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

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

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

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.5 Financial assets and liabilities measured at fair value

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

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

- a) trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques.
- b) substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore the Bank has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, other than financial assets which are referred to in Note 18.
- c) All financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end; based on whether the inputs to their fair values are observable or non observable.
 - i) Level 1 - Quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis. Any form of valuation technique results in the instrument not falling into this level.
 - ii) Level 2 - Financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts, structured assets and liabilities and available-for-sale financial assets with no quoted price.
 - iii) Level 3 - Financial instruments measured using valuation techniques with significant non observable inputs.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

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

The classification of the Bank's financial assets and liabilities using the fair value hierarchy as at 31 December 2012 and 2011 is presented in the following table:

	At 31 December 2012			Total €'000
	Quoted prices in active market (Level 1) €'000	Valuation technique observable parameters (Level 2) €'000	Valuation technique non observable parameters (Level 3) €000	
Financial assets measured at fair value:				
Derivative financial instruments	-	659	-	659
Available-for-sale financial assets	242.795	-	-	242.795
Total financial assets	242.795	659	-	243.454
Financial liabilities measured at fair value:				
Derivative financial instruments	-	1.359	-	1.359
Total financial liabilities	-	1.359	-	1.359

	At 31 December 2011			Total €'000
	Quoted prices in active market (Level 1) €'000	Valuation technique observable parameters (Level 2) €'000	Valuation technique non observable parameters (Level 3) €000	
Financial assets measured at fair value:				
Derivative financial instruments	-	5.063	-	5.063
Available-for-sale financial assets	468.809	62.505	-	531.314
Total financial assets	468.809	67.568	-	536.377
Financial liabilities measured at fair value:				
Derivative financial instruments	-	58.385	-	58.385
Total financial liabilities	-	58.385	-	58.385

4.6 Fiduciary activities

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

Eurobank Cyprus Ltd

Notes to the financial statements

5 Net interest income

	2012 €'000	2011 €'000
Interest income		
Interest from loans and advances to banks	46.048	87.391
Interest from derivatives	13.028	37.053
Interest from loans and advances to customers	120.475	142.230
Interest from available-for-sale financial assets	13.423	19.059
Interest from debt securities lending	9.452	120.107
Interest from held-to-maturity investments	7.735	18.152
Other interest income	4	21
Total interest income	<u>210.165</u>	<u>424.013</u>
Interest expense		
Interest on due to other banks	(47.060)	(177.587)
Interest on repurchase agreements	(124)	-
Interest on derivatives	(20.136)	(56.800)
Interest on customer deposits	(63.061)	(56.274)
Other interest expense	-	(12)
Total interest expense	<u>(130.381)</u>	<u>(290.673)</u>
Net interest income	<u>79.784</u>	<u>133.340</u>

6 Net banking fee and commission expense

	2012 €'000	2011 €'000
Banking fee and commission income		
Bank transfer commissions	11.775	8.521
Other fees and commissions	13.403	12.569
Total banking fee and commission income	<u>25.178</u>	<u>21.090</u>
Banking fee and commission expense		
Fees on lien agreements (Note 30)	(13.362)	(48.653)
Other fees and commissions	(5.038)	(3.443)
Total banking fee and commission expense	<u>(18.400)</u>	<u>(52.096)</u>
Net banking fee and commission income/(expense)	<u>6.778</u>	<u>(31.006)</u>

7 Net trading income

	2012 €'000	2011 €'000
Gains/(losses) on hedging instruments	15.674	(3.650)
(Losses)/gains on hedged items attributable to the hedged risk	(9.136)	3.920
Net gains representing ineffective portions of fair value hedges	6.538	270
Foreign exchange loss	(85)	(681)
Gains less losses on financial instruments at fair value through profit or loss - held for trading	168	4.634
	<u>6.621</u>	<u>4.223</u>

Eurobank Cyprus Ltd

Notes to the financial statements

7 Net trading income (continued)

The Bank hedges a proportion of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate financial assets denominated both in local and foreign currencies using interest rate and cross currency interest rate swaps. The net fair value of these swaps at 31 December 2012 was €nil (2011: €54 million liability). The Bank recognised a gain of €6,5 million (2011: €0,3 million) from changes in fair value of the hedged items attributable to the hedged risk, net of changes in fair value of the hedging instruments.

8 Gains less losses from investment securities

	2012	2011
	€'000	€'000
Gains less losses on disposal of available-for-sale financial assets	21.936	5.253
Gains less losses on debt securities lending	7.805	1.254
Losses on unwinding of hedging instruments following disposal of hedged available-for-sale financial assets	(22.675)	(2.675)
Losses on impairment of available-for-sale equity investments	(220)	(41.868)
	<u>6.846</u>	<u>(38.036)</u>

9 Staff costs

	2012	2011
	€'000	€'000
Salaries and other related costs	8.822	7.588
Social insurance and other costs	1.497	1.275
Directors' fees and remuneration	901	1.071
Retirement benefit costs – defined benefits scheme	400	1.012
	<u>11.620</u>	<u>10.946</u>

The average number of employees of the Bank during the year was 188 (2011: 175).

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

	2012	2011
	€'000	€'000
Present value of the obligations (funded)	8.175	7.441
Fair value of plan assets	(8.818)	(6.984)
Retirement benefit (asset)/obligations recognised in balance sheet	<u>(643)</u>	<u>457</u>

Retirement benefit assets for 2012 are included in "Other assets" (Note 21) and retirement benefit obligations for 2011 are included in "Other liabilities" (Note 24).

The principal actuarial assumptions used for the actuarial valuation were:

	2012	2011
	%	%
Discount rate of obligations	4,85	5,50
Future salary increases	2013-2015: 1,00 pa 2016: 2,00 pa 2017: 3,50 pa	4,00
Future price inflation	2,00	2,00
Expected return on assets	4,85	4,50
SIC Offset Accumulation Rate	1,50	1,50
Average future working life	16,53	24,64

Eurobank Cyprus Ltd

Notes to the financial statements

9 Staff costs (continued)

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

	2012	2011
	€'000	€'000
Service cost	739	623
Interest cost	409	310
Expected return on assets	(314)	(281)
Net actuarial (gain)/loss recognised in the year	(434)	277
Past service cost	-	83
Total income statement charge	<u>400</u>	<u>1.012</u>

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

	2012	2011
	€'000	€'000
Liability for staff retirement obligations at 1 January	457	1.425
Actual contributions paid by the Bank	(1.500)	(2.288)
Current service cost	739	623
Interest cost	409	310
Expected return on plan assets	(314)	(281)
Actuarial (gain)/loss	(434)	277
Past service cost	-	83
Other	-	308
(Asset)/Liability for staff retirement obligations at 31 December	<u>(643)</u>	<u>457</u>

10 Other operating expenses

	2012	2011
	€'000	€'000
Amortisation of intangible assets (Note 19)	340	292
Depreciation of property, plant and equipment (Note 20)	752	945
(Gain)/loss on disposal/write down of intangible assets and property, plant and equipment	(37)	8
Operating lease rentals	968	903
Repairs and maintenance	1.051	962
Auditors' remuneration	96	104
Auditors' advisory fees	216	59
Professional fees	1.615	757
Advertising and promotion	810	834
Other administrative expenses	<u>2.210</u>	<u>2.067</u>
	<u>8.021</u>	<u>6.931</u>

Eurobank Cyprus Ltd

Notes to the financial statements

11 Income tax expense

	2012 €'000	2011 €'000
Current tax:		
- Corporation tax	6.599	7.998
- Withholding tax	396	457
Total current tax	6.995	8.455
Deferred tax charge	(33)	(5)
Total income tax expense	6.962	8.450

The Bank is subject to corporation tax on taxable profits at the rate of 10%. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2012 €'000	2011 €'000
Profit before tax	55.327	27.089
Tax calculated at the applicable corporation tax rate of 10%	5.533	2.709
Tax effect of expenses not deductible for tax purposes	96	4.721
Tax effect of allowances and income not subject to tax	970	568
Withholding tax	396	457
Deferred tax charge	(33)	(5)
Income tax expense	6.962	8.450

The Company is subject to corporation tax on taxable profits at the rate of 10% (1 January 2013 onwards is increased to 12,5%).

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

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

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

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

There is no income tax effect relating to components of other comprehensive income (2011: €nil).

Eurobank Cyprus Ltd

Notes to the financial statements

11 Income tax expense (continued)

Deferred income tax:

The Company is subject to corporation tax on taxable profits at the rate of 10%.

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

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

	Tax losses €'000	Differences between wear & tear and depreciation €'000	Total €'000
Balance at 1 January 2011	-	164	164
Charged to income statement	-	(5)	(5)
Balance at 1 January 2012	-	159	159
Charged to income statement	-	(33)	(33)
Balance at 31 December 2012 (Note 24)	-	126	126

12 Cash and balances with central banks

	2012 €'000	2011 €'000
Cash in hand	3.091	2.720
Balances with central banks	133.690	45.200
of which:		
Mandatory deposits with central banks	31.120	41.044

Cash and balances with central banks are classified as current.

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

Eurobank Cyprus Ltd

Notes to the financial statements

13 Loans and advances to banks

	2012	2011
	€'000	€'000
Reverse repurchase receivables (1)	579.383	-
Placements with banks (2)	880.786	1.390.775
Settlement balances with banks	227.930	75.676
Bonds held as part of assets securitisation transactions (3)	-	870.481
	<u>1.688.099</u>	<u>2.336.932</u>
Maturity analysis		
- on demand up to 7 days	1.114.320	485.177
- between 7 days and three months	418.123	745.400
- between three months and one year	100.057	233.373
- more than one year	55.599	872.982
	<u>1.688.099</u>	<u>2.336.932</u>

(1) The reverse repurchase receivables represent money market placements fully secured by EFSF issued bonds (Note 30).

(2) Placements and takings bear interest which is based on the interbank rate of the relevant term and currency (Note 30).

(3) 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 Eurobank Ergasias S.A. and as a result they are considered as receivables from Eurobank Ergasias S.A.

As of 31 December 2012, the Bank does not hold bonds issued by special purpose entities (SPEs) of Eurobank Ergasias S.A. incorporated for the purpose of asset securitisation transactions (2011: €870.481 thousand).

As of 31 December 2011 bonds amounting to €869.685 thousand were pledged as collateral in connection with securities lending agreements with Eurobank Ergasias S.A.

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

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 organised financial market. Since future contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

14 Derivative financial instruments and hedge accounting (continued)

	Fair Values			
	2012		2011	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives designated as fair value hedges				
Cross currency / interest rate swaps	-	-	148	53.432
FX round swaps	316	947	529	121
	316	947	677	53.553
Derivatives held for trading				
Foreign exchange derivatives	303	374	4.016	4.463
Cross currency / interest rate swaps	40	38	370	369
	343	412	4.386	4.832
	659	1.359	5.063	58.385

	Fair Values			
	2012		2011	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Analysed as follows:				
Current	618	1.320	4.381	12.836
Non-current	41	39	682	45.549
	659	1.359	5.063	58.385

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

Hedge accounting

(a) Cross currency/interest rate swaps

The notional principal amounts of the outstanding cross currency/interest rate swap contracts at 31 December 2012 were €3 million (2011: €344 million).

At 31 December 2012, the fixed interest rates vary from 0,52% to 8,25% (2011: 1,00% to 20,01%) 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 2012 were €12 million (2011: €26 million).

(c) Foreign exchange options

The notional principal amounts of foreign exchange options at 31 December 2012 were €31 million (2011: €75 million).

(d) Foreign exchange swaps

The notional principal amounts of foreign exchange options at 31 December 2012 were €227 million (2011: €123 million).

Eurobank Cyprus Ltd

Notes to the financial statements

15 Loans and advances to customers

	2012 €'000	2011 €'000
Private individuals:		
- Overdrafts	8.416	9.699
- Term loans	4.602	2.740
- Mortgages	12.849	12.001
	<u>25.867</u>	<u>24.440</u>
Corporate entities:		
- Large corporate loans	1.366.694	2.292.941
- Private banking loans	307.453	269.742
- International business banking loans	596.324	448.892
	<u>2.270.471</u>	<u>3.011.575</u>
Total	<u>2.296.338</u>	<u>3.036.015</u>
Gross loans and advances to customers	2.296.338	3.036.015
Less: provision for impairment losses	(47.496)	(36.887)
Net amount of loans and advances to customers	<u>2.248.842</u>	<u>2.999.128</u>
	2012 €'000	2011 €'000
Analysed as follows:		
Current	932.630	704.308
Non current	1.316.212	2.294.820
	<u>2.248.842</u>	<u>2.999.128</u>

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

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

	31 December 2011			
	Wholesale €'000	Consumer €'000	Mortgage €'000	Total €'000
Balance at 1 January	49.551	20	-	49.571
Impairment losses undertaken from Eurocredit Retail Services Limited (Note 31)	-	8.213	-	8.213
Impairment losses on loans and advances charged in the year	25.062	849	-	25.911
Impairment losses written off in the year	(47.475)	-	-	(47.475)
Foreign exchange loss	667	-	-	667
Balance at 31 December	<u>27.805</u>	<u>9.082</u>	<u>-</u>	<u>36.887</u>

Eurobank Cyprus Ltd

Notes to the financial statements

15 Loans and advances to customers (continued)

As at 31 December 2012, loan impairment provision amounted to €47.496 thousand (2011: €36.887 thousand), of which €20.355 thousand (2011: €19.235 thousand) relates to one loan receivable from a related company with a carrying amount before provisions amounting to €537.694 thousand as of 31 December 2012 (2011: €603.196 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

	2012 €'000	2011 €'000
Issued by public organisations – government bonds:		
- Greece	10.602	6.398
- Germany	-	59.526
- USA	60.560	62.003
- Russia	-	44.042
- Poland	-	20.535
- Romania	-	2.677
- France	63.305	62.150
- Serbia	18.983	146.840
	153.450	404.171
Issued by other issuers:		
- Banks	38.486	52.398
- Other	50.859	74.745
	89.345	127.143
Total	242.795	531.314
Listed	242.795	468.809
Unlisted	-	62.505
	242.795	531.314
Equity	22.899	16.843
Debt	219.896	514.471
	242.795	531.314
Current	121.945	16.843
Non current	120.850	514.471
	242.795	531.314

The movement in the account is as follows:

	2012 €'000	2011 €'000
Net book value at 1 January	531.314	485.260
Additions	508.630	284.459
Disposals and redemptions	(806.750)	(234.052)
Amortisation of discounts/premiums and interest	(2.314)	6.992
Amortisation of mark to market due to fair value hedging	776	(86)
Net gains/(losses) from changes in fair values	16.939	(30.993)
Foreign exchange adjustments	(5.800)	19.734
Net book value at 31 December	242.795	531.314

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

Eurobank Cyprus Ltd

Notes to the financial statements

16 Available-for-sale financial assets (continued)

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

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

	2012 €'000	2011 €'000
Balance at 1 January	(7.048)	(172.039)
Net gains from changes in fair value	27.653	175.177
Net gains transferred to net profit on disposal	32.937	48.861
Net losses transferred to net profit from fair value hedges / amortisation of mark to market	(45.396)	(59.047)
Balance at 31 December	<u>8.146</u>	<u>(7.048)</u>

17 Debt securities lending

Debt securities lending are classified and treated as "loans and receivables".

	2012 €'000	2011 €'000
Current	-	-
Non-current	-	603.976
	<u>-</u>	<u>603.976</u>

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.

The movement in the account is as follows:

	2012 €'000	2011 €'000
Net book value at 1 January	603.976	5.459.395
Additions	-	1.460.055
Redemptions	(597.249)	(6.350.459)
Amortisation of mark-to-market of reclassified securities	1.750	158.038
Amortisation of discounts/premiums and interest	(5.917)	(65.546)
Changes in fair value due to hedging	(3.258)	(58.055)
Foreign exchange adjustments	698	548
Net book value at 31 December	<u>-</u>	<u>603.976</u>

The fair value of these financial assets approximates their carrying amount at the balance sheet date.

Eurobank Cyprus Ltd

Notes to the financial statements

18 Held-to-maturity investments

Held-to-maturity investments comprise mainly of Cyprus government bonds with a carrying amount as of 31 December 2012 of €164.608 thousand (2011: €163.472 thousand).

	2012 €'000	2011 €'000
Current	-	-
Non-current	164.608	163.673
	<u>164.608</u>	<u>163.673</u>

The movement in the account is as follows:

	2012 €'000	2011 €'000
Net book value at 1 January	163.673	699.651
Additions	-	40.200
Redemptions	-	(563.256)
Amortisation of premium discount and interest	935	(12.922)
Net book value at 31 December	<u>164.608</u>	<u>163.673</u>

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

19 Intangible assets

	Computer licences & software €'000	Total €'000
Year ended 31 December 2011		
At 1 January 2011	2.143	2.143
Additions	231	231
Disposals and write offs	(7)	(7)
Amortisation charge (Note 10)	(292)	(292)
Net book value	<u>2.075</u>	<u>2.075</u>
At 31 December 2011		
Cost	3.339	3.339
Accumulated amortisation	(1.264)	(1.264)
	<u>2.075</u>	<u>2.075</u>
Year ended 31 December 2012		
At 1 January 2012	2.075	2.075
Additions	132	132
Disposals and write offs	-	-
Amortisation charge (Note 10)	(340)	(340)
Net book value	<u>1.867</u>	<u>1.867</u>
At 31 December 2012		
Cost	3.471	3.471
Accumulated amortisation	(1.604)	(1.604)
	<u>1.867</u>	<u>1.867</u>

Eurobank Cyprus Ltd

Notes to the financial statements

20 Property, plant and equipment

	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	Total €'000
Year ended 31 December 2011				
At 1 January 2011	3.680	198	1.206	5.084
Additions	805	-	465	1.270
Assets undertaken from Eurocredit Retail Services Limited (Note 31)	-	-	56	56
Disposals and write offs	-	(18)	-	(18)
Depreciation charge (Note 10)	(381)	(85)	(479)	(945)
Net book value	4.104	95	1.248	5.447
At 31 December 2011				
Cost	5.064	329	2.395	7.788
Accumulated depreciation	(960)	(234)	(1.147)	(2.341)
	4.104	95	1.248	5.447
Year ended 31 December 2012				
At 1 January 2012	4.104	95	1.248	5.447
Additions	54	35	249	338
Disposals and write offs	-	(8)	-	(8)
Depreciation charge (Note 10)	(426)	(65)	(261)	(752)
Net book value	3.732	57	1.236	5.025
At 31 December 2012				
Cost	5.118	229	2.644	7.991
Accumulated depreciation	(1.386)	(172)	(1.408)	(2.966)
	3.732	57	1.236	5.025

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

21 Other assets

	2012 €'000	2011 €'000
Prepaid expenses	229	158
Retirement benefit asset (Note 9)	643	-
Other assets	4.652	15.542
	5.524	15.700
	2012 €'000	2011 €'000
Current	4.734	15.577
Non-current	790	123
	5.524	15.700

Other assets include €4.213 thousand (2011: €15.142 thousand) receivable from Eurobank Ergasias S.A. (Note 30(i)).

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

Eurobank Cyprus Ltd

Notes to the financial statements

22 Due to other banks

	2012	2011
	€'000	€'000
Deposits from other banks	753.133	3.651.149
Settlement balances with other banks	24.958	93.075
Subordinated debt (Note 30(i))	40.001	40.005
	<u>818.092</u>	<u>3.784.229</u>
Maturity analysis		
- on demand up to 7 days	47.868	105.022
- 7 days up to 3 months	655.723	360.511
- 3 months to 1 year	57.554	444.227
- 1 to 5 years	16.427	1.962.971
- after 5 years	40.520	911.498
	<u>818.092</u>	<u>3.784.229</u>

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

23 Due to customers

	2012	2011
	€'000	€'000
Current accounts	675.504	541.424
Notice accounts	5.781	15.636
Term deposits	2.456.686	1.833.073
	<u>3.137.971</u>	<u>2.390.133</u>
Maturity analysis		
- up to 1 month	1.405.374	1.164.946
- between 1 month and three months	1.119.825	915.683
- between three months and one year	612.663	271.358
- between one year and five years	109	38.146
	<u>3.137.971</u>	<u>2.390.133</u>

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 2012 amounted to €688 million (2011: €557 million).

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

Eurobank Cyprus Ltd

Notes to the financial statements

24 Other liabilities

	2012	2011
	€'000	€'000
Current income tax liability	989	989
Deferred tax liability (Note 11)	126	159
Retirement benefit obligations (Note 9)	-	457
Other liabilities and accruals	6.766	11.538
	7.881	13.143
	2012	2011
	€'000	€'000
Current	7.712	12.686
Non-current	169	457
	7.881	13.143

Other liabilities and accruals include commissions and consultancy fees of €857 thousand (2011: €1.252 thousand) payable to Eurobank Ergasias S.A. and €523 thousand (2011: €6.752 thousand) payable to ERB New Europe Funding II Limited (former EFG New Europe Funding II Limited) (Note 30(i)).

25 Share capital

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

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

	No. of shares	Ordinary shares €'000	Share premium €'000	Total €'000
Authorised				
At 31 December 2012 & 2011	1.500	15.000	-	15.000
Issued				
At 1 January 2011	1.200	12.000	245.384	257.384
<i>New share issues:</i>				
At 29 December 2011	1	10	-	10
At 31 December 2011 and 2012	1.201	12.010	245.384	257.394

On 29 December 2011 the Bank proceeded with a new share capital increase. The increase comprised the issue of 1 new share in the capital of the Bank with nominal value and issuance price of €10 thousand. The issue of shares was for cash consideration.

There were no changes in the Bank's share capital in the year ended 31 December 2012.

All the shares have the same rights.

Eurobank Cyprus Ltd

Notes to the financial statements

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:

	2012 €'000	2011 €'000
Not later than one year	689	764
Later than one year and not later than five years	533	621
	<u>1.222</u>	<u>1.385</u>

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:

	2012 €'000	2011 €'000
<i>Contingent liabilities:</i>		
Guarantees	65.114	50.514
Other	20.851	8.023
	<u>85.965</u>	<u>58.537</u>
<i>Commitments:</i>		
Approved unutilised credit facilities	<u>286.035</u>	<u>411.168</u>

Capital commitments

As at 31 December 2012 commitments for contracted capital expenditures for the Bank amount to €32 thousand (2011: €72 thousand).

Legal proceedings

As at 31 December 2012 and 2011 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

28 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €360.098 thousand (2011: €990.024 thousand).

Eurobank Cyprus Ltd

Notes to the financial statements

29 Net cash flow from operating activities

	Note	2012 €'000	2011 €'000
Profit before tax		55.327	25.089
Adjustments for:			
Amortisation of intangible assets	19	340	292
Depreciation of property, plant and equipment	20	752	945
Gain on disposal/write down of intangible assets and property, plant and equipment		(37)	(16)
Provision for defined benefit retirement obligation	9	400	1.012
Impairment losses on loans and advances	15	10.525	4.892
Dividend income		(317)	(356)
Interest income on available-for-sale financial assets	5	(13.423)	(19.059)
Interest income on debt securities lending	5	(9.452)	(120.107)
Interest income on held-to-maturity instruments	5	(7.735)	(18.152)
Interest on due to other banks		(4)	5
Foreign exchange differences on investing activities		5.102	(20.282)
Hedging adjustment on debt securities lending portfolio		3.258	58.055
Profit on disposal of available-for-sale financial assets	8	(21.936)	(5.253)
Profit on disposal of debt securities lending portfolio	8	(7.805)	(1.254)
Net fair value loss on available-for-sale financial assets transferred to income statement		220	37.962
		<u>15.215</u>	<u>(56.227)</u>
Decrease/(increase) in operating assets			
Cash and balances with central banks		(88.490)	(4.499)
Loans and advances to banks		743.474	1.430.236
Financial instruments at fair value through profit or loss		-	47
Derivative financial instruments		4.404	(3.361)
Loans and advances to customers		739.761	64.052
Other assets		10.819	(15.070)
Increase/(decrease) in operating liabilities			
Due to other banks		(2.966.133)	(7.386.861)
Derivative financial instruments		(57.026)	(77.726)
Due to customers		747.838	(118.070)
Retirement benefit obligations		(1.500)	(1.980)
Other liabilities		(4.772)	(3.712)
Cash used in operations			
Tax paid		(6.995)	(8.178)
Net cash flow used in operating activities		<u>(863.405)</u>	<u>(6.181.349)</u>

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	2012 €'000	2011 €'000
Cash and balances with central banks (Note 12)	3.091	2.720
Balances with banks	1.325.218	1.230.577
	<u>1.328.309</u>	<u>1.233.297</u>

Eurobank Cyprus Ltd

Notes to the financial statements

30 Related party transactions and balances

Until 23 July 2012, the Bank was a member of the EFG Group, having as operating parent company European Financial Group EFG (Luxembourg) S.A. and ultimate parent company Private Financial Holdings Limited. The EFG Group held 44,70% of the ordinary shares and voting rights of EFG Eurobank Ergasias S.A. through wholly owned subsidiaries of the ultimate parent company.

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

Refer to Note 32 for additional details.

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

(i) Related party transactions and outstanding balances:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Loans and advances to banks (1)	1.269.734	2.123.457	-	116	-	-
Loans and advances to customers (2)	-	438	529.194	1.456.371	7.334	7.709
Derivative financial instruments – assets	563	4.239	-	-	-	-
Derivative financial instruments – liabilities	1.041	54.325	-	-	-	-
Available-for-sale financial assets	-	353	-	-	-	-
Debt securities lending	-	1.173	-	354.771	-	-
Held-to-maturity investments	-	206	-	-	-	-
Other assets	4.213	15.142	-	-	-	-
Due to other banks (3)	793.134	3.701.452	-	23.983	-	-
Due to customers	-	-	3.178	3.037	2.188	2.725
Other liabilities	857	1.313	553	6.737	-	-

Eurobank Cyprus Ltd

Notes to the financial statements

30 Related party transactions and balances (continued)

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

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Interest income	58.771	146.283	50.967	78.711	225	157
Interest expense	66.925	232.670	6	32	68	59
Banking fee and commission expense – fees on lien agreement	13.362	48.653	-	-	-	-
Banking fee and commission expense – other	1.796	-	-	-	-	-
Net trading income/(loss)	9.785	62.647	-	(667)	-	-
Gains less losses from investment securities	(22.675)	(9.621)	-	-	-	-
Impairment losses on loans and advances	-	-	13.950	19.742	-	-
Staff costs excluding retirement benefit costs	-	-	-	-	860	1.050
Retirement benefit cost	-	-	-	-	126	189
Directors' remuneration	-	-	-	-	901	1.071
Other operating expenses	24	-	130	-	-	-

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

(1) Loans and advances to banks include a reverse repurchase money market placement with Eurobank Ergasias S.A. of €579.383 thousand (2011: €nil) fully secured by EFSF bonds.

(2) Loans and advances to customers with Eurobank Ergasias S.A. Group includes the securitisation bond of Andromeda Plc with a balance of €Nil thousand as of 31 December 2012 (2011: €845.075 thousand).

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

Within 2012, placements have been redirected to unrelated Financial Institutions, that are not dependent on or exposed to Eurobank Ergasias S.A. improving the Bank's ring fencing status.

Eurobank Cyprus Ltd

Notes to the financial statements

30 Related party transactions and balances (continued)

(ii) Lien agreements

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

	2012 €'000	2011 €'000
Loans and advances to banks	-	870.481
Loans and advances to customers	643.324	1.524.438
Available-for-sale financial assets	18.983	310.762
Debt securities lending	-	555.147
Held-to-maturity investments	-	201
	<u>662.307</u>	<u>3.261.029</u>

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

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II Limited for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank

(iii) Securities lending

In November 2010 the Bank entered into an agreement with Eurobank Ergasias S.A. under which the two parties may enter into transactions in which one party will transfer to the other securities and financial instruments against the transfer of collateral with a simultaneous agreement by the borrower to transfer to the lender, securities equivalent to such securities on a fixed date or on demand against the transfer to borrower by the lender of assets equivalent to such collateral.

As at 31 December 2012, no amount corresponded to securities lent by the Bank to Eurobank Ergasias S.A. As at 31 December 2011, the respective amount was €2.703.381 thousand and is analysed as follows:

	2012 €'000	2011 €'000
Loans and advances to banks	-	869.427
Loans and advances to customers	-	840.447
Available-for-sale financial assets	-	385.301
Debt securities lending	-	444.598
Held-to-maturity investments	-	163.609
	<u>-</u>	<u>2.703.382</u>

Eurobank Cyprus Ltd

Notes to the financial statements

30 Related party transactions and balances (continued)

(iv) Alpha Bank Merger

On 22 May 2012, the Second Repeat Extraordinary Shareholders' Meeting of Alpha Bank aborted the merger procedure with Eurobank Ergasias S.A. and recalled Alpha Bank's General Meeting decisions on 15 November 2011.

31 Acquisition of Eurocredit Retail Services Limited

On 31 March 2011 the Bank acquired Eurocredit Retail Services Limited. The acquisition of Eurocredit Retail Services Limited has been accounted for as an acquisition of assets and liabilities as opposed to a business combination under IFRS3, as the subsidiary did not qualify as a business at the time of the acquisition.

The fair values of assets acquired and liabilities assumed were as follows:

	€'000
Loans and advances to banks	130
Loans and advances to customers	839
Property, plant and equipment	56
Other assets	2
Due to other banks	(9.972)
Other liabilities	(62)
	<u>(9.007)</u>

The carrying value of assets acquired and liabilities assumed equals their fair value as shown above.

	€'000
Purchase price paid in cash	10
Less: cash and cash equivalents of Eurocredit Retail Services Limited	(130)
Consideration for the acquisition, net of cash acquired	<u>(120)</u>

32 Post balance sheet events

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

On 5 October 2012, the National Bank of Greece S.A. (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank Ergasias S.A.'s (former EFG Eurobank Ergasias S.A. – refer to Note 30) shares offering 58 new shares of NBG for every 100 shares of Eurobank Ergasias S.A. tendered. NBG also stated that Eurobank Ergasias S.A. shareholders holding 43,6% of Eurobank Ergasias S.A.'s ordinary share capital have committed to tender their shares in the tender offer.

The offer was formally launched on 11 January 2013. On the same date, the Board of Directors of Eurobank Ergasias S.A., having considered the content of the VTO information memorandum and the reports provided by the financial advisors Eurobank Ergasias S.A., concluded in summary that the Offer Consideration satisfies the requirements of the Law and is fair from a financial point of view.

Eurobank Cyprus Ltd

Notes to the financial statements

32 Post balance sheet events (continued)

National Bank of Greece S.A. Voluntary Tender Offer (VTO) (continued)

On 15 February 2013, NBG announced that all necessary regulatory approvals have been obtained.

On 18 February 2013, NBG announced that during the offering's acceptance period for Eurobank Ergasias S.A.'s shareholders, 84,35% of Eurobank Ergasias S.A.'s shareholders have accepted legally the VTO; thus NBG holds 84,38% of Eurobank Ergasias S.A.'s paid in share capital.

The VTO would have been followed by the merger of the two banks, the process of which initiated on 19 March 2013.

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

In this respect, the Extraordinary General Meeting of shareholders of Eurobank Ergasias S.A., convened on 30 April 2013, decided the increase of Eurobank Ergasias S.A.'s ordinary share capital, in order to raise €5.839 million, subscribed by way of contribution in kind from HFSF, in accordance with Law 3864/2010 and Act of Cabinet 38/9.11.2012.

The Cyprus economy

The negotiations of the Cyprus Government with the European Commission, the European Central Bank and the International Monetary Fund (the Troika), in order to obtain financial support, resulted in an agreement and decision of the Eurogroup on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to 10 billion.

On 22 March 2013 legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus.

On 18 April 2013 legislation was enacted by the House of Representatives to increase the corporate tax from 10% to 12,5% with effect from 1 January 2013. Furthermore, legislation was enacted to increase the rate of special defense contribution from 15% to 30% on interest which does not arise from the ordinary course of business or is closely linked to it. Also, the special levy on deposits was increased from 0,11% to 0,15% with effect from 1 January 2013.

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

Independent Auditor's Report on pages 7 and 8.