ANNUAL REPORT 2011

LAIKI BANK GROUP

CONTENTS

Laiki Bank Group, with a history of over 110 years, has developed into a dynamic financial organization with a presence in 10 countries: Cyprus, Greece, United Kingdom, Russia, Ukraine, Romania, Serbia, Malta, Guernsey and a Representative Office in China.

The Bank offers services to private individuals, enterprises and large organizations, private banking, foreign exchange and treasury services, electronic banking, factoring, financing and leasing, international banking, insurance, investment and fund management.

The Group's competitive advantage is its manpower, which is guided by a culture of innovation, competitiveness and successes.

Its distinction in technological leadership, its customer-oriented approach and its anthropocentric philosophy confirm that Laiki Bank is more than just a Bank.

FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008	2007
	€ '000	€ '000	€ '000	€ '000	€ '000
Profit before impairments	**388.093**	375.987	454.723	515.679	646.186
(Loss)/profit attributable to the owners of the Bank	**(3.650.380)**	87.080	173.872	394.563	563.338
Capital resources					
Share capital	**1.369.444**	834.799	720.930	705.607	680.613
Reserves	**(875.284)**	2.700.712	2.914.992	2.724.214	2.708.982
Non-controlling interests	**106.398**	105.863	123.321	139.755	92.623
Total equity	**600.558**	3.641.374	3.759.243	3.569.576	3.482.218
Loan capital	**1.333.727**	1.267.931	1.050.501	725.907	604.049
Total capital resources	**1.934.285**	4.909.305	4.809.744	4.295.483	4.086.267
Customer deposits	**20.160.804**	25.508.361	23.885.776	24.828.269	20.694.917
Advances to customers	**24.778.623**	26.417.333	25.082.163	23.427.226	17.615.108
Total assets	**33.761.978**	42.580.486	41.828.363	38.367.152	30.257.573
Per ordinary share					
(Loss)/earnings - cent	**(246,0)**	10,0	20,8	48,3	72,1
Dividend – cent	**-**	32,0 (1)	8,0	15,0	35,0

(1) Interim dividend of €22,0 cent and a final dividend of €10,0 cent.

“We fully recognize our great responsibility as well as the challenge to lead the Group during this particularly critical period of adjustment to the new state of affairs.”

CHAIRMAN'S STATEMENT

Dear Shareholders,

2011 was certainly a year of challenges and important decisions for the Eurozone. At the same time, many Eurozone members and especially Greece were faced with a protracted period of uncertainty in the management of the debt crisis.

The financial results for the year 2011 were significantly affected by the decisions regarding the restructuring of the Greek public debt, while reflecting at the same time the wider prevailing economic and business environment, mainly in Greece but also in Cyprus. The fiscal consolidation efforts in Greece, together with the adoption and effective implementation of structural reforms in the public and private sector, create the necessary conditions for the stabilization of the Greek economy and set the stage for gradual recovery and healthy growth.

The prospects for the Cyprus economy are positive, especially following the recent necessary fiscal adjustment and the discovery of natural gas reserves, as well as the intention of the Cyprus government to proceed with further licenses for exploration in the Exclusive Economic Zone (EEZ) of the Republic of Cyprus. Infrastructure projects related to the management and exploitation of mineral resources are expected to contribute significantly to the development of the Cyprus economy and attract foreign investors with multiple benefits for many sectors of the economy, including the banking sector. Within the context of a prudent management, long-term growth conditions could be created without affecting the competitiveness of the Cyprus economy. We are presented with an attractive opportunity for Cyprus to become a regional energy hub and an alternative energy source for other European countries.

At the beginning of 2011, our Group successfully completed the largest capital increase ever achieved by a company listed on the Cyprus Stock Exchange. However, subsequent developments and the final decisions for the Private Sector Involvement (PSI +) for the restructuring of the Greek public debt at the end of the year, created the need for our Bank, as well as for most European banks, to prepare capital enhancement plans in compliance with the new higher regulatory Core Tier I capital ratio requirements by 30 June 2012.

Following the assumption of duties by the new Board of Directors at the beginning of 2012, we have initiated a comprehensive Capital Plan. The Plan combines a series of targeted actions and initiatives aimed at increasing the Core Tier I capital required, while targeting to safeguard and strengthen the Group's resilience.

The Group is repositioning itself strategically with Cyprus as its home base constituting its growth and development platform. The Group's revised strategic orientation incorporates controlled exposure to concentrated risk, with upgraded mechanisms for efficient risk evaluation and management, stable results from the key business segments, focus on financing the core of the economy, businesses and households, and also growth based on its especially successful international business banking and international operations model. The Greek operations are being restructured, so as to improve efficiency and reduce the Group's exposure, with a view to benefiting from recovery of the Greek economy in the future, while the Group is implementing a particularly tight cost containment policy.

During 2011, despite the relative deceleration of lending growth rates necessitated by changing conditions and our responsibility for the Group's stability, we upgraded the products and services we offer to our clients, which are expected to boost further our income growth. Supported by our recognised and high caliber human resources, we continue to focus our efforts on the satisfaction of our clients' constantly increasing needs as well as the creation of further value.

In our Group, we believe that corporate and social responsibility constitute an integral part of our corporate governance. We have continued to abide by our tradition to support the local communities in which we live and work.

Dear shareholders,

I would like to reassure you that we fully recognize our heavy responsibility as well as the challenge to lead the Bank during this critical adjustment period imposed by the current adverse economic conditions in Greece, Cyprus, but also in the rest of Europe. Our Group continues to benefit from a number of significant strategic advantages, among which are its leading position in the Cypriot domestic and international banking, its extensive international network connecting Cyprus with key markets abroad, and Cyprus' healthy economic foundations and prospects arising from the recent discovery of gas reserves. This allows us to be optimistic for the success of the significant initiatives and efforts we are undertaking to continue contributing substantially to the growth of our economy.

Michalis Sarris
Chairman

“We are formulating a new development model which is consistent with the new challenges, the Bank´s leading position, but also with its decisive contribution to an economic development.”

GROUP CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

2011 was an exceptionally difficult year for the broader European financial system and also for Laiki Bank Group. Banks had to operate in an environment characterized on the one hand by the escalation of the prolonged economic crisis and on the other hand by persistent tensions in financial markets.

The protracted uncertainty regarding the outcome of the efforts to restructure Greek public debt, but also the unstable broader business environment, formed a determining factor for 2011 results.

TARGETED ACTIONS AND FIRM STEPS

At times of economic instability, it is very important to be clear as regards our strategy. After assuming my duties as Group CEO in December 2011, we have taken, under the guidance of our Board of Directors, important decisions on a number of issues regarding the future of the Group.

Our top priority in the immediate future is the strengthening of our capital base, and our key objective is to enhance and strengthen the areas in which we have comparative advantage and superiority in order to lead Laiki Bank Group back to its historic high profitability levels.

The primary objective in this short period of time was to identify our problems, which emerged from the effects of the prolonged crisis, and to confront them immediately and sincerely in order to be able to solve them decisively.

In this context our initiatives are summarized as follows:

- Further improved the mechanisms for efficient risk assessment and management. Meanwhile, at the end of 2011, we initiated and completed the appointment of two independent specialized consultants for the timely diagnostic assessment of the Group's loan portfolio to ensure preservation of the portfolio's quality as well as decisively deal with risks from potential impairments
- Focused on the transparent reflection of the impact on the loan portfolio, particularly in Greece due to the prolonged economic crisis, in order to make start with a revised and solid base
- Completed the design of a comprehensive capital strengthening plan for the Group, given that our main goal for 2012 is to strengthen our capital base

2011 OPERATING RESULTS

The market conditions in the area of operations, especially in Greece, during the last twelve months were the worst in the recent history of our Group. In this adverse environment, which continued for the fourth consecutive year, Laiki Bank Group recorded operating profits, before provisions, of €388 million in 2011, 3% higher on an annual basis. More specifically, profit before impairments, adjusted for financial and other revenue, rose by 25% on an annual basis to €330 million in 2011, i.e. at the highest level of the last three years.

Total Group revenues amounted to €1.037 million in 2011, 2% higher compared with 2010, as a result of a strong growth in net interest income by 13% to €799 million in the same period, despite the fact that net commission income declined by 10% to €180 million and financial and other income dropped by 47% to €58 million.

Net interest margin improved significantly to 2,28% in 2011 from 1,82% in 2010 and 1,72% in 2009. This improvement reflects the efforts we have exerted over the last three years to fairly reprice our assets across all geographic areas.

The Group's operating expenses remained, on an annual basis, at the same level of €649 million in 2011. The deceleration of the rate of growth in operating expenses is indicative of the considerable efforts made to improve efficiency and productivity of the Group over the past two years and these efforts are expected to be intensified in the near future by means of new specific initiatives.

TRANSPARENT REFLECTION OF PROLONGED GREEK ECONOMIC CRISIS

Aiming at a transparent and comprehensive reflection of the effects of the protracted economic crisis in Greece at all levels, we proceeded with the implementations of specific actions.

Firstly, the Group initiated an independent diagnostic assessment of its loan portfolio undertaken by two specialised external consultants, targeting at the timely diagnosis and preservation of its portfolio quality and the decisive confrontation of potential impairments risks. This diagnostic assessment formed the basis for strengthening the reserve provisions and the current position of cumulative provisions reflects a scenario of a continuation of the negative environment. The provisions for the loan portfolio amounted to €868 million in the fourth quarter of 2011 reaching €1.151 million for the whole year 2011, compared to €266 million in 2010. Accumulated provisions reached €1.930 million fourth quarter 52% coverage of non-performing loans in December 2011, compared to 46% in third quarter of 2011.

GROUP CHIEF EXECUTIVE OFFICER'S STATEMENT

Secondly, an impairment charge of 76,4% of nominal value of €3,1 billion of Greek government bonds which the Group possessed, as a result of the Private Sector Involvement programme (PSI+), resulting in a €2.331 billion impairment loss. Following the 2011 impairment provision of the Greek government bonds, their carrying value has been impaired by 73,9% and now stands at 26,1% of their initial book value.

The above two actions have resulted in a loss attributable to the owners of the Bank of €2.830 million for the year 2011.

Furthermore, as a result of the continued adverse macroeconomic conditions prevailing in Greece, the Group after assignment to an independent external specialized consultant revised the carrying value of goodwill which resulted from the triple merger of Egnatia, Marfin and Laiki Bank in 2006. As a consequence, an impairment charge of €796 million has been recognised in the last quarter of 2011 which does not affect the Group's regulatory capital position according to the regulations of the Central Bank of Cyprus.

Taking also into account the impairment of goodwill and other intangibles, the loss attributable to the owners of the Bank for 2011 reached €3.650 million.

COMPREHENSIVE PLAN OF CAPITAL ENHANCEMENT

The issue of new capital required for the Group to comply with Core Tier I capital ratio of 9% by 30 June 2012, as set by the European Banking Authority is included in the plan for capital enhancement which has been submitted to the Central Bank of Cyprus and has been agreed with the appropriate regulatory authorities.

The capital plan includes a set of targeted actions including the exchange of existing capital securities,asset optimisation and management of portfolio exposures and raising of new equity. More specifically, the plan provides for the following:

- The raising of up to €1,8 billion via new ordinary equity from shareholders through a rights issue and/or private placement.
- Around €600 million to be raised through exchanging into Core Tier I capital, of part of the Group's outstanding capital securities and subordinated debt (Tier II capital).
- Approximately €400 million through the management of the Group's risk weighted assets including divestment of non-core positions.

The successful implementation of the recapitalization plan scheduled for June 2012 will significantly strengthen the capital base of the Group and will ensure conformity with the regulatory and supervisory requirements but will also lay the foundations for the future growth and profitability of the Group.

REVISED STRATEGIC DIRECTION AND A TARGETED PLAN FOR THE IMPROVEMENT OF PERFORMANCE AND ENHANCEMENT OF PROSPECTS

Laiki Bank is repositioning itself strategically on its Cyprus home base, which will constitute the growth and development platform of the Group. The Group's revised strategic direction encompasses controlled risk exposure, stable returns from key business sectors, focusing on the financing of the core of the economy, businesses and households, and also further growth based on the successful model of Group operations in international business banking and international operations. The recalibration of the Greek operations aims at improving performance and reducing exposure ultimately, positioning the Group to benefit from a future recovery of the Greek economy.

At the same time, an integrated organisational structure with well experienced executives and upgraded local and intra-Group procedures has already been put in operation to support the Group's new strategic direction.

A thorough set of operating initiatives has been put in place to strengthen the Group's monitoring of contingent weighted risks its profile of operating performance. These initiatives focus, among others, on the continuous portfolio rationalization, away from non-core exposures, including large business loan exposures, and active yield management of assets and deposits to support net interest income. In the area of cost, extensive cost control initiatives are underway for cost reduction so that current Group cost levels can be commensurate with Group activity levels, with the aim of improving productivity.

At this point I would like to emphasize that our profitability levels for 2011 are not indicative of Laiki Bank Group's future potential and prospects. It is clear that our main goal is to strengthen the Group's capital base. At the same time, we examine every business sector in order to be confident that our Group is well positioned regarding the needs required by the markets today and the immediate future. We are trying to identify which business sectors are those that will trigger our future growth and profitability, so that our emphasis will be placed there, while at the same time supporting substantially the economies of the countries where we operate.

For example, the International Business Banking Division has benefited significantly from the increase of international transactions among Russia, Eastern Europe, India, Israel and other countries worldwide, the significant increase in commodity prices, as well as by the new funds created in emerging markets. The need for financial products and services is huge and the Group occupies a leading position in this market in order to be able to take advantage of every such opportunity.

GROUP CHIEF EXECUTIVE OFFICER'S STATEMENT

Moreover, other business areas of the Group, such as Retail Banking and Corporate Banking are contributing consistently to profitability, while it is expected that they will be strengthened further through the significant prospects created by the proven reserves of hydrocarbons, as well as the attractive opportunity for Cyprus to become a regional energy hub and an alternative energy channel to the other European countries.

IMPORTANT DISTINCTIONS OF LAIKI BANK GROUP

In 2011, the Bank continued to invest in innovative products and services, of the highest calibre, constantly orientated towards providing the best service to our customers. The recognition and reward of our efforts are reflected in the significant distinctions awarded to the Group in key sectors. In Cyprus, Laiki eBank was voted for the third consecutive year as the "best internet consumer bank" by the Global Finance magazine. Also, the same magazine declared the Custody Services of Laiki Bank as the best sub-custodian in the Cypriot market for the second time. Laiki Bank was also awarded two prizes by Citigroup, one for leadership and another for excellence for its performance in international electronic payments and specifically in the areas of Treasury and Commercial Payments. In Greece, the Call Centre of Marfin Egnatia Bank was voted for the third consecutive year as the best among large call centres. In Ukraine, the subsidiary of the Group, Marfin Bank Ukraine, was honored with the prize "Europe Quality Award" by the European Business Assembly, which is awarded to companies with products and services corresponding to the highest European standards of quality and competitiveness.

The Group continued during 2011, within the framework of its Corporate Social Responsibility, its focus on culture, sports, education, healthcare and environment. Among the social responsibility actions taken, I shall mention the three-year sponsorship by the Woman's Card of Laiki Bank of the research program for breast cancer of the Institute of Neurology and Genetics in Cyprus. Thousands of Laiki Bank Group employees support every year the Radiomarathon, the largest voluntary and humanitarian institution in Cyprus, which has now completed 22 years of life, while the Group has also sponsored leading sports events, such as Laiki Bank Football Championship, significant environmental actions, as well as green banking products, such as Colour-it-Green.

Our Woman's Card credit card was awarded the Cyprus Marketing Excellence Award in the category of "Development of New Services and Markets", while the Radiomarathon was granted a special prize in the category of "Integrated Marketing Communication". Those awards constitute both the recognition and confirmation of our Bank's great and lasting social contribution. The most important reward for us, though, is the response of society to our effort of always being close to our fellow-men and contributing to the development and prosperity of our country.

A point of reference for our Group but also a major factor of success is the quality and efficiency of our employees across all regions in which we operate. 2011 was a year of high expectations from our staff, which, despite the multiple adverses it faced, managed to improve our operational results, to achieve the above distinctions and remain absolutely focused on our strategic priorities, emphasising on the provision of the best possible customer service, and safeguard the interests of our shareholders.

PROSPECTS FOR 2012

The main pillars of our corporate culture are consistency, reliability and transparency in our responsible banking activity. The decisive tackling of the difficulties faced the targeted systematic initiatives which we have developed and the experience accumulated over the recent years, have rendered us even stronger.

We realize that the broader macroeconomic and business environment continues to present significant challenges. Through these challenges we also foresee opportunities for Laiki Bank Group.

We look forward to the gradual improvement of the macroeconomic conditions and we feel confident for the success of our capital enhancement plan, which will allow us to focus on the realization of our business objectives.

We are confident that the qualitative elements characterizing our Group devotion, teamwork and professionalism of our staff, as well as our customers' and shareholders' trust will strengthen Laiki Bank Group and enable it to continue its leading role in the regional banking sector, consistently driving forward its 110-year success story.

In 2011 we made significant strides that allow us to enter 2012 with cautious optimism. We are on a good track and can express our full commitment to the achievement of our strategic goals. We wish to thank our 1.350.000 customers across all 10 countries in which we operate and our 97.000 shareholders for their trust and support.

Christos Stylianides
Group Chief Executive Officer

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Michalis Sarris	-	Non Executive Chairman
Constantinos Mylonas	-	Non Executive Vice Chairman
Neoclis Lysandrou	-	Non Executive Vice Chairman
Christos Stylianides	-	Group Chief Executive Officer
Panayiotis Kounnis	-	Deputy Group Chief Executive Officer
Fadel Al Ali		
Hesham Al Qassim		
Peter Baltussen		
Markos Foros		
Platon E. Lanitis		
Chris Pavlou		
Stelios Stylianou		
Vassilis Theocharakis		

Group Executive Committee

Christos Stylianides - Chairman
Panayiotis Kounnis
Rodoula Hadjikyriacou
Samuel David
Annita Philippidou

Secretary

Stelios Hadjijoseph

Group Chief Financial Officer

Annita Philippidou

Independent Auditors

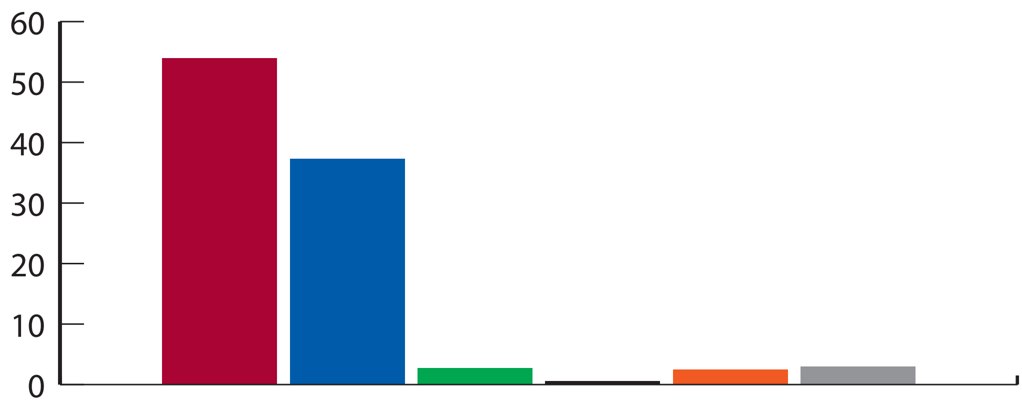
PriceWaterhouseCoopers Limited
Grant Thornton (Cyprus) Limited

Registered Office

154, Limassol Avenue, 2025 Nicosia, Cyprus

Note: The Annual General Meeting will be held on June 21, 2012 at 4.00 p.m., at The Sporting Club of Laiki Bank in Nicosia.

ANALYSIS OF SHAREHOLDERS



Category of Shareholders	No. of Shareholders	No. of Shares	Percentage %
Public or Private Companies, Insurance Companies, Partnerships, Business Names, Municipalities	1.062	868.845.848	53,93%
Private Individuals	89.791	601.322.691	37,32%
Provident Funds, Trusts, Pension Schemes, etc.	251	44.341.525	2,75%
Clubs, Churches, Institutions	48	9.626.794	0,60%
Laiki Bank Group Staff	2.393	39.531.766	2,45%
Investment Schemes registered in the name of companies, Mutual Funds	117	47.441.934	2,94%
Total	**93.662**	**1.611.110.558**	**100,00%**

COMMENTS ON THE RESULTS FOR 2011

Economic activity has been mixed in 2011 with wide disparities at the country level, especially in the context of the European Union, where a number of countries continued to struggle with debt problems. The recession deepened in Greece while in Cyprus economic activity contracted marginally in the second half of the year, driven by tight credit conditions and a slow-down in domestic demand. In Eastern Europe most countries performed relatively well following deeper recessions in preceding years. In Romania, for instance, economic activity turned positive following three years of contraction. In Russia, Serbia and Ukraine economic activity in the year remained robust. Developments in Greece, particularly in relation to the private sector involvement in the country's debt write-down, had a profound impact on bank reported profit and loss accounts.

Despite these adverse economic conditions, the Bank remained profitable at an operating level whilst at the same time strengthening further its internal procedures and technological infrastructure.

In Cyprus, Retail Banking continued to offer new and innovative products serving the needs of its personal and professional client base. Laiki eBank, the Group's internet banking arm, continued on its strategy of migrating transactions to electronic channels and was awarded by the Global Finance magazine the prize of 'Best Consumer Internet Bank' in Cyprus for a third consecutive year. The Group's insurance companies in both the life and general branches maintained their leading market positions.

In Greece, the ongoing debt crisis was reflected in credit tightening and continued economic contraction impacting on performance and financial results. Credit quality deteriorated in line with overall market developments, and liquidity was strained by continued deposit outflows. Despite the adverse economic environment, Marfin Egnatia Bank, the Group's banking arm in Greece, continued to innovate through its product line.

In 2011 the Group maintained its presence in nine countries world-wide, in addition to Cyprus and Greece, adding also a representative office in China, the first such office to be opened in China by a Cypriot bank. At the same time, the Group completed the sale of 85% of its shareholding in Laiki Bank Australia in line with a strategy of asset rationalisation and reallocation of resources to the South-Eastern European region. The Group also signed a Share Purchase Agreement with a Ukrainian company for the sale of the Bank's participation in its Estonian subsidiary.

At an operational level, the Group's Information Technology achieved substantial cost savings and delivered important projects contributing to overall efficiency and effectiveness, including the continued implementation of a new banking system. Furthermore, the Group's Organisation Division continued to support the drive for improved productivity focusing on operational integration and standards internationally.

CYPRUS MARKET

Credit expansion in 2011 accelerated to 11,5% from 6,2% the year before driven more by lending to non-residents rather than residents. Lending in the domestic sector decelerated in fact, up by 7% compared to an increase of 8,1% the year before. The deceleration was mostly the result of a marked slow-down in household borrowing. By contrast, deposits declined by 0,9% in the year driven mostly by a 3,6% drop in the domestic resident sector. Non-resident deposits were up due mostly to inflows from the Euro area. In the domestic resident sector, the decline in deposits was entirely attributable to companies whereas households recorded a small increase.

Banking Services

In admittedly difficult economic conditions over the past year, Retail Banking continued to offer personal, business and housing loans to meet the needs of individuals and small businesses, and provide integrated solutions to both new and existing customers. Within this context, the housing loan scheme 'HomePack HomeMade Home for All' was promoted during 2011. This scheme packages together various products in order to comprehensively meet the banking needs of customers planning to build a house and offers attractive pricing and favourable loan terms. In addition, based on the needs of customers looking for the certainty of monthly financial planning, Retail Banking continued to offer the 'Fixed Instalment Housing Loan' characterized by a low fixed monthly instalment for the first 10 years of the loan, whilst at the same time introducing the new scheme 'Instalment Instead of Rent' to help those currently renting to acquire their first permanent home, paying a loan instalment similar to that of their rent.

During the period under review, the Bank introduced a package of products called 'Safenest' addressed at young families and designed to meet the basic banking needs of families as well as for healthcare cover. Purchase of the Safenest package secures cost savings for the family, with access to banking facilities to meet everyday financial needs, while offering a sense of security and peace by covering the healthcare needs of the whole family. In addition, Safenest customers enjoy special offers on financing facilities through the Safenest housing scheme.

During 2011, Salary Package was launched which offers a combination of three facilities: a current account, a personal loan and a credit card. To benefit from the facilities which Salary Package offers, the customer must arrange, in cooperation with his employer, to have his or her monthly salary automatically and directly credited to his current account. The characteristics of Salary Package, in conjunction with very low or even zero bank charges makes it an excellent choice for every employee.

COMMENTS ON THE RESULTS FOR 2011

Also during the past year, Retail Banking continued to show genuine concern for environmental issues via the ongoing availability of its ‘Colour-it-Green’ range of products, which enable customers to make certain changes to their home or business premises, to the way they travel, as well as to the manner they manage energy consumption thereby contributing in their own way, to the protection of the environment.

The Colour-it-Green range was also extended through the introduction of the Business Colour-it-Green scheme for the purchase or building of environmentally-friendly business premises. The scheme offers preferential pricing and allows for long-term repayment periods of up to 25 years, and is available to companies and self-employed individuals permanently residing in Cyprus. The loan may be used to purchase or build new business premises or to renovate existing business premises involving changes to the structure of the building for the purpose of energy conservation, i.e. insulation of the tank or piping.

As far as deposits are concerned, which at this juncture, constitute the Bank’s most stable liquidity source, the strategy followed focused on securing the necessary liquidity, bearing in mind the profitability targets of the Bank.

In light of this, during the reporting period, Retail Banking developed a wide range of deposit products at very competitive terms to satisfy the demands and needs of each customer.

The 12-month deposit product ‘Extra’ is aimed at customers who will not need access to their money for a year. The deposit offers an attractive monthly interest rate, increasing twice a year, in April (Easter) and December (Christmas) in order to cover any additional costs that may arise during these months. The minimum deposit amount is €20.000. Interest is paid at the end of each month into another account of the customer’s choice.

The 12-month deposit "Return X 12" pays interest to the customer every month and is primarily aimed at retirees who want to receive their interest each month for financial planning purposes whilst keeping their capital intact.

‘STEP-UP’ products of 12, 18 and 36 months’ duration are also available, offering the customer a high return and the flexibility to withdraw the deposit on renewal without penalty (i.e. every month or every three or six months). It is worth noting that if the customer exercises his right to withdraw his money, the return up until the time of the withdrawal will be competitive with the return he would have gained, had the money been on a fixed deposit of equal duration.

Laiki eBank

During 2011, Laiki eBank continued to grow and provide innovative and high quality services in the field of electronic banking to over 200,000 subscribers, individuals and businesses.

Laiki eBank has been implementing the Bank's strategy to migrate transactions from branches to electronic channels, where the cost of servicing is considerably lower. Customers benefit from these savings in the form of lower pricing. This feature was presented as the main advantage of electronic services in various campaigns of Laiki eBank for the promotion of its products and services.

Laiki eBank achieved significant increases in the number of electronic transactions and the number of subscribers and has focused its efforts on providing prompt, reliable and secure service to its customers, through its electronic service channels (the Internet, landline phone, mobile phone, ATMs).

Within the context of corporate social responsibility, it co-organized for the third year the “e-Commerce” Conference, which was attended by executives from Cypriot businesses, where current and innovative topics regarding e-commerce were presented.

In 2011, Global Finance, the international banking magazine, has awarded Laiki Bank the prize “Best Consumer Internet Bank” in Cyprus for the third consecutive year. At the same time, Global Finance magazine has awarded Laiki Bank the award “Best Corporate/Institutional Internet Bank” in Cyprus. The above successive awards demostrate the dynamic development of electronic banking at Laiki Bank in both the retail and business sectors and classify Laiki eBank among the best online banks in Europe.

Insurance Services

During 2011, the companies of the Group maintained their leading position in the insurance market of Cyprus.

In an adverse economic environment prevailing in 2011 which negatively affected the insurance market, the companies of the Group in Cyprus and Greece, pursuing their flexible product policy and customer-oriented strategy, managed to maintain the Group’s total income and profitability from insurance operations at high levels.

COMMENTS ON THE RESULTS FOR 2011

Laiki Insurance has managed to maintain its incontestable leading position in the field of general insurance and satisfactory profitability, despite the negative conditions and intense competition in the Cyprus insurance sector. This achievement is due to the Company’s customer-oriented strategy and the provision of integrated insurance solutions as well as the adoption of the right insurance principles with regard to acceptance and pricing of the risks undertaken and the effective management of claims and control of expenses. The Company's branch in Greece, which offers bancassurance products in general insurance business to Marfin Egnatia Bank clientele, has achieved extremely good results, with an increase in written premium of approximately 45% and tripled its profitability. The Company has played a very active role in matters of Corporate Social Responsibility, especially with regard to Road Safety, Fire Safety and Health and Safety in the workplace.

Laiki Cyprialife maintained its leading position in the insurance market of Cyprus and managed an increase in its market share. This became possible due to its flexible product policy which took into account the differentiation that occurred in the insurance market due to the economic and fiscal crisis and introduced insurance products designed in such a way as to satisfy the current needs and concerns of the consumer. In this context, products such as health and accident insurance as well as products combining life insurance with a guaranteed performance of the capital invested, were promoted.

Laiki Cyprialife maintained very healthy profitability despite the negative economic conditions and maintained a high capital adequacy which completely satisfies all the strict capital requirements of Solvency II.

In the Greek Life business market, CNP Marfin Life successfully continued its cooperation with Marfin Egnatia Bank, focusing on the promotion of saving and health products. During 2011, CNP Marfin Life launched two new innovative products (Diabetes & Ygeia / Epiheirisi & Ygeia), introduced sales incentives for the sales network of Marfin Egnatia Bank and focused on the improvement of systems, infrastructure and its operational procedures. In addition, CNP Marfin Life continued the cooperation with the Greek Postal Bank, offering to consumer-loan holders of the Bank, life and disability benefits.

Other Financial Services
During 2011, the Finance Division of Laiki Bank was operating in a difficult economic environment. It succeeded, however, in maintaining its market share in all strategic sectors. At the same time, it managed to improve even further the quality index of the new business.

The Finance Division of Laiki Bank continued to exercise a leading role in the market, offering excellent service both to its business partners as well as to its customers.

In 2011, Marfin CLR operations were affected by the adverse conditions that prevailed in the financial markets. More specifically, during 2011, the General Index of the Cyprus Stock Exchange (CSE) and the Athens Stock Exchange (ASE) recorded annual losses of 72,0% and 51,9% compared to losses of 33,9% and 35,6% respectively, during 2010. In addition, trading volumes in both stock markets also recorded a significant decrease relative to 2010. The drop in trading volumes for the CSE was 57,2%, while the corresponding drop for the ASE was 41,1% in comparison with 2010. Nevertheless, in 2011 Marfin CLR managed to retain its leading position in the CSE with a market share (excluding pre-agreed transactions) of 25,75%, whereas in the ASE Marfin CLR managed to improve its market share from 1,11% in 2010 to 1,18% in 2011, with the Company ranking amongst the leading remote members of the ASE and the first amongst CySEC-Regulated Financial Services Companies.

It is also worth noting that, despite the adverse conditions that prevailed in 2011, Marfin CLR managed to remain profitable at an operating level. This is mainly due to the fact that Marfin CLR provides a full range of investment banking services/products not only for the CSE and ASE, but also for the global market. As a result, the Company’s profitability is not entirely dependent on the fluctuations of the CSE and ASE. In addition, in 2011, Marfin CLR made a significant effort to curtail its costs resulting in a yearly reduction in its operating expenses of around €432.000 (a 7,4% reduction in relation to 2010).

Laiki Factors
The year 2011 proved to be yet another good year in terms of performance and profitability for Laiki Factors, despite the adverse economic conditions prevailing in the market, both at a local and global level. The company’s leading role and important presence in the market together with the valuable experience it has gained throughout the years, ensured the successful implementation of its strategy which is based on maintaining and enhancing the quality of its portfolio, upgrading and maximising the quality of its services and providing lasting excellent customer service.

GREEK MARKET

During 2011, the Greek banking system, like every other sector of the Greek economy, suffered the effects of the escalation of the Greek public debt crisis and the severe austerity measures, imposed on the country for a second consecutive year. The aforementioned measures in conjunction with the sovereign debt dynamics and political uncertainty that prevailed in Greece and the European area, caused a significant deterioration in all sectors of the Greek economy. In real terms, the Greek economy contracted for a fourth year in a row, by 6,9% in 2011, worse than Troika’s projection of a 4% contraction for the end of the year.

COMMENTS ON THE RESULTS FOR 2011

For the Greek banking sector and the majority of the Greek economy, liquidity remains the key issue. The Banks' exposure to Greek Government Bonds, significant deposit outflows and a rising number of non-performing loans have intensified the pressure on the banking system, leading to significant credit tightening. The profitability and efficiency of the banking system declined further, the quality of the loan portfolio of both households and businesses has deteriorated, and liquidity has been based mainly on fund raising by the Eurosystem. The total credit expansion in Greece experienced a 3,6% decline on a yearly basis in December 2011. Credit expansion to households decreased by 5,9%, while business loans fell by 5,4% during 2011. Total deposits fell by 17,7% to €183 billion against €222 billion deposits in 2010.

In an admittedly difficult business environment, the Group managed to upgrade its services to its customers by introducing new products. Marfin Egnatia Bank offers as from June 2011 has been offering two new business accounts, the «Marfin Business Account» and the «Marfin Professional Account to pay» aimed at freelance professionals and small businesses with annual turnover less than €2.000.000 who wish to cover most of their needs through an integrated solution. In September, the Bank added the new prepaid card «Marfin Reload MasterCard» to its range of products, thus offering a product suitable for those looking for increased security and absolute control of their expenses.

Finally, it is worth mentioning that the Call Center of Marfin Egnatia Bank, firmly geared to the values of the Group, won for a third consecutive year the first award in the Large Call Centers for its excellent customer service, with a 92,9% rating under the competition CRM Grand Prix 2011 held by Teleperformance Hellas.

PRESENCE IN FOREIGN COUNTRIES

In 2011, the Group maintained a banking presence in 9 countries (UK, Australia, Romania, Serbia, Estonia, Guernsey, Ukraine, Malta and Russia) with a network of 441 branches in addition to its presence in Greece and Cyprus.

Not only did the year 2011 not mark the beginning of the end to the crisis, but also in some countries / markets it worsened the already unfavourable situation. The failure of stakeholders to take effective measures for a definite recovery from the recession, contributed to this. Acting in such an environment, the Group remained committed to improving its infrastructure, ensuring the quality of the portfolio, rigorous risk management, while particular emphasis was placed on implementing the Group's action plan to boost liquidity and capital adequacy.

The primary goal for international operations is the enhancement of liquidity, so that affiliates in other countries could achieve a reduction of dependence on the Group, to significantly improve the loans to deposits ratio in order to potentially become self-financed as far as possible. For the achievement of this goal, targeted actions were and are being taken so as to attract deposits (new products, promotions, etc.). This goal is expected to continue in 2012.

Laiki Bank Group completed the sale of 85% of its shareholding in Laiki Bank Australia to the Bank of Beirut s.a.l. on 28th of February 2011 Laiki Bank Group will remain as a minority shareholder in Laiki Bank (Australia) Ltd until at least February 2013. The sale of 85% of Laiki Bank (Australia) Ltd to the Bank of Beirut, is in line with the Group's announced strategy of asset rationalisation and allocation of resources towards the strategically important countries of Southeastern Europe.

In line with the above mentioned strategy of focusing on SE markets, Laiki Bank Group signed a Share Purchase Agreement with a Ukraine Company for the sale of the Bank`s total participation in its subsidiary in Estonia (MPE), which was completed on 31/3/2012.

United Kingdom

Marfin Laiki Bank UK

The strategic goal of the Group in United Kingdom is to expand its clientele to customer groups other than the members of the Greek and Cypriot Communities in the United Kingdom.

Marfin Laiki Bank UK also aims to consolidate its position as a skilled, flexible and competitive bank that focuses on serving the special needs of its customer base, beyond the usual commercial banking services. The Bank also offers services such as Wealth Management, Treasury services and Factoring.

Marfin Laiki Bank UK operates a network of 4 Branches in London and Birmingham.

During 2011, the Bank focused on maintaining the existing high quality of its assets and further improve its profitability, as well as to increase its deposit base despite the intensely aggressive economic environment in the country.

COMMENTS ON THE RESULTS FOR 2011

Australia

Beirut Hellenic Bank Ltd ('BHB')

After a ten-year growth and success strategy in Australia, Laiki Bank Group completed the sale of 85% in Laiki Bank (Australia) Ltd to Bank of Beirut, on 28th February 2011.

The total consideration for the sale of the 85% stake in Laiki Bank (Australia) was agreed at €104,3m and represents a multiple of 1,65 times the Net Book Value of Laiki Bank (Australia) Ltd as at 31 December 2010.

This transaction resulted in a profit from disposal of approximately €53,4m which was recognised in 2011.

Laiki Bank Group remains as a minority shareholder in Laiki Bank (Australia) Ltd at least until February 2013. Following the acquisition of the majority stake of Laiki Bank (Australia) Ltd by Bank of Beirut, Laiki Bank (Australia) Ltd has been renamed to Beirut Hellenic Bank Ltd (BHB) and its share capital increased by AU $80m. Laiki Bank Group decided not to participate in this capital increase and therefore its shareholding has been diluted to 7,50%.This has not affected the rights of the exercise of the put option as per the Share Purchase Agreement.

During 2011, the branches of BHB increased from 10 to 15 and the new management focused on building infrastructure-related projects, whereas 2012 will be the year to focus on business development.

Romania

Marfin Bank (Romania) S.A.

Although Romania, was no exception to the current economic crisis in Europe, it has shown signs of slight recovery in 2011, ending the year with an increase in GDP of 2,5%. The prospects for continued recovery in 2012 are promising, but are expected to be limited to 1,5-2%. Despite the social unrest resulting from the implementation of tough economic measures imposed by the International Monetary Fund, the government decided to implement the measures, considering them as effective, with the aim of ensuring sustainable fiscal dynamics and returning as quickly as possible to economic recovery.

With the opening of 2 new branches in late 2011, Marfin Bank Romania's network now consists of 29 branches in Bucharest and 20 other major cities, covering largely the territory of the country.

Marfin Bank Romania offers a complete set of banking services with a wide range of products, while in the last two years it has moved into enhancing of the quality of its portfolio and to major upgrading-modernization of its systems.

The excellent staff of the Bank, with the experienced management team of trained personnel of the Group from Cyprus and Greece, and the properly trained personnel constitute the guarantee for its entry in a substantial growth path, as soon as market conditions permit it.

Serbia

Marfin Bank A.D. Belgrade

The Bank in 2011 focused on the strategic decision to streamline operations. The main pillars of this effort were to re-organize the operations of the Bank and to modernize its activity to maximize the utilization of staff. The result of these efforts was to reduce staff numbers to 389 from 460 at the beginning of the year. It also continued with the re-organization of the branch network by closing unprofitable branches and relocating them to more promising locations. Specifically, in 2011 the bank has closed 5 branches and has opened 3 new branches in a major avenue in Belgrade and in two cities in Serbia, with the total number of branches reaching 25 at the year-end.

The Bank continued its selective expansion of its loan portfolio and the enhancement of the performance of the portfolio. It is noteworthy that all the activities during the year have greatly improved operating profitability of the Bank in 2011, despite the inclusion of non-recurring expenses for re-organising the activities. Also, the bank has succeeded in maintaining a healthy capital adequacy, based on its operating profitability. The Bank's strategy has strengthened its activities and has laid the right foundations that will enable it to further expand its presence in the country and continue to increase its profitability.

Estonia

Marfin Pank Eesti A.S. ('MPE')

By resolution of MPE's EGM dated 11/04/2011, it was decided to change the nominal value of the shares from 10EEK to €0,60 which resulted in the reduction of the share capital by an amount of €0,6m (through the write-off of accumulated losses). At the same meeting, it was decided to further reduce the share capital by €3,3m through the write-off of accumulated losses and it was also decided to increase the share capital of the Bank by €1,6m. Not all the shareholders subscribed to this share capital increase and Laiki Bank Group subscribed to the unsubscribed shares. This resulted in Laiki Bank Group's shareholding increasing from 63,02% to 70,5427%.

COMMENTS ON THE RESULTS FOR 2011

On 23/12/2011 Laiki Bank Group signed a Share Purchase Agreement with the Ukranian Company UKRSELHOSPROM PCF LLC for the sale of the Bank's total participation in its subsidiary in Estonia (MPE). Completion of the agreement was subject to obtaining the necessary approvals from the Central Bank of Cyprus and the relevant regulatory authorities in Ukraine and Estonia and it was completed on 31/3/2012.

This transaction is in line with the Group's strategy to focus further on the key strategic markets of SE Europe where it already has a presence.

Channel Islands

Laiki Bank (Guernsey) Ltd

Guernsey is a well-known international financial centre. Through Laiki Bank (Guernsey) Ltd, the Group's local subsidiary, clients are presented with an alternative destination for deposits.

Ukraine

PJSC Marfin Bank

Laiki Bank Group's Ukrainian subsidiary has its head office in Odessa and operates a network of 59 branches and points of sale in 9 major cities across the country, including Kiev. PJSC 'Marfin Bank' is primarily focusing on developing its Corporate business, ranking first in Odessa region for corporate customers such as Ports, transport, shipping, freight forwarding, crewing and other businesses. At the same time, it has a strong deposit base through its Retail branch network and maintains a full range of products and services to cater for all the banking needs of its Corporate and Retail customers, as well as selected niche markets.

According to Ukrainian national credit agency «CREDIT - RATING» PJSC "Marfin Bank'' maintains a long-term credit rating «uaÄ», outlook «stable» and the highest rating "5'' on the scale of deposits reliability (the Bank is amongst the 8 best rated banks in Ukraine in terms of bank deposit rating).

The Ukrainian economy experienced 9 years of unprecedented growth with an average 7% real GDP increase per annum until 2009, when GDP fell steeply by 15%, affected by the global economic crisis. However, at present the economy looks set on a path to recovery, registering real GDP growth of 4,1% in 2010 and 5,2% in 2011.

Under the given market conditions, the strategy of PJSC ''Marfin Bank'' during 2011 was to improve the quality of its loan portfolio and at the same time to achieve a moderate and qualitative growth of 11%. The Bank also managed to increase its customer deposit base even further (by 19%), taking advantage of its very good credit rating.

In order to support the growth of its activities, the Bank increased its capital base by €10 million in March 2011.

In 2012, the Bank aims to continue its focus on expanding its deposit base, on further improving the quality of its loan portfolio and the quality of service to its customers through the completion of important infrastructure projects which will result in the automation and optimisation of business processes.

Malta

Lombard Bank Malta plc

Laiki Bank Group entered the Maltese market in March 2008 with the acquisition of 42,8% of Lombard Bank Malta plc ("LBM"), which is one of the most historic and major local banks. Laiki Bank Group has subsequently increased its participation, and it currently owns 48,9% of the share capital of Lombard Bank Malta. LBM offers a complete range of financial services, focusing mainly on corporate banking and wealth management.

LBM was established in 1955, is based in the capital Valletta and maintains a network of seven branches across the country.

Lombard Bank Malta plc operates also in the postal services sector, owning the majority shareholding of 66,5% of the local post office (Malta Post plc), which was purchased through the privatisation of Malta Post, from the government of Malta. Malta Post has 34 branches throughout the country.

Russia

OOO Rossisysky Promishlenny Bank Ltd ("Rosprombank")

In September 2008, Laiki Bank Group entered the Russian banking market by acquiring the majority shareholding of CB Rosprombank LLC and was the first banking organisation in Cyprus and Greece to proceed with the acquisition of a Russian Bank.

Rosprombank is headquartered in Moscow and maintains a network of 27 branches and points of sale in various regions of the Russian Federation. The Bank focuses on providing a full range of banking products and services to large corporate and small-to-medium-size businesses (SME). It also provides leasing services through its fully owned subsidiary, RPB Leasing LLC.

COMMENTS ON THE RESULTS FOR 2011

2011 saw the Bank's further integration with the Group. Particular emphasis was also given on maintaining the Bank's liquidity and strong capital base as well as on the improvement of the quality of its credit portfolio and overall profitability, capitalising also on the improved economic environment in Russia. As a result, the Bank achieved both satisfactory profitability and strengthened financial position and quality of balance sheet during the year.

In March 2011 Laiki Bank Group signed an agreement for the purchase of the remaining shares in CJSC RPB Holding, the parent company of Rosprombank. The agreement is still subject to regulatory approval from Cyprus and Russia.

Representative Offices
In 2011 the Group, recognising the growing importance of China as an economic power, submitted an application to the China Banking Regulatory Commission for opening a Representative Office in China. The application was approved in September 2011 and the Group became the first Cypriot banking institution to establish a Representative Office in China, aiming to assist its existing and new clientele in entering the Chinese market. The Group's Beijing Representative Office will also support the efforts of the Chinese business community wishing to expand into Europe and Asia through Cyprus and to further strengthen the business ties between Cyprus and China. The Representative Office is located in the heart of Beijing's Central Business district, in the lucrative China World Trade Centre.

In Russia, the Group has been operating a Representative Office in Moscow since 1997, servicing the vast and growing clientele of the Group in Russia as well as the Cypriot and other businesses wishing to expand into Russia.

SUPPORT AND OTHER SERVICES

Infrastructure – Technology
The mission of the Information Technology Division (IT) is the support of the strategic goals of the Group in Cyprus and abroad through the deployment of effective technological solutions. IT is the first Information Technology organisation in Cyprus which honoured with the 'EFQM: Recognised for Excellence in Europe - 4 stars' award. The EFQM Excellence Model is a non-prescriptive assessment framework that can be used to assess an organisation's progress towards business excellence. It is considered to be one of the most widely applied models in Europe and its recognition scheme provides a way of benchmarking with other organizations.

During the year under review, IT achieved substantial cost savings both for Cyprus and overseas by:

- reducing the overall IT operational expenditure (e.g. renegotiation of contracts)
- establishing enterprise agreements with regard to software and hardware
- reducing the power consumption of the data center (e.g. through server virtualisation and consolidation), and
- minimizing the total cost of ownership (TCO) of print services through leasing, which allowed the use of new printers requiring less power to operate and eliminated the need to handle and store printer consumables

IT also delivered important projects which support the Business objectives as well as contribute to the Bank's more efficient and effective operation. In particular:

- The project for the implementation of the new banking system in Cyprus (Temenos T24) has reached the final phase and is expected to be completed within 2012. T24 is one of the top banking systems worldwide and has been selected as the Bank's strategic system at an international level. It is expected to lend the Bank even greater flexibility in the development of new products and the provision of a higher level of service to customers.

Furthermore, it will contribute to utilising synergies and achieving considerable cost savings:

- Completed the roll-out of the new Group Portal to the subsidiaries of the Group
- Launched the new Group Website
- Continued the roll-out of a Business Process Management solution that will increasingly streamline internal procedures and reduce operational costs.
- Launched the new Business Intelligence solution (Microsoft Performance Management) in Cyprus and started the roll-out to the rest of the countries with the Group's presense
- In the area of alternative distribution channels we have offered the capability of viewing the images of all issued cheques (through eBank) and implemented a new mechanism for the massive payments on behalf of corporate customers
- Enhanced the functionality of the portal for the International Business Banking introducers, which will improve collaboration and streamline processes.

During 2011 significant support was provided to the Group's subsidiaries abroad. A Group-wide project has started for the adoption of the Windows 7 platform (Operating system, MS Office and Exchange), the new Group portal has been implemented in all countries, and the roll-out of the new Group website has commenced. In particular:

COMMENTS ON THE RESULTS FOR 2011

In Greece:
- Launched the new Group website.

In Ukraine:
- The project for the implementation of the new banking system (T24) has been under way. The roll-out of Phase A, which concerns the retail banking functionality, has been completed. Phase B, concerning corporate functionality and loans, is expected to be completed by the end of 2012.

In Serbia:
- Upgraded the existing core banking system.The goal of the upgrade apart from the additional functionality, was the optimization of the performance and the automation of certain processes.
- Upgraded the Debt Collections system.
- Implemented a Loyalty/Bonus scheme for the existing and potential card customers.
- Launched the new Group website.

In Romania:
- Implemented a new eBanking system.
- Implemented a system (Target 2 Payments) for the clearing of Euro SWIFT payments.
- Launched the new Group website.

In UK:
- Provided the capability of issuing Debit Cards.

In Malta:
- Started a project for the issuing of Visa cards.
- Certified the ATMs to accept Mastercard cards.
- The process for certifying the ATMs to accept VISA cards is in progress.

In Russia:
- The implementation of a Debt Collections system is in progress.
- Implemented the HP Service Manager which a centralised system, hosted in Cyprus, for managing problems relating to information systems.

Organisation

The Group Organization Division's main objective is the improvement of productivity in the Group and the achievement of operational integration across all geographical areas the Group is operating in. In 2011 the Division continued to focus on:
- Containing costs by optimizing and automating procedures.
- Improving efficiency through better utilization of existing resources.
- Maximising the synergies by exporting best practices, knowledge and tools to all countries in which the Group has a presence.
- Supporting and managing strategic initiatives and projects of the Group.

Group Organisation Division, provides the following services, mainly in co-operation with HR and IT Divisions:
- Project Management of Group, or Country-specific cross-functional projects, relating to the introduction of new technical solutions, regulatory changes, funding initiatives, new business initiatives, restructurings, mergers or centralizations.
- Advisory services and recommendations covering areas such as process simplification, automation, centralization, re-organization etc.
- Performance Management which includes the generation of productivity reports, design and implementation of performance scorecards (at all levels of the Organization i.e. division, unit, employee), and the design and execution of customer and employee surveys.
- Process Management that includes process re-engineering and design and automation of critical processes.
- Write-up and maintenance of high quality Operation Manuals & Circulars as well as information and messages which are published in the Employees Portal.

In 2011 the Group Organisation Division has managed or supported the following projects:
- The integration of the operations in Cyprus and Greece, under a single legal entity, has been successfully completed with the Division performing the overall coordination of the programme.
- A new Group Web Site has been launched, together with local websites for Cyprus, Greece, Romania, Serbia, Ukraine, Russia, and Marfin CLR.
- The Group-wide Employee Portal has been fully deployed.
- Group Standards are being revised and new ones are being developed as needed.

COMMENTS ON THE RESULTS FOR 2011

- The membership and terms of reference for all Group Committees, as well as Credit committees at all levels are continuously kept up to-date and revised as needed.
- The implementation of a New Group-wide customer electronic document management solution has been completed for Greece and Serbia and will be expanded to cover Cyprus in early 2012.
- A consolidated Group customer database and a customer matching mechanism has been put in place to satisfy the requirements of the Deposit Protection Scheme.
- A new software tool has been implemented to enable better reporting of the performance scorecards.
- The overall coordination and project management for the successful set up of the first Covered Bond Residential Mortgage programme in Cyprus and the completion by Laiki Bank Group of 3 successful issues thus supporting the liquidity position of the Group. To further support these initiatives, ongoing efforts have been undertaken to enhance data quality.

Furthermore, the Group Organisation Division is focusing on utilizing to the maximum the synergies that exist in the Group, as well as improving collaboration between countries, especially between Cyprus and Greece, through performing consultancy studies in areas such as Financial Control and Card Services and also assisting in implementation of agreed upon suggestions.

In **Cyprus**, support continues to be provided to the implementation of the new Banking system (Temenos T24). Specific emphasis has also been given to support International Business Banking by reviewing, redesigning and automating core internal processes of the Division.

In an effort to also support cost containing initiatives, similar review and redesign of processes and activities are in progress for other Divisions, such as Marfin CLR where a new internal portal was installed, Finance and Backoffice operations, while in parallel, customers have been re-allocated to responsible units, based on revised customer segmentation criteria, with the aim of providing best services to our customers.

In **Greece**, emphasis is being placed on supporting Risk Management and Debt Collection projects. At the same time, several initiatives to improve operational efficiency like new eBanking and Mobile banking solutions have been completed, a new CRM platform was set up, while the implementation of the eStatement is in progress.

Additionally, revision of processes and the implementation of new workflows or systems like the new Wealth Management system are in progress.

In **Romania**, the Group Organisation Division completed the introduction of ATMs, Credit Cards and Internet Banking services in 2011. Additionally, it supports the Master Card Issuing and Acquiring projects, the Custody System and SMS Alerts system implementations which are in progress. At the same time, the centralisation of credit back-office operations and the installation of a new debt collection application have been completed, while local procedures and manuals are being revised, improved and updated.

In **Serbia**, the Group Organisation Division is supporting the expansion of the performance management system and carried out customer surveys while at the same time introduced work measurement in the Branch Network in an effort to manage headcounts. Furthermore, the implementation of the Debt Collection study and the new invoice management workflow are in progress and local procedures and manuals are being revised, improved and updated. The Group Organisation Division is also working on the implementation of the local Capital Requirements Directive.

In **Ukraine**, the Group Organisation Division continues to support the development of the new banking system, while at the same time re-organising the local business and operational model, especially as regards credit procedures and review and update of manuals.

In **Russia**, the Group Organisation Division has supported the completion of the second level restructuring and credit re-engineering projects.

In **Malta**, the Group Organisation Division is managing the Visa Issuing and ATM acquiring projects.

Human Resources

The core strategic objective of the Human Resources Division (HR) was for 2011, the control of staff costs with a simultaneous increase in productivity in all the countries where the Group is operating.

The total number of staff in Cyprus decreased by 3,6% as the manpower needs of the organisation were met primarily through targeted internal transfers and reskilling/retraining of the existing workforce. Recruitments that were deemed necessary were limited to those of 7 permanent members of staff and 3 seasonal hires. The majority of new recruits covered needs of the International Business Banking Division, due to the enhanced strategic importance of this Division. It is worth noting that in the year reviewed, we had 28 normal retirements,16 early retirements and 12 resignations for personal reasons.

COMMENTS ON THE RESULTS FOR 2011

During 2011, we continued to support the subsidiary companies of the Group overseas, placing a sustained emphasis on strengthening the Group's corporate identity and fully aligning systems, policies and practices.

With the aim of meeting the above objectives, the successful policy of seconding experienced members of staff based in Cyprus and Greece to other countries where the Group has a presence was pursued further, mainly in Serbia, Romania, Russia and the Ukraine. During 2011, 6 members of staff were seconded from Cyprus (4) and Greece (2) to the above countries. At the same time projects are under way for implementing Human Resources Systems such as the SAP/HR system and the Common Appraisal system and for introducing tested practices and concepts such as that of the Human Resources Business Partner. These projects are expected to contribute substantially to the increase of the effectiveness and productivity of the staff.

At the same time, a number of targeted training programs were organised overseas by the Training and Development department, in the areas of Debt Collection, Customer Service and Professional Behaviour, while the practice of Training the Trainers of the different countries continued, with the aim of strengthening the potential of the local Human Resources Departments.

Moreover, a number of exchange programmes were organised, through which the opportunity was given to 19 members of staff to broaden their knowledge and experience both in technical matters as well as in the areas of management and personal development.

The operations relating to Human Resource issues abroad are coordinated and followed up closely by the International HR Department whose members of staff have the sole responsibility of supporting these countries.

In the area of Training and Development, the Human Resources Division continued to apply the principle of targeted training, adapted both to the strategic needs of the business areas of the Group and the personal needs of members of staff.

Specifically, the operations of the Training and Development Department focused on the following strategic areas:

- Banking Operations
- Security, Health and Safety
- Personal and Professional Development and Development of Managerial Skills.
- Audit/Risk Management/Compliance
- Management Development
- Customer Service/Sales Negotiation

As far as the area of Banking Operations is concerned, it is worth noting that during 2011, members of staff were trained and duly prepared for the use of the new upgraded Banking System T24 (Phase I), with the aim of enhancing the quality of customer service offered to our clients, through the full utilisation of the facilities provided by this system.

Moreover, during the same period, the pilot implementation of the pioneering program "Aces in Sales" was completed. This program was designed in cooperation with the internationally renowned Insurance Company CNP which is the main shareholder of Marfin Insurance Holdings. Its objective is to train members of staff in specific selling techniques based on their job content. The training is targeted towards selling both banking and insurance products.

Another very important scheme is the Young Leaders Development Programme. Through this scheme, the implementation of personal Training and Development plans for young professionals with potential to assume wider responsibilities has continued. These plans have the aim of equipping Young Leaders with the necessary knowledge and aptitudes to assume more senior duties in the near future.

It is generally accepted that one of the most effective learning methods is the sharing of real experiences of more senior with younger members of staff. In this context, the Training and Development Department has organised two separate acquaintance meetings with Ms Rodoula Hadjikyriacou, General Manager Greece, and Mr Neoclis Lysandrou, Vice Chairman of the Board of Directors. During these two functions, young members of staff had the opportunity to have a lively and sincere dialogue with the two speakers, drawing lessons from their personal life experiences.

In the Compliance area, the infrastructure has been put in place for delivering training during 2012, through usage of the latest e-learning technology.

Retirement marks an enormous change in the lives of people who have worked throughout their adult life. Aimed to help members of staff handle this stage of their life as effectively as possible, the Training and Development Department organised two important programs for staff members who retired on 31.12.2011 and those retiring on 31.12.2012. Within the context of these programs, that lasted 2 and 1 day(s) respectively, and which were attended by both retiring members of staff and their spouses, presentations were made by specialised sociologists and representatives of the Ministry of Labour and Social Insurance on a number of related subjects.

The international certifications of the Human Resources Department were sustained through 2011. It is worth mentioning the Quality Certification ISO 9001: 2008 awarded to our Training and Development Department and our Residential Training Centre and the Health and Safety Certification OHAS 18001: 2007 awarded to our Residential Training Centre and The Sporting Club of Laiki Bank. These certifications reflect eloquently for yet another year, Management's commitment to matters of Quality, Health and Safety.

Another example of the importance placed by the Human Resources Division on the area of Training and Development is the upgrading of our Training Centres in Limassol and Larnaca. These two Centres have been upgraded and equipped with more Computers, enabling the training of members of local staff both in technical training and in all other areas relevant to the banking profession.

Moreover, during 2011 an agreement between the Cyprus Bankers Employers Association and ETYK has been reached, regarding the renewal of the collective agreement for the period 2011-2013. The agreement was reached in a spirit of industrial peace, sending the message that the decisions made enhance the credibility of the financial system of our country, for the benefit of our economy. In this spirit, it was agreed that staff costs for 2012 and 2013 would be contained to the levels of 31/12/2011. This means freezing of the Cost of Living Allowance and the annual increments. Moreover, the Provident Fund/Retirement Bonus scheme was abolished on the 31st December 2011 and was replaced by a new Provident Fund scheme as of 01/01/2012 with mutual contributions. (4% employer contribution and 3-10% employee contribution).

The Fairness Committee continued its successful operation during 2011. The purpose of this Committee is the safeguarding of the principles of justice and fairness on matters of promotions, career advancement and rewards.

Finally in 2011, HR undertook a series of social activities which confirm once again its anthropo-centric philosophy.

The following activities are indicative of the above:

- Support provided for staff members and their dependents on matters of health, including coverage of costs for staff's visits to various medical centres, either in Cyprus or abroad, and provision of financial assistance, when deemed necessary.
- Free use of our premises for events organised by a number of charities and non-profit organisations such as the Red Cross, Charity functions of the Latsia Municipality, organisations supporting children with health problems etc.
- Participation of members of staff in Christmas, Easter and a multitude of other charity events.

Risk Management

Apart from business development, an essential priority of the Group's strategy is the improvement of loan quality. To this end, the basic parameter evaluated regarding the granting of new loans is repayment ability. In addition, emphasis is placed on improving the evaluation procedure of applications for new credit, together with the prompt recognition and management of the credit risks undertaken.

Risk Management is carried out mainly on a unified basis, through an integrated framework of procedures, policies and methodologies. This framework is based on domestic and international regulatory guidelines such as the Basel II Accord and the corresponding Directives of the European Union (Capital Requirements Directive), as well as best international banking practices. The Group uses various methodologies and procedures to continuously monitor the risks stemming from its operations and sets acceptable limits to exposures, in order to avoid the concentration of excessive risks.

During 2011, the Group, as well as the banking sector, faced the ongoing credit and economic crisis, and particularly the European public debt crisis, with the economic environment remaining unstable with continued challenges in relation to liquidity and capital adequacy issues. The expanding debt crisis has also created further challenges in relation with the public economics of states and the macroeconomics of countries, including Cyprus, Greece and other countries where the Group has a presence.

In Greece, an important event during the year was the agreement of the Summit of EU Council Members, which took place on the 26th of October, regarding the new support measures for Greece, in the context of which PSI+ negotiations took place in relation with the agreement of the Greek government and representatives of private institutional investors, holders of Greek government bonds, for the gradual write-off of Greek debt. Regarding Cyprus, during the year, various targeted economic and fiscal measures were enacted, including measures for the freezing of salary increments and API (Automatic Price Indexation), aiming at the reduction of the public deficit.

On February 20, 2012, in the context of the approval of the new aid package to Greece by the Eurogroup and the implementation of the program involving the private sector (PSI), the aggregate write-off on the nominal value of the GGBs in the exchange was set at 53,5%. But taking into account the net present value of GGBs after the PSI, losses based upon the price at par, tend to range from 70-77%.

In the context of carrying out the provision for impairment of GGBs in the final results of 2011, as a consequence of the private participation program (PSI+), the aggregate write-off on GGBs represented 76,4% of the nominal value i.e. a loss of €2.331 m.

COMMENTS ON THE RESULTS FOR 2011

Right from the start of the ongoing global economic crisis, the Group has adopted a more conservative credit policy through the application of various measures aiming at the containment of the impact on the quality of its loan portfolio. These include tighter monitoring of credit limits, reduction of maximum loan-to-value ratios and stricter loan proposal evaluation. At the same time, the Group increased the provision charge for loan impairment. A total provision of €1.151m has been booked for 2011, a significant part of which relates to Greek exposures. The level of accumulated provisions has reached €1.930m or 7,2% of loans.

Compliance

The Group Compliance Division which operates as an independent Division, constitutes one of the three basic functions of the Group's internal control system. Its main responsibility is to provide support to the Board of Directors and senior management with respect to:

- the implementation of the Group Compliance Function Policy as approved by the Board
- the efficient and effective management of compliance risks, as well as
- embedding a culture of compliance within the Group

The main issues dealt with in 2011 were the following:

- The identification, documentation, and assessment of compliance risks associated with business areas of the Bank.
- The management of compliance risk, at Group level, through the regular monitoring of international operations and by providing guidance to the compliance units of branches and subsidiary companies.
- The appointment of compliance liaison officers in the various business areas, to work closely with the Group Compliance Division.
- The set up and maintenance of a register of the regulatory framework that governs the operations of the Bank, the follow-up of regulatory changes and the subsequent updating of relevant internal standards and procedures in line with this framework.
- The review and handling of a wide range of issues that relate to matters of transparency and customer protection, such as: Advertisements, Customer Complaints, Data Protection and introduction of new products and services.
- With respect to MiFID (legislation that relates to the provision of investment services and exercise of investment activities), the Division was involved in the further enhancement of specific policies and procedures aimed at providing transparency and adequate protection to investors.
- In the area of Anti-Money Laundering and Combating of Terrorist Financing (AML/CFT), implementation of existing procedures, staff training and monitoring visits to branches and business units continued in 2011, as did the implementation and enhancement of automated AML systems for the monitoring of unusual transactions and for filtering to international economic sanctions lists.

In addition, the Division continued to provide continuous support, advice and formal training to staff throughout the Group on a wide range of regulatory compliance issues.

GROUP STRATEGY

Entering the year 2012, we are faced with the ongoing macroeconomic worries and uncertainty which have been hovering not only on the Greek space but on Europe at large.

In the Cyprus economy, the mild contraction of GDP in 2009 was followed by a modest recovery in 2010 with GDP growing by 1,1%. The recovery continued also into the first half of 2011, but stalled in the second half with GDP growth turning negative in the third quarter of the year. The deterioration in economic conditions in the second half of the year was attributable to developments in the secondary sectors of the economy, trade and transport, tourism, banking and business services continued to grow, despite the adverse conditions. Economic activity was adversely affected by the destruction of the country's biggest power plant, a worsening of the external environment especially in relation to the ongoing debt crisis in Greece, and tightening of financial and fiscal conditions. In total for the year, GDP growth is estimated as marginally positive at 0,5%. The economic activity in 2012 is expected to remain subdued for the first half, amidst deteriorating financial conditions and tightening credit conditions.

The intensifying Greek Sovereign debt crisis and the implemented drastic austerity measures have given rise to a significant deterioration across all market sectors of the Greek economy, which dictated higher provisions to be applied by Laiki Bank Group regarding the Greek portofolio. Within the context of the current conservative provisioning policy adopted by the Group and guided by the transparent and comprehensive presentation of the impact of the protracted economic crisis in Greece, the provisions for doubtful debts for the financial year 2011 climbed to €1.151,1 million, as against €266,1 million in 2010 whilst the Group proceeded to the write-off of 76,4% of the nominal value of the Greek Government Bonds in its possession due to the Private Sector Involvement program (PSI+) amounting to €2.330,6 million. In addition, as a result of the above developments, the Group proceeded to a reduction by €796,4 million of the goodwill which arose from the triple merger of Egnatia, Marfin and Laiki Bank in 2006. It is noteworthy that as per Central Bank of Cyprus's regulations, the goodwill impairment charge does not affect the existing regulatory capital of the Group.

COMMENTS ON THE RESULTS FOR 2011

In response to the effect on net profitability, the Bank has applied decisive controls for 2012 on costs, including a rationalization of its branch network across all geographical areas. More specifically, the re-organization plan of the network affects around 10 branches in Cyprus and about 25 to 30 in Greece out of a total of 116 and 175 respectively. All these activities aim at the maximum utilization of the emerging synergies and the maximization of efficiency.

Moreover, specific operational initiatives have also been adopted regarding the continuous rationalization of the portfolio and the management of assets and liabilities, with a view to further enhancing net interest revenue.

In parallel to the accelerated cost cutting efforts and the reorganization of its branch network, Laiki Bank Group is refocusing its efforts on its own domestic market which constitutes the bulk of its strong franchise value.

The Group feels confident that its core business sectors, International Business Banking, Retail Banking and Corporate and Commercial Banking, will continue to deliver strong operating profitability with Group operating profit for 2011, before provisions, amounting to €388 million, up by 3,2% over 2010, while they are expected to further develop, underpinned by the significant potential arising from the established hydrocarbon reserves and the prospects of the island becoming a regional energy hub and an alternative gateway to Europe.

With the aim of further enhancing the Group's prospects, and with the interests of the shareholders in mind and the continued support of the Cyprus economy and its development, the Group Strategy is based on the following four pillars:

1. **Successful implementation of the Group's Comprehensive Plan to restore its capital base, with the aim of both complying with the new capital requirements as well as laying the foundations for further development of the Group:**

   In a rapidly changing economic environment, the European banks are required to work out plans for their capital strengthening, with the aim of complying with the required increased Core Tier I capital ratio of 9% from 30 June 2012.

   Within the above context, Laiki Bank Group has worked out a comprehensive plan for strengthening its capital position for which it has already received Central Bank of Cyprus approval and has been agreed with the appropriate regulatory authorities. The Group's capital enhancement plan is based on the following three basic pillars:

   - The raising of up to €1,8 billion via new ordinary equity from shareholders through a rights issue and/or private placement.
   - Around €600 million to be raised through exchanging into Core Tier I capital, of part of the Group's outstanding capital securities and subordinated debt (Tier II capital).
   - Approximately €400 million through the management of the Group's risk weighted assets including divestment of non-core positions.

   For the implementation of the capital plan, the Board of Directors presented to the Shareholders' Extraordinary General Meeting held on 2 April, 2012, specific, relevant Resolutions. The Extraordinary General Meeting approved the Resolutions as stated in Note 52 of the consolidated financial statements.

2. **Redefinition of the Cypriot identity of the Group, with the Cyprus base constituting the Group's growth platform:**

   Laiki Bank Group has a long well established and stable presence in the Cyprus market and is well positioned for the utilization of a significant share of the increased banking business connected with the country's development. The Management considers as particularly attractive the opportunities that will arise in view of the recent developments in the sector of carbohydrates and the prospects for Cyprus being established as an international energy trade centre. Signaling the Group's new strategic direction, the Extraordinary General Meeting of 2 April 2012, following a proposal by the Board of Directors, decided the change of the Group's legal name to "Cyprus Popular Bank Public Co Ltd".

3. **Asset optimisation and maximisation of Group operational efficiency:**

   As from December 2011, the Group has adopted a revised organization model, based on highly skilled and experienced officials and upgraded local and intra-Group control procedures, which aims to improve the Group's risk profile and operating performance.

COMMENTS ON THE RESULTS FOR 2011

4. **Further Development based on the particularly successful model of the Group's International Bussiness Banking and International Operations:**

   The growing volume of business of International Banking occupies a strong position in the market, as demand for international banking services has increased, mainly due to the integration of the main developing markets in the international economy. The strong position of the Group in the sector of International Banking, the size of this market and the achievement of further profitability, warrant a further enhancement of the returns from this sector, through relatively small-sized investments.

Additionally, the utilization of the customer base of International Banking, the presence of the Group in the international financial scene, as well as the sector of shipping activities, based in Greece, afford to the Group a direct and continued access to a growing and highly attractive customer base, with significant potentiality for its utilization, for the achievement of higher profitability in sectors with higher value added. The Group is focusing its efforts on developing and offering a comprehensive range of services, which will be addressed to the clientele in question and which will include, besides further credit expansion, portfolio management and capital market products. The offer of the above bunch of services, combined with the selective overseas presence of the Group, will allow the maximization of the possibilities of penetration in international markets with chain effects on the Group's profitability.

Corporate Social Responsibility

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is a major strategic pillar of Laiki Bank. It constitutes an integrated framework of policies and practices ensuring the active contribution of the Group to the coherence, sustainable development and welfare of the societies in which it operates.

Humanitarian contribution and solidarity, the adoption of socially responsible practices in all sectors of our business activity, the support of environmental protection and sustainable development, of education, culture and sports; these are the main pillars of corporate social responsibility of the Group.

LAIKI BANK

SOCIETY

Radiomarathon is at the core of the Bank's humanitarian efforts as well as being the most important voluntary institution in Cyprus. Radiomarathon benefits hundreds of families every year, as well as foundations and organizations which provide care, education, employment and entertainment to children facing problems.

In Cyprus, the 22nd Radiomarathon, through many events and with the participation of thousands of volunteers, collected donations of 1.940.000 Euros. Up until today, Radiomarathon has provided assistance totalling 36.789.300 Euros.

Similar activities and events are also organized in other countries where Laiki Bank has a presence. In June 2010, the Bank sponsored the establishment of the Chair of European Studies at the University of Cyprus. The first to be appointed to this post was professor Christoforos Pissarides who subsequently won the Nobel Prize in Economics, making all Cypriots proud. For the third consecutive year, Laiki Bank jointly sponsored the program 'A day at the Museum' with Olympic Air, thus giving the opportunity to thousands of high school students to visit the Museum of Acropolis in Athens.

ENVIRONMENT

Protection of the environment is one of the main pillars of Corporate Social Responsibility at Laiki Bank. A responsible stance as regards the environment implies a responsible stance towards future generations.

Guided by the above principle and, recognizing that sustainable development presumes 'cleaner' production processes and 'cleaner' consumption, Laiki Bank has for many years run a special programme of paper recycling in the Bank's branches and offices, in Cyprus, Greece and other countries in which it operates. Furthermore, the purchase and maintenance of the Bank's mechanical equipment are done using the most advanced ecological products, thus ensuring energy saving.

According to European Union statistics, 40% of energy is consumed by buildings and the target is to reduce this percentage by 15% by 2020. On the basis of these data, Laiki Bank has placed itself decisively in favour of promoting the vision for a "green house", which doesn't just mean more trees and plants but also lower consumption of natural resources and wider use of renewable energy sources.

By adopting the European directives and policies for sustainable development, as well as developing among special programmes and practices Laiki Bank has also designed the series of products "Colour-it-Green", which contribute to the reduction of pollution and to the protection of the environment. However our efforts are not only focused on the promotion of 'green' solutions in daily life. Our long-term aim is the cultivation of environmental conscience, particularly among children and young people, which is achieved through different actions/sponsorships relating to the environment.

With the aim of promoting recycling amongst young people, Laiki Bank designed the internet game 'Recycling Hero' in cooperation with Green Dot of Cyprus. Participants in the game have exceeded 9.000 and between them they have recycled 683.640 tons of different materials. At the end of the game and on reaching the target for the symbolic collection of 683.640 tons of recyclable packaging materials, Laiki Bank donated PMD and Paper wastebaskets to all Elementary Schools in the Nicosia, Limassol and Larnaca districts.

Another contribution of Laiki Bank to the protection of the environment was its sponsorship of the initiative 'Now we even recycle….green items', which was undertaken by Premier Shukouroglou Cyprus Ltd.

This initiative saw 48.000 leaflets and special bags being distributed to all homes with gardens in greater Nicosia, as an insert in the Sunday edition of a major newspaper, as well as through the Bank's branches.

On the occasion of the World Day of Land, thousands of cypress trees were distributed to Laiki Bank customers through its branches, again within the framework of Corporate Social Responsibility.

Another dimension of the Bank's Corporate Social Responsibility programme is illustrated by the fact that health and security committees operate in all branches of the Bank.

CORPORATE SOCIAL RESPONSIBILITY

First Aid equipment, including a defibrillator, has been widely installed while more than 450 staff members have been trained in matters of First Aid, so that they can provide help to customers, staff, or other citizens in case of need.

CULTURE

The Cultural Centre of Laiki Bank was established in 1983 within the framework of Corporate Social Responsibility in full recognition that an organization should seek to contribute to culture, as an integral part of social coherence and progress.

The main activities of the Centre focus on Art and History, whilst the annual projects include exhibitions and educational programmes. In parallel, the Centre supports efforts to save the historic and cultural heritage of Cyprus through the collections of works of art by Cypriot artists, rare books and documents, and photographs and postcards relating to Cyprus, Greece and our geographic area.

The Cultural Centre of Laiki Bank has gradually expanded its activities to include infrastructural projects, amongst which are two Halls, one in Nicosia and one in Paphos, which host exhibitions and lectures. The Pierides Museum in Larnaca, which was acquired by a trust deed in 2000, with its wonderful collection of Ancient Cypriot Art, constitutes a point of reference. In 2003 the Byron Museum was inaugurated in Nicosia. In this building, the Cultural Centre of Laiki Bank organizes original exhibitions on unexplored aspects of Cyprus society and history. The general activities of the Cultural Centre also include annual interactive programmes for children, on an island-wide basis.

Activities 2011

The exhibition "Art is ….Cypriot Art through the Centuries" on the evolution of Cypriot art from antiquity to the modern day continued at the Byron Museum in Nicosia. Exhibits come from across all the collections of the Bank, including its Collection of Modern Art, its Ethnographic Collection and the Collection of Antiquities from the Pierides - Laiki Bank Museum. An educational programme entitled "Art is ….." was run as part of the exhibition and was attended by 7.000 primary school children during the past year.

In March 2011 the Cultural Centre hosted the 'Violence Against Women 365 International Poster Exhibition' and within this jointly organised a lecture on 'Men and Women as Partners in Challenging Violence Against Women', with the Mediterranean Institute of Studies in Social Sex. During the same month, in cooperation with the German Cultural Centre Goethe, the Laiki Bank Cultural Centre, organized a photographic exhibition by German photographer and artist Anna Stelmach entitled "So Near and Yet So Far? Portraits from the People of Cyprus". In October 2011 the Pierides Museum-Laiki Bank in Larnaca hosted an exhibition of works by Demetris Alithinos with the general title "The Visitor was Oblivious Time". The exhibition was held as part of the annual project 'Modern Art Meets Ancient Art', during which the artist gave a lecture on 'Concealments 1981-2011' and 'Defending the Civilizations of the Planet'.

In November 2011, the Cultural Centre of Laiki Bank, continuing an important tradition of the promotion of the history of Cyprus through photographic art, presented the exhibition and the luxurious bilingual publication of 'Tempus Momentum' with photographs by Andreas Koutas. Both the exhibition and the publication are dedicated to modern day Cyprus through the lens of Andreas G. Koutas who immortalized momments in the life of Cyprus from the sixties until recent time.

SPORTS

Laiki Bank has been the exclusive sponsor of the First Division Football Championship of the Cyprus Football Federation since 2007. Through this sponsorship, football clubs are financially supported, and sports festivals, other events and activities aimed at promoting athletic spirit and fair play, particularly among children youths, are held every year.

Further enhancing its support of sports, the Bank has agreed with the Cyprus Tennis Federation to be the official sponsor of its national teams in 2012.

MARFIN EGNATIA BANK

The Corporate Responsibility programme of Marfin Egnatia Bank is aimed at the protection of the environment and active, social and humanitarian contribution.

FOR MAN AND SOCIETY

Sports in the Neighbourhood: At Marfin Egnatia Bank we support athletic clubs where children and young people enjoy their favourite sport. The support programme is aimed mainly at amateur clubs, with emphasis on those in remote areas. Funds are available for the purchase of materials and equipment, for the improvement of training grounds, as well as for participation in championships and tournaments inside and outside Greece.

In 2011, Marfin Egnatia Bank, continued its Sport in the Neighbourhoods project, providing support to twenty sports academies.

Its contribution to children's sports since 2007 demonstrates Marfin Egnatia Bank is active interest in the development and improvement of Greek athletics.

CORPORATE SOCIAL RESPONSIBILITY

MARATHON OF LOVE FOR THE CHILD

By organizing the Marathon of Love for the Child, Marfin Egnatia Bank has managed to support many institutions, clubs and families in Greece, thus contributing to improving the lives, education and medical care of these children. In 2011, in close cooperation with the Marfin Foundation, Marfin Egnatia Bank distributed the revenue from the various events held in the 2010 'Marathon of Love for the Child' to foundations providing support to children facing health problems as well as to families in need.

The staff at Marfin Egnatia Bank are fully devoted to the concept of Corporate Social Responsibility, a value which has been guiding the Organization from its inception, and voluntarily contribute substantially to the promotion of this objective, thus realizing the Group's social vision. Marfin Egnatia Bank, as a subsidiary of Laiki Bank Group, finances and cooperates closely with the Marfin Foundation in all its Corporate Social Responsibility activities, mainly through the financial support of people with special needs, environmental projects, volunteer work, as well as arts and sports.

The effective management of the already multifarious social and humanitarian activities of the Group, which extend over many fields, is of fundamental importance.

Marfin Egnatia Bank supports activities benefiting society, such as the collection of foodstuff and clothing with the aim of donating them to institutions and organizations that care for needy citizens.

In parallel, the programme of post-graduate scholarships for the Academic Year 2011-2012 was also funded. Three candidates were selected for scholarships in banking and economic studies out of 109 applications submitted.

Each scholarship includes a grant of €15.000 and is aimed at graduates of recognized Greek and foreign universities who want to do a full or part-time (up to two years) post-graduate course in economic or banking studies, at any university in Greece or abroad.

The programme of post-graduate scholarships was established in memory of our colleagues Epaminondas Tsakali, Paraskevi Zoulia and Angeliki Papathanasopoulou, who lost their lives during the tragic events of the 5th March 2010.

'ENVIRONMENTAL CONSCIENCE AGAINST POVERTY'

Marfin Egnatia Bank has continued its project of paper recycling in cooperation with the Non Governamental Organization for social capital development, CLIMAX PLUS.

'CLIMAX' through its intervention in the areas of welfare and employment aims at the social integration of people and groups who are socially excluded, such as people with special needs, psychological problems, the homeless and 'street children'. One of the activities of 'CLIMAX' is the Paper Recycling Workshop. More specifically, socially excluded people collect the paper from cooperating companies, separate it and resell it to a pulping company, receiving the money from the resale. Through this revenue, permanent positions are created for those who participate in the project, and at the same time financial support is provited to the Day Centre and the Homeless Organization, which currently host 20 people who, in addition to accommodation and food, receive psychological support.

Until now, Marfin Egnatia Bank, in cooperation with 'CLIMAX' has managed to recycle 27 tons and 680Kgs, which equates to around 471 trees which will now not be felled, thanks to the efforts and cooperation of the Group's personnel. The project was awarded first prize in Greece in the category of 'innovation' in the competition for the European Year of Volunteering 2011, which is co-organized by the European Commission and the national partners of the European Network for Corporate Social Responsibility. It is also cited as an example of good practice at the European Network for Social Responsibility.

Economic Developments

ECONOMIC DEVELOPMENTS

The mild contraction of 2009 was followed by a modest recovery in 2010 with GDP growing by 1,1%. The recovery continued into the first half of 2011 but it stalled in the second half with GDP growth turning negative in the third quarter of the year. The deterioration in economic conditions in the second half of the year was attributed to developments in the secondary sectors of the economy, in trade and transport. Tourism, banking and business services, continued to grow positively. Economic activity was adversely affected by the destruction of the country's biggest power plant at Vasilico area, a worsening of the external environment, especially in relation to the on-going debt crisis in Greece, and tightening financial and fiscal conditions. In total for the year, growth in GDP is estimated marginally positive, by 0,5%.

Economic activity is expected to remain subdued into the first half of 2012, amidst deteriorating financial conditions and tightening of credit. Recovery is widely expected to begin in the second half of the year with the improvement in the external environment, and the resumption of investment activity. Whilst housing investment is expected to remain on a declining path, investment activity will be benefiting from reconstruction work at the Vasilico power plant and from other public-private partnership infrastructure projects.

Worsening economic conditions in main trading partners should weigh on exports of goods and services. At the same time, imports of goods and services will remain subdued amidst conditions of weak domestic demand. Business services and tourism are expected to continue to grow positively in 2012, and the net contribution of the external sector to growth will remain positive.

Conditions in the labour market deteriorated sharply in 2011 with the unemployment rate rising to 7,2% on average from 6,2% the year before. The weak economic outlook for 2012 will continue to affect the labour market adversely and the unemployment rate will likely rise further toward 7,5%.

Regarding prices, inflation accelerated to 3,3% in 2011 driven mainly by higher oil prices, and the higher costs of production associated with the destruction of the Vasilico power plant. Inflation is expected to decline in 2012 as one-off influences dissipate.

The current account deficit declined further in 2011 despite higher oil prices and despite the deterioration in public finances. This was supported by a rising private savings ratio which was reflected in subdued consumption and lower investment outlays. However, at 7,5% of GDP in 2011 the current account deficit remains elevated. Through the medium term, the current account will remain in a downward adjustment path and the deficit will continue to shrink but at a lower pace.

Public finances deteriorated in 2011 with the budget deficit rising to 6,5% of GDP and the public debt climbing to 65% of GDP. This was due to slower revenue growth as a result of slower economic activity, and expenditure slippages due to higher unemployment payments. A higher cost of financing also contributed to the deterioration of public finances. In response and following deliberations with the labour unions and the opposition parties, the government adopted extensive fiscal consolidation measures. These measures amount to a total fiscal adjustment of about 5% of GDP on an annual basis. If fully implemented, these measures will reduce the budget deficit to less than 3% of GDP in 2012.

Financial Results

FINANCIAL RESULTS

Synopsis of Group Results

Review of results for the year and prospects for the future

Amid the adverse economic and business conditions for the year ending 31 December, 2011, the Group registered profit before impairments of €388 m, increased by 3,2% year on year.

(€ m)	**31.12.11**	**31.12.10**	**Δ (%)**
Net interest income	798,7	709,5	12,6%
Net fee and commission income	179,7	200,5	(10,4)%
Financial and other income	58,9	111,7	(47,3)%
Total operating income	**1.037,3**	**1.021,7**	**1,5%**
Staff costs	(390,7)	(386,2)	1,2%
Other operating expenses	(202,3)	(203,4)	(0,6)%
Depreciation and amortization	(56,2)	(56,2)	0,0%
Total operating expenses	**(649,2)**	**(645,8)**	**0,5%**
Profit before impairments	**388,1**	**375,9**	**3,2%**
Provision for impairment of advances	(1.151,1)	(266,1)	332,5%
Impairment of debt and equity holdings	(2.527,1)	(9,3)	-
Share of profit from associates	9,7	14,2	(31,1)%
Tax	454,5	(25,5)	-
Non-controlling interests	(4,1)	(2,1)	-
(Loss)/profit before goodwill impairment	**(2.830,0)**	**87,1**	-
Impairment of goodwill and other intangibles	(820,5)	-	-
(Loss)/profit attributable to the owners of the Bank	**(3.650,5)**	**87,1**	-

Net interest income reached €799 m, increased by 12,6% year on year. Total operating income reached €1.037 m registering a net increase of just 1,5% due to one-off losses in investment positions. Operating expenses, including staff costs, remained flat year on year. Profit before impairments from Cypriot operations reached €312 m, increased by 55,3% and representing 80,4% of the total.

FINANCIAL RESULTS

The prolonged and escalating sovereign debt crisis in Greece severely affected the Group's financial performance in 2011. The transparent and comprehensive reflection of the impact of Greek related risk at all levels had as a result the following:

- *Greek Government Bonds (GGBs):* Full year results include €2.331 m impairment loss against the Group's GGBs holding, representing 76,4% of their nominal value. The Group held GGBs with a nominal value of €3.052 m. This impairment loss of GGBs is a result of the private sector involvement programme (PSI+) announced on 24 February, 2012. The preliminary results announced by the Group on 29 February, 2012 included an amount of €1.969 m impairment loss for the Group's GGBs holding, representing 65% of their nominal value. Following the announcement of the finalisation of the accounting treatment for the PSI+ programme, this amount has been increased to €2.331 m.

- *Loan portfolio provisions:* The Group initiated an independent diagnostic review of its loan portfolio undertaken by two specialised external consultants, targeting the timely diagnosis and preservation of its portfolio quality and the decisive confrontation of potential impairment risks. This review formed the basis for strengthening the cumulative provisions and the current position reflects a scenario of a continuation of the negative environment. Loan loss provisions amounted to €868 m in the fourth quarter of 2011 reaching €1.151 m for the full year 2011, compared to €266 m in 2010. Accumulated provisions reached €1.930 m representing 52% coverage of non-performing loans, compared to 46% in third quarter of 2011.

The above have resulted in a loss attributable to the owners of the Bank of €2.830 m.

- *Goodwill impairment related to Greek operations:* As a result of the ongoing difficult macroeconomic conditions in Greece, the Group following the appointment of an external specialised consultant, has reviewed the carrying value of goodwill related to the Greek operations, which had been created from the triple merger of Egnatia Bank, Marfin Bank and Laiki Bank, back in 2006. As a result, an impairment charge of €796 m has been recognised in the fourth quarter of 2011. It is noted that the goodwill impairment charge does not affect the Group's regulatory capital position, according to the regulations of the Central Bank of Cyprus.

Taking into account the impairment of goodwill and other intangibles, the loss attributable to the owners of the Bank for 2011 reached €3.650 m.

Balance sheet highlights

Key balance sheet items (€ m)	**31.12.11**	**31.12.10**	**Δ (%)**
Total assets	33.762	42.580	(20,7)%
Advances to customers (net)	24.779	26.417	(6,2)%
Customer deposits	20.161	25.508	(21,0)%

Key ratios	**31.12.11**	**31.12.10**
Cost/income	62,6%	63,2%
NIM	2,28%	1,82%
Loans/Deposits	123%	104%
NPLs	13,9%	7,3%
Cost of credit (Provisioning)	425 bps	100 bps

FINANCIAL RESULTS

Refocused strategic direction a performance improvement plan in place to enhance prospects

The Bank is repositioning itself strategically on its Cyprus home base which will constitute the growth and development platform of the Group across geographical areas. The Group's refocused strategic direction encompasses controlled risk exposures, resilient returns from key business sectors focusing on the financing of the core of the economy, businesses and households, and also further growth based on the successful developed model of Group operations in international business banking and international operations. The recalibration of the Greek operations aims to improve performance and reduce exposures ultimately positioning the Group to benefit from a future recovery of the Greek economy.

An integrated organisational model with well experienced executives heading the geographical areas and enhanced local and group control functions has been already put in place since December 2011 to deliver the Group's new strategic direction.

A thorough set of operating initiatives has been further applied to improve the Group's risk profile and operating performance. These initiatives include:

- *Asset & Liability Management:* Ongoing portfolio rebalancing away from non-core exposures, including large wholesale loan exposures, and active yield management of assets and deposits to support net interest income.

- *Cost control:* Extensive cost control initiatives, including branch network rationalisation, adjusting costs for current activity levels, cost reductions and processes reengineering aiming at sustained productivity gains.

Over a three to five year horizon, the Group is aiming at a net interest margin in excess of 2,75%, cost income ratio below 50% and return on tangible equity around 15% provided the economic conditions do not deteriorate.

Risk Management

RISK MANAGEMENT

The Group operates in several countries in an ever-changing and competitive environment. The Group recognises its exposure to various risks, which may adversely affect its profitability and its strategic goals. For this reason, risk management plays a key role in ensuring sustainable and high returns for its shareholders, while the continuous upgrading of a reliable risk management framework is of utmost importance.

Risk Management is mainly carried out on a unified basis, using an integrated framework of procedures, policies and methodologies. This framework is based on domestic and international regulatory guidelines such as the Basel II Accord and the corresponding Directives of the European Union (Capital Requirements Directive), as well as best international banking practices. The Group uses various methodologies and procedures to continuously monitor the risks stemming from its operations and sets acceptable limits to exposures, in order to avoid the concentration of excessive risks.

The Board of Directors is responsible for the formulation of the Group risk strategy, through the Group Risk Management Committee (GRMC) and the Executive Committees. The responsibilities of these committees include, amongst others, the formulation of the risk undertaking strategy, the supervision of the implementation of the strategy through the development of procedures and risk management systems, the assessment of the risks undertaken, the adequacy of provisions and the effectiveness of the risk management policy. The GRMC meets, at least, on a quarterly basis. The Group Assets and Liabilities Committee (ALCO) and the local ALCOs also play an important role in the optimal management of assets and liabilities, credit and market risks. The Committees meet on a regular basis, examine the latest market developments and the level of the risks undertaken, and set the strategy for the implementation of medium-term objectives. The Risk Management Division (RMD) is responsible for the identification, assessment, management/control, monitoring and reporting of risks.

Within the framework of setting exposure and maximum acceptable loss limits, the Executive Committees and the Group Market Risk Management Committee constitute the main approving authorities for the relevant suggestions of the RMD and other divisions. These bodies are informed accordingly about the level, duration and form of the risks undertaken. The Group's policy provides that all limits are revised on an annual basis, whereas certain specific limits may be revised on a more frequent basis, whenever such a need arises.

During 2011, the Group, as well as the wider banking sector, faced the ongoing credit and economic crisis, and particularly the European public debt crisis, with the economic environment remaining unstable with continued challenges in relation to liquidity and capital adequacy issues. The expanding debt crisis has also created further challenges in relation to the public finances of states and the macroeconomics of countries, including Cyprus, Greece and other countries where the Group has presence.

In Greece, an important event during the year was the agreement of the Summit of EU Council Members, which took place on the 26th of October, regarding the new support measures for Greece, in the context of which PSI+ negotiations took place in relation to the agreement of the Greek government and representatives of private institutional investors, holders of Greek government bonds, for the gradual write-off of Greek debt. Regarding Cyprus, during the year, various targeted economic and fiscal measures were enacted, including measures for the freezing of salary increments and API (Automatic Price Indexation), aiming at the reduction of the public deficit.

On February 20, 2012, in the context of the approval of the new aid package to Greece by the Eurogroup and the implementation of the program involving the private sector (PSI), the aggregate write-off on the nominal value of the GGBs in the exchange was set at 53,5%. But taking into account the net present value of GGBs after the PSI, losses based upon the price at par, tend to range from 70-75%.

In the context of carrying out the provision for impairment of GGBs in the final results of 2011, as a consequence of the private participation program (PSI+), the aggregate write-off on GGBs represented 76,4% of the nominal value i.e. a loss of €2.331 m.

Right from the beginning of the ongoing global economic crisis, the Group has adopted a more conservative credit policy through the application of various measures aiming at the containment of the impact on the quality of its loan portfolio. These include tighter monitoring of credit limits, reduction of maximum loan-to-value ratios and stricter loan proposal evaluation. At the same time, the Group increased the provision charge for loan impairment. A total provision of €1.151m has been booked for 2011, a significant part of which relates to Greek exposures. The level of accumulated provisions has reached €1.930m or 7.2% of loans.

The capital exercise proposed by the European Banking Authority (EBA) and agreed by the Council on 26 October 2011 requires banks to strengthen their capital positions against sovereign debt exposures. In addition, it requires them to establish a capital buffer such that the core Tier 1 ratio reaches a level of 9% by the end of June 2012. A total of 71 European banks, including Laiki Bank Group, were subject to the capital exercise whose objective is to create an exceptional capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment and the negotiations which are under development for the participation of the private sector in the restructuring of Greek public debt. Following completion of the capital exercise conducted by the EBA, in close co-operation with the Central Bank of Cyprus, the additional capital shortfall for Laiki Bank Group was estimated to be €1,971m which should be addressed by the Bank by end June 2012.

RISK MANAGEMENT

Finally, on the 20th January 2012, Laiki Bank Group has submitted to the Central Bank of Cyprus the capital plan for its substantial capital strengthening, in accordance with Central Bank of Cyprus regulations and the recent EBA directive. The Bank is in full communication and co-operation with the Central Bank of Cyprus.

CREDIT RISK

Credit risk stems from the possibility of non-prompt repayment of existing and contingent obligations of the Group's counterparties, resulting in the loss of funds and profits.

Credit risk management

The credit risk management function covers a wide range of activities that commence at the stage of credit risk undertaking, continue at the stage of credit risk management and end up at the management of problematic cases and at the collection stage. Credit risk management focuses on ensuring a disciplined risk culture, risk transparency and rational risk taking, based on internationally recognised practices.

Credit risk management methodologies are adjusted to reflect the changing financial environment. The various credit risk assessment methods used are revised at least annually or whenever deemed necessary and are adjusted to be in line with the Group's overall strategy and objectives.

The Group's lending portfolio is split into retail, commercial and corporate. The primary lending criterion is the borrower's repayment ability. Additionally, emphasis is placed on the quality of collateral, either in the form of tangible collateral or guarantees.

The Group conducts stress tests in order to assess the impact of exceptional but possible scenarios on the quality of its loan portfolio, profitability and capital adequacy.

Credit limits of authority indicate the hierarchy of approving credit facilities to the Group's customers, so that the higher the credit risk involved in the transaction, the higher the level of authority required to approve the transaction. The structure of the credit limits is based on: (a) the creditworthiness of the customer, (b) total customer facilities, (c) the level and the quality of the collateral/security, (d) the type and duration of the facility.

The methods for assessing credit quality vary according to the counterparty type, which falls in one of the following categories: central governments (for buy and hold strategies with respect to bonds), financial institutions, small, medium and large businesses and private individuals.

Private individuals are being assessed by two different internal rating systems. The first system is applicable to existing customers and is based on their past credit behaviour and overall cooperation with the Group. The second system includes: (a) credit scoring that utilizes both demographic factors and other objectively defined criteria, such as income and property owned, and (b) credit scorecards for different product types. The internal rating systems vary depending on the Group subsidiary to which they belong, as well as the availability of data.

For the assessment of small, medium and large businesses, the Group uses both the behavioral system and the Moody's Risk Analyst system, which assesses the financial strength of a business based on both financial and qualitative data, as well as on the industry sector in which the business operates.

The collateral policy followed enables the Group to better manage credit risk. In general, common principles exist for all subsidiaries, with minor differences with regard to the acceptable collaterals due to the different environments and country specific conditions.

The collateral policy principles determine: (a) the desired cover per collateral type, (b) the types of acceptable collaterals, which vary depending on the country specific environment, and (c) that periodic revaluations should be performed, either by credit officers or by external official valuers.

Problematic credit exposures are identified and monitored at an early stage through the internal rating system, the credit facilities approval procedures and controls and lending portfolio evaluation. These exposures are closely monitored at both the divisional management level and at head office level.

IRB programme implementation

In the context of efforts for the continuous upgrading of risk management methods and procedures and further enhancement of liquidity and capital adequacy ratios, the Group has made steps towards the future adoption of the Internal Ratings Based Approach for the calculation of capital requirements, under the Basel II Directive.

The most important benefits for the Group are:

- Enchancement of organisational structure and operations
- Upgrading of policies and processes to promote robust and prudent risk management practices across the Group
- Improvement of risk modelling capabilities and methodologies
- Enhancement of system capabilities so as to ensure that accurate risk management related data is captured and made available for various purposes.

RISK MANAGEMENT

Concentration risk
Concentration risk arises from the uneven distribution of exposures to individual borrowers, specific industries or economic sectors, geographical regions or product types. The Group recognises that concentration of exposures in credit portfolios is an important aspect of credit risk. Concentrated portfolios imply volatile returns and have to be supported by capital buffers. Therefore, the effective management and limit setting for this risk are of fundamental importance.

The Risk Management Division ensures that exposures to individual borrowers, groups, geographic areas and other concentrations do not become excessive in relation to the Group's capital base and that they are in accord with the limits set by the Executive Committees. The Risk Management Division is also responsible for reporting concentrations of risks to the Group Risk Management Committee, the Assets and Liabilities Committee, the Central Bank of Cyprus and the Central Banks of the countries in which the Group is operating.

MARKET RISK
Market risk is defined as the current or potential risk of financial loss on earnings and capital which stems from adverse fluctuations in interest rates, foreign exchange rates, bond prices, prices of equity securities and of other assets which are held in the trading and banking book.

Market risk arises from the uncertainty and volatility of prices and rates as they change in the relevant markets over time, including interest rates, equity prices and foreign exchange rates. The trading activities of the Group are relatively limited and do not include investments in structured products or other complex trading strategies. Group priority is to implement an effective and efficient framework which is consolidated into a comprehensive risk management framework.

Identification and categorisation of market risks
The most important market risks to which the Group is exposed are the following:
a) Interest rate risk:
stems from the exposure of the Group's financial condition to adverse movements in interest rates on its financial positions and cash flows.
b) Currency risk:
relates to the risk arising from fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates.
c) Liquidity risk:
the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden and potentially protracted increase in net cash outflows. It also includes the risk of securing these financial resources only at excessive cost.
d) Counterparty risk:
the possibility that a counterparty (i.e. a bank or a financial institution) with which the Group enters into a specific transaction defaults before the final settlement of the transaction.
e) Country risk:
involves various risks that may be generated at country level as a result of political or economic events (these include political risk, risk of government default, inability to convert local currency to any major currency (convertibility risk) and transferring it out of the country (transferability risk).
f) Risk from changes in the prices of equity and other debt securities:
the risk in relation to adverse changes in the current prices of equity and other debt securities owned by the Group.

The Group has established a Market Risk Management framework, where the accurate assessment of financial risks has become a very important function. The Group's aim is to continuously improve this framework in order to minimize the potential adverse consequences of market risks.

The most important activities undertaken in 2011 by the Risk Management Division, as far as the Market Risk Management Department is concerned, were the following:
- Group Internal Capital Adequacy Assessment Process (ICAAP)
- Revision of Group Liquidity Policy
- EBA stress testing for sovereign risk
- Frequent revision of established limits based on existing market conditions
- Further improvement in the risk management methods, assessments and monitoring of counterparty, country and market risks at Group level

Roles and responsibilities
The management of market risk is primarily the responsibility of Market Risk Management Department. The Board of Directors (BoD), Group Risk Management Committee (GRMC), Group Market Risk Committee (GMRC) and Group Assets and Liabilities Committee (GALCO) assume a supervisory role in the process. The GRMC supervises all Group activities associated with risk management aiming to identify, assess and manage all major business risks.

RISK MANAGEMENT

RMD operates independently of any other management functions, reports to GRMC and GMRC is responsible for setting prudent and appropriate procedures and methodologies for controlling, evaluating and measuring all major sources of market risk embedded in the Group's operations, based on Group Policies. The Risk Management Division informs higher authorities on the levels and types of market risks undertaken.

The responsibilities for the approval of acceptable limits, the types of market risks undertaken, the methodologies for their measurement, the risk management strategies and the evaluation of the capital adequacy levels belong to the Board of Directors, the Group Risk Management Committee, the Group Assets and Liabilities Committees (GALCO) and the Group Market Risk Committee (GMRC). The Committees meet at regular intervals during the year as well as on an ad hoc basis when it is deemed necessary.

Group Market Risk Committee (GMRC) convenes monthly, or earlier if necessary, but at least quarterly. The GMRC reviews and approves limits supporting the Group Market Risk Management Framework, within the risk tolerance level determined by the Board. The limits reviewed and approved include, amongst others, market risk limits, counterparty limits for financial institutions, issuer limits for sovereigns, financial institutions and corporations, country limits, market sector concentration limits for fixed income portfolios and limits for covered bonds. GMRC also reviews and recommends policies related to the Group Market Risk Management (GMRM) Framework, and approves procedures and methodologies related to the GMRM Framework. Additionally, it reviews and evaluates breaches of risk limits and decides upon the appropriate course of action, it reviews stress testing results on a semi-annual basis, whilst at the same time it monitors the effectiveness of the Market Risk Management function throughout the Group. It finally ensures that infrastructure, resources and systems are in place for market risk management and are adequate to maintain a satisfactory level of market risk management discipline for the identification, measurement, monitoring and management of market risks at Group level.

Policies, Procedures and Limits

The Group is in a continuous process of developing and upgrading common policies, procedures and risk methodologies in relation to the measurement and evaluation of the major market risks across the Group. For each type of market risk, the appropriate methodology is applied for its assessment and the setting of relevant limits.

The Group Market Risk Manual describes the principles and procedures for market risk management, sets out the responsibilities of the MRMD and the overseas Risk Management Units, describes the procedure of setting/approving limits and/or excesses. MRMD also developed a Trading Book Policy Document that describes the procedures for the proper and timely allocation and measurement of the trading positions and the accurate evaluation of the inherent risks. In addition, a Group Liquidity Policy and Group Interest Rate Risk Policy are in place.

Systems, measurement and monitoring

The monitoring, control and confirmation of the positions and limits of the Treasury is carried out, in all cases, by an independent support unit (e.g. Treasury Back Office or Risk Management). The Group uses two main systems (AG-Quantum and AG-Risk) for the measurement and reporting of its positions, which encompass all the trading and banking activities, except equity transactions. These systems are used by the Treasury operations for limit monitoring and accounting support and the evaluation and management of risk. The Value at Risk (VaR) model has been installed to collect and quantify maximum expected losses in foreign currency, interest rate and equity risks, credit risk in bonds in major trading activities and the available for sale portfolios for the Group and major subsidiaries.

Stress Testing

Stress testing is performed at Group level and for the subsidiaries exposed to market risks. MRMD is responsible for conducting the Group stress tests analysis in relation to market risk exposures. For the estimation of consequences/losses which the Group may incur in exceptional situations, stress tests are conducted on a regular basis, in order to estimate the impact on capital level and profit in the event of extreme movements in the capital markets, liquidity risk and foreign exchange risk. The scenarios implemented are based on the suggestions of the Central Bank of Cyprus, as well as on internally developed stress test scenarios.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes (including lack of or inadequate procedures or errors), people (including deliberate negligence or internal fraud), systems and external events (including external fraud and natural disasters). The definition also includes legal risk.

This does not include strategic or reputational risk or other risks leading to indirect losses/opportunity costs. These risks are, however, taken into serious consideration in the various Group procedures, such as risk assessment and loss collection, due to the potentially significant impact on the Group.

RISK MANAGEMENT

The Group has adopted an operational risk management framework and procedures for the identification, assessment, management, monitoring and reporting of operational risks. Operational risks are identified and assessed mainly through Risk and Control Self Assessment (RCSA) workshops on a periodic and ad-hoc basis. Action plans are then put in place for managing the major operational risks identified (mainly as part of RCSA Workshops or on an ad-hoc basis) for control/mitigation, transfer, avoidance or retention of operational risk. The Group also retains insurance to cover important operational risks. Operational Risks are monitored by setting up Key Risk Indicators and by recording Operational Loss events on the electronic Operational Loss Database.

The Operational Risk Management Department also participates in the evaluation of new and amended procedures, group policies and standards, new technology systems, new products and services as well as other important decisions and developments, in a consultative capacity, with the objective of assisting in the identification and assessment of any risks that might result. ORMD is also responsible for understanding the operational risks associated with outsourcing arrangements and ensuring that effective risk management policies and practices are in place to manage the risk of outsourcing activities. Furthermore, ORMD is involved in the review of Business Continuity Plans and testing results to ensure that the Bank has business resiliency and continuity plans in place to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption. Finally, ORMD is involved in the handling and management of fraud incidents and ensures that policies and methodologies have been established and are implemented on a Group basis for combating fraud in an effective and cost efficient way in liaison with Internal Audit and Compliance departments.

As in previous years, the Operational Risk Department has contributed to the continuous effort of further strengthening the overall internal control environment through the adoption or enhancement of procedures and controls aimed at further reducing operational risk, including fraud risk. All Operational Loss events including actual, potential or near miss events (subject to a minimum amount) are recorded in the Loss Database. Credit and market risk events are considered Operational Losses and included in the above fields only to the extent that they result from operational causes. Any indirect costs (e.g. reputational cost) or opportunity costs associated with a loss event are not included in the Operational Loss fields and are reported separately, in the Indirect/Opportunity Cost field only. Selected Key Risk Indicators (KRI) have also been implemented to allow continuous monitoring of risk levels focusing on selected high risks.

Internal operational risk reports are compiled on a periodic basis and communicated to senior management and the Group Risk Management Committee (GRMC). These reports cover all major issues and the results of operational risk procedures including RCSA results immediately after the completion of the periodic RCSA workshop or after any ad hoc re-evaluation of risks, progress reports regarding the implementation of Action Plans for identified risks, Major Operational Losses and KRI breaches.

To further enhance staff awareness about operational risk management issues, training sessions are carried out on a periodic basis.

INFORMATION SECURITY

Information security risks stem from the weaknesses of technology systems and processes that have an impact on the Bank's information (including confidentiality, integrity and availability). Because information security is highly significant, the Bank has set up an Information Security Department staffed with specialised personnel and reporting to the Risk Management Division, aiming at an integrated management of risks.

Information Security Management is responsible for managing the security policies of the organization in order to ensure proper governance of information management. The secure deployment of the technology used within the Bank is another major responsibility, attempting to reduce any gaps emerging from the use of new and existing technology deployed.

Information Security conducts Risk Assessments in an effort to identify risks on the various business units, processes and systems. To this end, it works closely with management so that best practices are followed. The Bank's security posture is monitored by conducting Internal and External Penetration Tests throughout the year together with various specialised Security Reviews. Because people is one of the most important pillars in securing the Bank's information, the Group follows a continuous security awareness program to keep awareness high at all times.

The various Information Security issues are overseen by an Information Security Committee composed of members from relevant Divisions (including Risk Management, IT, Compliance, Audit and Organisation).

Consolidated Financial Statements

CONTENTS

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and the audited consolidated financial statements of Cyprus Popular Bank Public Co Ltd Group (the "Group") for the year ended 31 December, 2011.

Principal activities
The principal activities of the Group continue to be the provision of banking and financial services. Also the Group offers insurance services through an associate (Note 27).

The Group operates through subsidiary companies, branches and representative offices in Cyprus and abroad.

Group restructuring and investments in subsidiary companies
On 28 February, 2011, the sale of 85% of Laiki Bank (Australia) Ltd to Bank of Beirut s.a.l. was completed. Cyprus Popular Bank Public Co Ltd (the "Bank") will remain as a minority shareholder in Laiki Bank (Australia) Ltd until at least February 2013. From February 2013 onwards the Bank has the option to sell its remaining stake to Bank of Beirut s.a.l.

The Cross Border Merger of the Bank and its subsidiary Marfin Egnatia Bank S.A. through the absorption of Marfin Egnatia Bank S.A. by the Bank as decided by the Boards of Directors and approved by the Extraordinary General Meetings of the shareholders of the two Banks was completed on 31 March, 2011 (12:00 p.m.).

In December 2011, the Bank entered into an agreement with the Ukrainian company Ukrselhosprom PCF LLC for the sale of its total participation of 70,54% in its subsidiary in Estonia, Marfin Pank Eesti AS. The transaction was completed on 29 March, 2012.

Further details on the Group's restructuring and investments in subsidiary companies are presented in Note 51 of the consolidated financial statements.

Review of results for the year and prospects for the future
The Group registered profit before impairments of € 388 m for the year ended 31 December, 2011, increased by 3,2% year on year. Net interest income reached € 799 m, increased by 12,6% year on year. Total operating income reached € 1.037 m registering a net increase of just 1,5% due to one-off losses in investment positions. Operating expenses, including staff costs, remained flat year on year. Profit before impairments from Cypriot operations reached € 312 m, increased by 55,3% and representing 80,4% of the total.

The prolonged and escalating sovereign debt crisis in Greece severely affected the Group's financial performance in 2011. The transparent and comprehensive reflection of the impact of Greek related risk at all levels had as a result the following:

- *Greek Government Bonds (GGBs):* Full year results include € 2.331 m impairment loss against the Group's GGBs holding, representing 76,4% of their nominal value. The Group held GGBs with a nominal value of € 3.052 m. This impairment loss of GGBs is a result of the private sector involvement programme (PSI+) announced on 24 February, 2012. The preliminary results announced by the Group on 29 February, 2012 included an amount of € 1.969 m impairment loss for the Group's GGBs holding, representing 65% of their nominal value. Following the announcement of the finalisation of the accounting treatment for the PSI+ programme, this amount has been increased to € 2.331 m.

- *Loan portfolio provisions:* The Group initiated an independent diagnostic review of its loan portfolio undertaken by two specialised external consultants, targeting the timely diagnosis and preservation of its portfolio quality and the decisive confrontation of potential impairment risks. This review formed the basis for strengthening the cumulative provisions and the current position reflects a scenario of a continuation of the negative environment. Loan loss provisions amounted to € 868 m in the fourth quarter of 2011 reaching € 1.151 m for the full year 2011, compared to € 266 m in 2010. Accumulated provisions reached € 1.930 m representing 52% coverage of non-performing loans, compared to 46% in third quarter of 2011.

The above have resulted in a loss attributable to the owners of the Bank of € 2.830 m.

- *Goodwill impairment related to Greek operations:* As a result of the ongoing difficult macroeconomic conditions in Greece, the Group following the appointment of an external specialised consultant, has reviewed the carrying value of goodwill related to the Greek operations, which had been created from the triple merger of Egnatia Bank, Marfin Bank and Laiki Bank, back in 2006. As a result, an impairment charge of € 796 m has been recognised in the fourth quarter of 2011. It is noted that the goodwill impairment charge does not affect the Group's regulatory capital position according to the regulations of the Central Bank of Cyprus.

Taking into account the impairment of goodwill and other intangibles, the loss attributable to the owners of the Bank for 2011 reached € 3.650 m.

The new capital required for the Group to comply with the Core Tier I capital ratio of 9% by 30 June, 2012 set by the European Banking Authority was submitted to the Central Bank of Cyprus in a capital plan which has been agreed with them and the appropriate regulatory authorities.

REPORT OF THE BOARD OF DIRECTORS (continued)

Review of results for the year and prospects for the future (continued)
The capital plan includes a diverse set of targeted initiatives including exchanging of existing capital securities, asset optimisation and active management of portfolio exposures and raising of new equity. More specifically, the plan provides for the following:

- The raising of up to € 1,8 bn via new ordinary equity from shareholders through a rights issue and/or private placement.

- Approximately € 600 m to be raised through exchanging into Core Tier I capital, of part of the Group's outstanding capital securities and subordinated debt (Tier II capital).

- Approximately € 400 m through the management of the Group's risk weighted assets including divestment of non-core positions.

For the implementation of the capital plan, the Board of Directors presented to the Shareholders' Extraordinary General Meeting held on 2 April, 2012, specific, relevant Resolutions. The Extraordinary General Meeting approved the Resolutions as stated in Note 52 of the consolidated financial statements.

The management of the Bank assesses that investors' interest will be clarified over the next few months in line with achieving the targets of the submitted capital plan. The successful completion of the capital enhancement plan, estimated to take place by June 2012, will align the Group's capital position with the regulatory requirements.

In assessing the Group's ability to continue as a going concern and in view of the uncertainties that exist until the completion of the Group's recapitalisation process, the Board of Directors has in addition taken into consideration, the confirmed commitment of the Republic of Cyprus to support the Bank if the need arises. In accordance with a letter received by the Board of Directors from the Ministry of Finance dated 27 April, 2012, the Republic of Cyprus has affirmed its commitment to provide the necessary support to the Bank to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue in business.

The Directors, having considered the factors set out above, have a reasonable expectation that the recapitalisation of the Group will be successfully completed and hence are satisfied that the consolidated financial statements can be prepared on a going concern basis.

The Bank is repositioning itself strategically on its Cyprus home base which will constitute the growth and development platform of the Group across geographical areas. The Group's refocused strategic direction encompasses controlled risk exposures, resilient returns from key business sectors focusing on the financing of the core of the economy, businesses and households, and also further growth based on the successful developed model of Group operations in international business banking and international operations. The recalibration of the Greek operations aims to improve performance and reduce exposures ultimately positioning the Group to benefit from a future recovery of the Greek economy.

An integrated organisational model with experienced executives heading the geographical areas and enhanced local and group control functions has been already put in place since December 2011 to deliver the Group's new strategic direction.

A thorough set of operating initiatives has been further applied to improve the Group's risk profile and operating performance. These initiatives include:

- *Asset & Liability Management:* Ongoing portfolio rebalancing away from non-core exposures, including large wholesale loan exposures, and active yield management of assets and deposits to support net interest income.

- *Cost control:* Extensive cost control initiatives including branch network rationalisation, adjusting costs for current activity levels, cost reductions, and processes reengineering aiming at sustained productivity gains.

Over a three to five year horizon the Group is aiming at a net interest margin in excess of 2,75%, cost income ratio below 50% and return on tangible equity around 15% provided the economic conditions do not deteriorate.

Underlining the Group's new strategic direction the Board of Directors has decided to change the Group's trade name in Cyprus to "Laiki Bank" and propose to the Shareholders' Extraordinary General Meeting the change of the Group's registered name to "Cyprus Popular Bank Public Co Ltd". The change of the registered name has been approved by the Shareholders' Extraordinary General Meeting on 2 April, 2012.

Dividend
The Annual General Meeting of the shareholders of the Bank, held on 18 May, 2011, approved the payment of a dividend of € 0,10 per share in the form of shares issued by the Bank at an issue price of € 1 per share in accordance with the decision of the Board of Directors of 29 March, 2011. The dividend amounting to € 147.028.000 was paid on 17 June, 2011 and the trading of the new shares began on 27 June, 2011.

Share capital
On 14 February, 2011, the Bank issued 488.168.000 new ordinary shares, of nominal value of € 0,85 each, which resulted from the share capital increase through payment in cash and exercise of nil paid rights in favour of existing shareholders of the Bank, in accordance with the terms and procedures of the Approved Prospectus dated 21 December, 2010, as applicable. The nil paid rights were issued and allotted to the existing shareholders at a ratio of one nil paid right for every ordinary share and every two nil paid rights which were exercised at a total exercise price of € 1 were converted into one new fully paid share of the Bank. The trading of the new shares commenced on 23 February, 2011.

In June 2011, the Bank issued 140.827.000 new ordinary shares, of nominal value of € 0,85, which resulted from the distribution of a dividend for the year 2010 in the form of shares. The issue price was set at € 1. The trading of the newly issued shares commenced on 27 June, 2011.

On 31 May, 2011 the Extraordinary General Meeting of the shareholders of the Bank approved the increase of the authorised nominal share capital of the Bank from € 1.776.500.000 to € 1.870.000.000 by the creation of 110.000.000 additional ordinary shares of € 0,85 nominal value each.

On 28 September, 2011 the Extraordinary General Meeting of the shareholders of the Bank approved the increase of the authorised nominal share capital of the Bank from € 1.870.000.000 to € 2.465.000.000 by the creation of 700.000.000 additional ordinary shares of € 0,85 nominal value each.

On 2 April, 2012 the Extraordinary General Meeting of the shareholders of the Bank approved that the authorised share capital of the Bank which was € 2.465.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,85 each, as well as the issued share capital of the Bank which was € 1.369.444.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,85 each, to be reduced, the authorised share capital into € 290.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,10 each and the issued share capital into € 161.111.000 divided into 1.611.111.000 ordinary fully paid shares of nominal value € 0,10 each, and that this reduction is carried out with the reduction of the nominal value of each ordinary share from € 0,85 each to € 0,10 each, for the purpose of writing off losses and/or losses of capital. Immediately after the above reduction the authorised share capital of the Bank was re-increased to the amount of € 2.465.000.000 divided into 24.650.000.000 ordinary shares of nominal value € 0,10 each.

The Articles of Association of the Bank do not specify any restrictions in the transfer of the shares of the Bank.

The share capital and share premium are presented in Note 38 of the consolidated financial statements.

Shareholders with more than 5% of share capital
The shareholders of the Bank with more than 5% of the share capital are presented in Note 48 of the consolidated financial statements.

Shareholders' Agreements
The Bank is not aware of any agreements between its shareholders which might result in restrictions on the transfer of the Bank's shares or in the exercise of the voting rights conferred by its shares.

Important Agreements which come into effect, are amended or expire following a public offer
There are no agreements which come into effect, are amended or expire in case of change of control following a public offer.

Agreements with Members of the Board of Directors or employees of the Bank
There are no agreements of the Bank with Members of the Board of Directors or its employees which provide for the payment of compensation in case of resignation or dismissal without valid reason or in case of termination of their employment due to a public offer.

Risk management
As any other financial institution, the Group is exposed to risks. The nature of these risks and the Group's risk management policies are explained in Note 45 of the consolidated financial statements.

Post balance sheet events
Post balance sheet events are disclosed in Note 52 of the consolidated financial statements.

Board of Directors
The Members of the Board of Directors of the Bank are shown on page 10.

Andreas Vgenopoulos, Neoclis Lysandrou, Vassilis Theocharakis, Efthimios Bouloutas, Christos Stylianides, Panayiotis Kounnis, Eleftherios Hiliadakis, Platon E. Lanitis, Constantinos Mylonas, Stelios Stylianou, Markos Foros, Abdulrazaq Al Jassim, Fadel Al Ali and Hesham Al Qassim were re-elected by the Annual General Meeting of the shareholders on 18 May, 2011.

On 18 May, 2011, the Board of Directors re-appointed Andreas Vgenopoulos as Non Executive Chairman and Neoclis Lysandrou and Vassilis Theocharakis as Non Executive Vice Chairmen.

REPORT OF THE BOARD OF DIRECTORS (continued)

Board of Directors (continued)
Abdulrazaq Al Jassim resigned from the Board of Directors on 3 November, 2011. On the same date the Board, in accordance with Article 98 of the Articles of Association, appointed Peter Baltussen as a new member who offers himself for re-election at the Annual General Meeting of the shareholders.

Andreas Vgenopoulos resigned as Non Executive Chairman and Member of the Board of Directors on 4 November, 2011. On the same date, the Board elected as new Non Executive Chairman Constantinos Mylonas.

Efthimios Bouloutas resigned from the position of Chief Executive Officer and Member of the Board of Directors on 5 December, 2011. On the same date the Board elected as Chief Executive Officer Christos Stylianides.

On 12 December, 2011, the Board of Directors, in accordance with Article 98 of the Articles of Association, appointed as new Members Michalis Sarris and Chris Pavlou who offer themselves for re-election at the Annual General Meeting of the shareholders.

On the same date the Board elected Michalis Sarris as Non Executive Chairman as from 1 January, 2012.

Eleftherios Hiliadakis resigned from the Board of Directors on 31 December, 2011.

The Board of Directors was constituted on 18 January, 2012 and elected Constantinos Mylonas and Neoclis Lysandrou to the positions of Vice Chairmen.

The remuneration of the Members of the Board of Directors is shown in Note 49 of the consolidated financial statements.

The interests of the Members of the Board of Directors in the share capital of the Bank are shown in Note 47 of the consolidated financial statements.

Statement regarding Corporate Governance Code
The Board of Directors has adopted the Corporate Governance Code of the Cyprus Stock Exchange (CSE) which is available on the CSE website, www.cse.com.cy.

The Board of Directors complies with the provisions of the CSE Corporate Governance Code with the exception of the provision A2.3 for the number of independent Non Executive Directors for which the Code allows an exception by giving the necessary explanation and authorises the CSE Council to grant companies reasonable time for complying, which will not exceed twelve months. The Bank has applied to the CSE Council to be granted a compliance period.

The Corporate Governance Report of the Group for 2011, which has been prepared in accordance with the provisions of the CSE Code, includes the above mentioned explanation, as well as the information required by Article 5 of the Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission. The Corporate Governance Report of the Group is shown on pages 48 to 54.

The Bank has not issued any share capital which gives any special rights of control or imposes any voting limitations.

Independent Auditors
The Independent Auditors, PricewaterhouseCoopers Limited and Grant Thornton (Cyprus) Limited, have expressed their willingness to continue in office. A resolution recommending their reappointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting of the shareholders.

By order of the Board

Michalis Sarris
Chairman

Nicosia, 30 April, 2012

CORPORATE GOVERNANCE REPORT

Part A
The Cyprus Stock Exchange (CSE) had adopted in September 2002 a Corporate Governance Code (the "Code") for companies, which are listed on the Stock Exchange. The Code requires listed companies to include a Report on Corporate Governance in their Annual Report. The Board of Directors of Cyprus Popular Bank Public Co Ltd (the "Group") had taken the necessary decisions for its full implementation.

The CSE has issued in January 2007 a revised Corporate Governance Code (2nd Edition) replacing the Code issued in September 2002 and the Supplement issued in November 2003.

The CSE has issued in September 2009 a new Revised Corporate Code (3rd Edition), which replaces the Code issued in January 2007. In March 2011 the CSE has issued the Revised 3rd Edition.

The Board of Directors of Cyprus Popular Bank Public Co Ltd states that it has adopted and fully complies with the provisions of the Revised 3rd Edition of the CSE Code with the exception of Provision A2.3 for the number of independent non executive directors for which the Code allows an exception by giving the necessary explanations.

Part B
The Board of Directors of Cyprus Popular Bank Public Co Ltd states that it complies with the provisions of the Code with the exception of Paragraph A2.3 as stated above.

The following information is submitted in relation to the adoption and implementation of the Code.

Board of Directors
The Board of Directors meets regularly (in 2011 it met twenty two times) to ensure that the Directors are able to review, inter alia, corporate strategy, the Budget and the results of the Bank and its subsidiaries, acquisitions, major capital and other important transactions.

The Directors are informed in writing and in time for all Board meetings and have at their disposal all necessary documents for each meeting. All Directors have access to the advice and services of the Secretary.

All thirteen directors offer themselves for re-election at regular intervals and at least every three years. The names of the Directors who are up for election or re-election are accompanied by sufficient biographical information.

All existing Members of the Board of Directors were elected by the Annual General Meeting on 18 May, 2011 except Peter Baltussen who was appointed by the Board in November 2011 and Michalis Sarris and Chris Pavlou who were appointed by the Board in December 2011.

The Board is made up of the following persons:

- Michalis Sarris, Non Executive Chairman
- Constantinos Mylonas, Non Executive Vice Chairman
- Neoclis Lysandrou, Non Executive Vice Chairman
- Christos Stylianides, Group Chief Executive Officer
- Panayiotis Kounnis, Deputy Group Chief Executive Officer
- Fadel Al Ali, Non Executive Director
- Hesham Al Qassim, Non Executive Director
- Peter Baltussen, Non Executive Director
- Markos Foros, Non Executive Director
- Platon E. Lanitis, Non Executive Director
- Chris Pavlou, Non Executive Director
- Stelios Stylianou, Non Executive Director
- Vassilis Theocharakis, Non Executive Director

Four Non Executive Directors, namely, Michalis Sarris, Constantinos Mylonas, Chris Pavlou and Hesham Al Qassim comply with the criteria for independent directors as specified by the CSE Code. The Board also appointed Constantinos Mylonas as Senior Independent Non Executive Director.

CORPORATE GOVERNANCE REPORT (continued)

Board of Directors (continued)
It is confirmed that there is a clear separation of the positions, duties and responsibilities of the Chairman of the Board and the Chief Executive Officer.

The Board of Directors taking into account the continuing reorganisation of the Group business believes that the present balance of executive, non executive and independent directors, which includes eleven non executive directors, serves the interests of the shareholders and the Group in general. The Board of Directors, is examining the measures to be taken for implementing provision A2.3 and has applied to the CSE Council for obtaining a reasonable time period to comply in accordance with the 3rd Edition of the Code.

Lending to Directors of the Bank and their related parties is shown in Note 49 of the consolidated financial statements. The Board confirms that such lending has been approved by it in the ordinary course of business and at arm's length.

It is also confirmed that with the exception of lending as explained above, there are no receivables from a company connected to a Director or a person related to him.

In addition, none of the Directors has a material interest, directly or indirectly, in any contract of significance with the Bank or any of its subsidiaries.

Appointment and replacement of Directors
The appointment and replacement of Directors are specified by the Articles of Association of the Bank as follows:

- One third of the Directors retire at every Annual General Meeting. If one third of the Directors is not an integer, the number of Directors retiring is rounded up to the nearest whole number.

- Directors retiring as stated above are eligible for re-election.

- The Bank at the Meeting at which a Director retires in the manner aforesaid, may fill the vacated place by electing a person thereto and if it fails in doing so, by default the retiring Director shall, if he offers himself for re-election be deemed to have been re-elected, unless at such meeting it is expressly resolved not to fill such vacated place, or unless a resolution for the re-election of such Director shall have been put to the Meeting and was rejected.

- No person other than a Director retiring at the meeting shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting, unless not less than three nor more than twenty one days before the date set for the meeting there shall have been left at the registered office of the Bank notice in writing signed by a member duly qualified to attend and vote at the meeting for which such notice is given, expressing his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.

- The Bank may from time to time by ordinary resolution increase or reduce the number of Directors, and may also determine the method the increased or reduced number will retire by rotation. In accordance with a decision of the Extraordinary General Meeting dated 8 May, 1996, the number of Directors cannot be less than nine or more than fifteen.

- The Directors shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association of the Bank. Any Director so appointed shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

Authorities of the Board of Directors
The authorities of the Members of the Board of Directors, including the ability to buy back own shares, are specified by the Articles of Association of the Bank and Legislation.

Specifically for the issue of shares, the Board of Directors has the authority to issue shares, which will be offered to the existing shareholders pro-rata to their participation in the share capital of the Bank on a specific date to be designated by the Board of Directors. An essential requirement for the implementation of this authority is the availability of the necessary authorised share capital.

Amendment of the Articles of Association
The Articles of Association of the Bank can only be changed with a Special Resolution at an Extraordinary General Meeting of the shareholders of the Bank.

Going Concern
The Board of Directors is satisfied that the Group has adequate resources to continue in business for the next twelve months.

In assessing the Group's ability to continue as a going concern and in view of the uncertainties that exist until the completion of the Group's recapitalisation process, the Board of Directors has in addition taken into consideration, the confirmed commitment of the Republic of Cyprus to support the Bank if the need arises. In accordance with a letter received by the Board of Directors from the Ministry of Finance dated 27 April, 2012, the Republic of Cyprus has affirmed its commitment to provide the necessary support to the Bank to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue in business.

The Directors, having considered the factors set out above, have a reasonable expectation that the recapitalisation of the Group will be successfully completed and hence are satisfied that the consolidated financial statements can be prepared on a going concern basis.

Board Committees
The Board had appointed an Audit Committee, a Nomination Committee, a Compensation Committee and a Risk Management Committee in accordance with the provisions of the CSE Code.

Audit Committee
The Board has appointed for the first time an Audit Committee with written terms of reference before the adoption of a Corporate Governance Code. The Committee comprises exclusively of non executive directors, the majority of which are independent, namely:

- Chris Pavlou (Chairman)
- Constantinos Mylonas
- Neoclis Lysandrou

The Audit Committee is accountable to the Board and shall meet with such frequency as it may consider appropriate and shall report to the Board once a year or as the Board may otherwise determine.

During 2011 the Audit Committee met eight times and also had two joint meetings with the Risk Management Committee in order to examine important matters concerning both Committees.

The main terms of reference of the Audit Committee are the following:

- To consider the appointment and the termination of the appointment of the external auditors, the audit fee, the scope and the cost-effectiveness of the auditors' work, and any related issues.

- To evaluate the independence and objectivity of the external auditors by, among other things, monitoring the nature and extent of any non-audit services provided (either directly or through a related entity).

- To review the Annual Report and the Financial Statements of the Group with Senior Management and with the company's external auditors to ensure that the information that they contain, has been fairly and accurately stated, and is in accordance with approved accounting principles including the International Financial Reporting Standards (IFRSs).

- To give to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it and of financial statements issued by the Group.

- To discuss with the Group's external auditors their general approach to and the scope of their audit including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary).

- To review the external auditors' management letter and the response of management.

- To appoint, at least every three years, external auditors to carry out an overall evaluation of the internal control system in compliance with the relevant Central Bank of Cyprus Directive.

- To ensure that the Group, its subsidiary companies and those of its associates for which it provides management services comply with all supervisory and other regulations to which they are subject.

- To review the Group Internal Audit Report on internal control systems prior to presentation to the Board.

CORPORATE GOVERNANCE REPORT (continued)

Audit Committee (continued)

- To keep under general review the system of internal audit in operation within the Group, to assess its effectiveness and to consider the major findings of internal investigations and management's response.
- To liaise with the Audit Committees of subsidiary companies of the Group which must submit to it, at least once a year, a report on their internal control systems.
- To review the internal audit programme, ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
- To review whether transactions between the Group and Board Members, Senior Management, the Secretary, the external auditors and major shareholders, were on an arm's length basis.
- To prepare the Corporate Governance Report with the assistance of the officer responsible for Compliance with the Code.
- To undertake any other related tasks as the Board may from time to time entrust to it.

Risk Management Committee
The Risk Management Committee oversees all risk management activities of the Group for the purpose to identify, evaluate and manage all key business risks.

During 2011 the Risk Management Committee met five times and also had two joint meetings with the Audit Committee in order to examine important matters concerning both Committees.

The Committee also ensures that systems, policies and procedures are in place to manage these risks and ensures that major issues are referred to the Board of Directors.

The Members of the Committee include an independent non executive director and an executive director.

The Committee comprises of the following:

- Chris Pavlou (Chairman)
- Neoclis Lysandrou
- Markos Foros
- Christos Stylianides

Nomination / Internal Governance Committee
The Nomination Committee is accountable to the Board and meets with such frequency as it may consider appropriate. During 2011 it met four times.

The main terms of reference of the Nomination Committee are the following:

- Identifies and nominates to the Board candidates to fill Board vacancies as and when they arise.
- Assesses on an annual basis the structure, size, composition, performance and effectiveness of the Board and makes recommendations to the Board with regard to any changes.
- Assesses on an annual basis the skills, knowledge and experience of the Members of the Board of Directors and reports this to the Board.
- Consider issues relating to succession planning and reviews the leadership needs of the Group.

The Committee makes its recommendations to the Board to take the relevant decisions, which are subject to the approval of the Annual General Meeting.

Nomination / Internal Governance Committee (continued)
The Nomination Committee comprises of non executive directors including one independent non executive director, namely:

- Michalis Sarris (Chairman)
- Platon E. Lanitis
- Markos Foros
- Neoclis Lysandrou
- Fadel Al Ali

Compensation Committee
The Compensation Committee is accountable to the Board and meets with such frequency as it may consider appropriate. During 2011 it met three times.

The terms of reference of the Compensation Committee are the following:

- Determines and agrees with the Board the Compensation Policy applicable to all employees of the Group.
- Reviews the Group Compensation Policy on an annual basis and ensures its implementation within the terms of the agreed policy, considers and makes recommendations to the Board for the total individual compensation package of the Executive Members of the Board and other Members of Management (Executive Management) as defined in the Policy, including where appropriate, bonuses, incentive payments and share schemes (Variable Compensation Schemes).
- Ensures that the compensation of Executive Management and other key personnel is consistent with the Bank's culture, objectives, strategy and control environment as reflected in the formulation of the Compensation Policy.
- Ensures, in the recommendation to the Board, that the compensation of Executive Management is adequate to attract, retain and give incentives to people who have the required knowledge and experience, while at the same time avoiding having to pay more that is necessary for the purpose.
- Reviews annually the Variable Compensation Schemes to ensure their effectiveness.
- Has access to both internal and external professional advice to evaluate with caution the position of the Bank in matters of compensation in relation to other companies.

The Compensation Committee comprises of non executive directors, the majority of which are independent, namely:

- Constantinos Mylonas (Chairman)
- Chris Pavlou
- Platon E. Lanitis
- Hesham Al Qassim

Compensation Policy
The Board of Directors has approved a revised Compensation Policy for the Senior Management and other employees of the Group, which complies with the relevant Guideline of the Central Bank of Cyprus, so that compensation is aligned with the long term interests of shareholders.

The Compensation Policy of the Group states that for the determination of the compensation of executive directors their qualifications, experience, responsibilities and performance, comparative compensation in the banking industry and the profitability of the Group are taken into account aiming for the recruitment and continuation of employment of high calibre executive directors.

The compensation of the executive directors is determined on an individual basis by the Board of Directors and is made up of salary and other benefits (bonus and non-cash benefits), which are also available to all employees of the Group.

The Executive Directors have no separate contract of employment for their services and they participate in a defined retirement benefit plan as all other employees of the Bank. Up to 31 December, 2011 the Bank in Cyprus and all the Cyprus subsidiaries, operated a defined benefit plan, which as from 1 January, 2012 was converted to a defined contribution plan.

The fees of the non executive Directors are related to their duties and responsibilities and the time spent for Board and Committee meetings, and are approved by the Annual General Meeting.

CORPORATE GOVERNANCE REPORT (continued)

Compensation Policy (continued)
The Extraordinary General Meeting of the shareholders approved on 17 April, 2007 the introduction of a Share Option Scheme for the Members of the Board of Directors of the Bank and the employees of the Group. The exercise price for each Share Option was set at € 10.

On 9 May, 2007 the Board of Directors, following a recommendation of the Compensation Committee, granted Share Options to Members of the Board and employees of the Group.

The Extraordinary General Meeting of the shareholders held on 23 December, 2009, changed the exercise price of the Share Options to € 4,50 and extended the Scheme to the year 2013 and the Extraordinary General Meeting of the shareholders held on 31 May, 2011 changed again the exercise price to € 1,80.

The Annual General Meeting of the shareholders held on 18 May, 2011 approved a Restricted Stock Scheme for the Members of the Board of Directors and key management personnel of the Group. The Scheme provides for the purchase of shares of the Bank in the name of the Management personnel which are released gradually based on performance and after release they should not be sold for one year.

The compensation of Directors is shown in Note 49 of the consolidated financial statements.

Internal Control System
The Board of Directors has the overall responsibility for maintaining a proper internal control environment, which safeguards, among others, the assets of the Group and its clients, the accuracy and confidentiality of transactions, the reliability of financial information and compliance with applicable regulations.

To this end, the management of each business entity within the Group is responsible for the introduction and operation of internal control systems, which are commensurate with the scale and complexity of operations.

In addition, at Group level suitable risk management units exist for supporting the Risk Management Committee and the Assets and Liabilities Committee (ALCO) in drafting and monitoring implementation of the overall risk policy and in managing individual risks. For measurable risks, in particular, Group procedures require determination and periodic revision of acceptable exposure limits.

An internal control system aims at mitigating, but not eliminating, the risks faced by the entity, and provides reasonable but not absolute assurance that material loss will not be incurred.

The adequacy and proper operation of internal controls in individual areas of operation are reviewed periodically by the independent Internal Audit Division of the Group and its findings are reported to the Audit Committee. The latter informs the Board regarding important issues, and presents also an annual report on the adequacy and efficiency of the internal control systems of the Group. The annual reports prepared, confirm the adequacy and effectiveness of the internal control systems of the Group.

Based on the above, the Board states that it is satisfied with the adequacy of the system of internal control and also the procedures for ensuring that the information included in the financial statements and other announcements provided by the Bank to shareholders and investors is correct and complete.

In addition, the Board states that no violation of the Stock Exchange Laws and Regulations has come to its attention.

The Board has also appointed the Secretary of the Bank Stelios Hadjiosif as Officer responsible for compliance with the Corporate Governance Code.

Relations with shareholders
The Group, recognising the importance of communicating correct and timely information, publishes its results on a quarterly basis.

The results and other information relating to the activities of the Group are presented at teleconferences at which analysts, journalists, shareholders and investors can take part.

The Bank encourages shareholders to attend the Annual General Meetings and in its relations with shareholders complies with the requirements of the Cyprus Companies Law and the Corporate Governance Code.

The Bank has also appointed Evelyn Vougesis as Investor Relations Officer.

Biographical information
Biographical information of Members of the Board who offer themselves for re-election:

Michalis Sarris
He received his B.Sc. in Economics at the London School of Economics and continued his studies in the United States where he obtained his Doctorate in Economics. In 1972, he joined the research department of the Central Bank of Cyprus. In early 1974, he moved to the Bank of Cyprus to work on planning and project analysis. As from 1975, Michalis Sarris worked at the World Bank. In the course of his career, his work covered a broad range of sectors in Africa, Latin America and East Asia. His duties included, supervision of the design of the overall country strategies of the Bank, the provision of advice on policy issues for economic and social development, the elaboration of programmes for structural reforms and the development of economic policy dialogue, between the Bank and the national authorities of countries seeking World Bank assistance. At the end of 2004, he retired from the World Bank as a Department Director. In September 2005, the President of the Republic of Cyprus, appointed him as Minister of Finance, where he served until the change of government in March 2008. During his tenure, Cyprus prepared for and successfully introduced the Euro as its national currency.

Chris Pavlou
He studied Business Studies in London. In 1966 he joined Barclays Bank, London, and moved up to the position of Deputy Chief Manager. He spent five years in New York as Senior Vice President running Barclays Foreign Exchange and Money Markets in North America. In February 1987 he joined the Hong Kong and Shanghai Banking Corporation Ltd (HSBC) as Chief Treasury Manager responsible for all Treasury activities. In August 1992 he was appointed Treasurer of HSBC with responsibility for all treasury centres of Asia and Hang Seng Bank. By 1995, HSBC was recognised as the leading treasury Bank in Asia with the exception of Japan. In September 1995 he was posted to Tokyo as Treasurer HSBC Midland in order to develop the Bank’s business there. Within three years this goal was achieved and he retired in May 1998. On retirement, in 1998 he joined Cyprus Popular Bank (23% owned by HSBC) as a consultant and then as a Member of its Board of Directors. He retired at the end of 2004. In 2006, he joined TFI, a Cyprus based financial company and after a successful three year term he retired in October 2009, but remained as non executive chairman until 2011. He also served on the Board of the National Bank of Greece (Cyprus) as a non executive director and Chairman of the Audit Committee. He is non executive director and member of the audit committee of TEMENOS, a Geneva based banking software systems developer and of PROSAFE a leading owner and operator of semi-submersible accommodation and service rigs. He is an honorary member of ACI, a member of the Guild of International Bankers and a Freeman of the City of London.

Peter Baltussen
He received a Masters Degree in Business Economics from the Erasmus University in Rotterdam, Netherlands. In 1988 he joined ABN Amro Bank as an international management trainee and served in different functional areas and countries and then as Regional Manager, Private Banking. In 2002 he was appointed Managing Director and Chief Executive Officer of Saudi Hollandi Bank, a listed Bank 40% owned by ABN Amro Bank and based in Riyadh, Saudi Arabia. In 2005 he was appointed Managing Director and Chief Executive Officer of Banque de Neuflize OBC, a Bank 100% owned by ABN Amro Bank, and also a Member of the Top Executive Group at ABN Amro Bank. His duties included the implementation of the merger of two French banks with the objective to become the largest private bank in France. In 2006 he was appointed Chief Executive Officer and Member of the Executive Committee of the Commercial Bank of Dubai, a bank listed on the Dubai Financial Market. He is also Chairman of its Management, Business, Credit, ALCO, IT Steering and Investment Committees.

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND BY THE GROUP CHIEF FINANCIAL OFFICER

In accordance with Article 9(7) of Law 190(I)/2007 on Transparency Requirements in relation to an issuer whose securities are listed for trading on a regulated market, we the Members of the Board of Directors and the Group Chief Financial Officer of Cyprus Popular Bank Public Co Ltd (the "Bank") confirm that to the best of our knowledge:

(a) The consolidated financial statements of the Bank for the financial year ended 31 December, 2011 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union and Article 9(4) of Law 190(I)/2007 and in general with the applicable Cyprus Legislation and give a true and fair view of the consolidated assets and liabilities, the consolidated financial position and the consolidated results of the Bank and the undertakings included in the consolidated financial statements, as a whole.

(b) The Report of the Board of Directors of the Bank includes a fair review of the developments and performance of the business as well as the position of the Bank and the undertakings included in the consolidated financial statements, as a whole, together with the description of the principal risks and uncertainties that they face.

Members of the Board of Directors:

Michalis Sarris	-	Non Executive Chairman
Constantinos Mylonas	-	Non Executive Vice Chairman
Neoclis Lysandrou	-	Non Executive Vice Chairman
Christos Stylianides	-	Group Chief Executive Officer
Panayiotis Kounnis	-	Deputy Group Chief Executive Officer
Fadel Al Ali	-	Non Executive Director
Hesham Al Qassim	-	Non Executive Director
Peter Baltussen	-	Non Executive Director
Markos Foros	-	Non Executive Director
Platon E. Lanitis	-	Non Executive Director
Chris Pavlou	-	Non Executive Director
Stelios Stylianou	-	Non Executive Director
Vassilis Theocharakis	-	Non Executive Director

Company official responsible for the drafting of the consolidated financial statements:

Annita Philippidou	-	Group Chief Financial Officer

30 April, 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYPRUS POPULAR BANK PUBLIC CO LTD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Cyprus Popular Bank Public Co Ltd (the "Bank") and its subsidiaries (together with the Bank, the "Group") on pages 58 to 164 which comprise the consolidated balance sheet as at 31 December, 2011 and the consolidated 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 consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December, 2011 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

Without qualifying our opinion, we draw attention to the disclosures made in Note 2 to the consolidated financial statements, which refer to the significant impact on the Group's regulatory capital of the impairment losses on Greek Government Bonds and loans and advances, the planned actions to restore the capital adequacy of the Group, the existing uncertainties that could adversely affect the going concern assumption until the completion of the recapitalisation process and the confirmed commitment of the Republic of Cyprus to provide the necessary support to the Bank, if the need arises, to enable the Bank to continue as a going concern.

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 consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 44 to 47 is consistent with the consolidated financial statements.

Pursuant to the requirements of the Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of the said Directive, and it forms a special part of the Report of the Board of Directors.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYPRUS POPULAR BANK PUBLIC CO LTD (continued)

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.

Stelios C. Constantinou
Certified Public Accountant and Registered Auditor
for and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Stavros Ioannou
Certified Public Accountant and Registered Auditor
for and on behalf of
Grant Thornton (Cyprus) Limited
Certified Public Accountants and Registered Auditors

Nicosia, 30 April, 2012

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 € '000	2010 € '000
Interest income	4	**1.704.553**	1.553.320
Interest expense	4	**(905.867)**	(843.777)
Net interest income		**798.686**	709.543
Fee and commission income	5	**218.660**	243.091
Fee and commission expense	5	**(38.959)**	(42.610)
Net fee and commission income		**179.701**	200.481
Profit on disposal and revaluation of securities	6	**23.670**	49.335
Foreign exchange income		**29.927**	34.091
Other income	7	**5.314**	28.304
Operating income		**1.037.298**	1.021.754
Staff costs	8	**(390.714)**	(386.202)
Depreciation and amortisation	9	**(56.225)**	(56.162)
Administrative expenses	10	**(202.266)**	(203.403)
Profit before impairments		**388.093**	375.987
Provision for impairment of advances	11	**(1.151.112)**	(266.146)
Impairment of debt and equity holdings	12	**(2.527.082)**	(9.344)
Impairment of goodwill and other intangibles	28	**(820.457)**	-
(Loss)/profit before share of profit from associates		**(4.110.558)**	100.497
Share of profit from associates	27	**9.774**	14.177
(Loss)/profit before tax		**(4.100.784)**	114.674
Tax	13	**454.482**	(25.446)
(Loss)/profit for the year		**(3.646.302)**	89.228
Attributable to:			
Owners of the Bank	39	**(3.650.380)**	87.080
Non-controlling interests		**4.078**	2.148
		(3.646.302)	89.228
(Loss)/earnings per share – for (loss)/profit attributable to the owners of the Bank			
(Loss)/earnings per share – cent	14	**(246,0)**	10,0

The notes on pages 63 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 € '000	2011 € '000	2010 € '000	2010 € '000
(Loss)/profit for the year			**(3.646.302)**		89.228
Exchange differences arising in the year			**(717)**		11.588
Revaluation and transfer to results on disposal and impairment of available-for-sale financial assets		**142.789**		(159.870)	
Amortisation of loss on available-for-sale financial assets reclassified		**8.564**		7.453	
Net effect of available-for-sale financial assets			**151.353**		(152.417)
Revaluation of property			**(381)**		11
Cash flow hedges			**91**		(543)
Share of other comprehensive income of associates			**(809)**		(872)
Income tax relating to components of other comprehensive income	15		**(12.097)**		16.402
Other comprehensive income/(loss) for the year, net of tax			**137.440**		(125.831)
Total comprehensive loss for the year			**(3.508.862)**		(36.603)
Total comprehensive (loss)/income attributable to:					
Owners of the Bank			**(3.511.511)**		(39.529)
Non-controlling interests			**2.649**		2.926
			(3.508.862)		(36.603)

The notes on pages 63 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2011

	Note	2011 € '000	2010 € '000
Assets			
Cash and balances with Central Banks	16	**1.034.086**	713.579
Due from other banks	17	**689.569**	4.696.112
Financial assets at fair value through profit or loss	19	**234.505**	229.336
Advances to customers	20	**24.778.623**	26.417.333
Debt securities lending	22	**1.769.185**	3.960.788
Available-for-sale financial assets	23	**1.791.205**	2.278.411
Held-to-maturity financial assets	24	**889.455**	1.480.046
Other assets	25	**693.234**	535.782
Income tax assets	26	**59.061**	34.056
Deferred tax assets	37	**580.246**	127.185
Investments in associates	27	**115.741**	113.600
Intangible assets	28	**797.780**	1.634.734
Investment property	29	**38.056**	68.322
Property and equipment	30	**291.232**	291.202
Total assets		**33.761.978**	42.580.486
Liabilities			
Due to other banks	31	**10.301.370**	10.649.850
Customer deposits	32	**20.160.804**	25.508.361
Senior debt	33	**376.107**	477.637
Loan capital	34	**1.333.727**	1.267.931
Other liabilities	35	**557.136**	592.516
Income tax liabilities	36	**14.673**	23.203
Deferred tax liabilities	37	**120.621**	134.634
Retirement benefit obligations	8	**296.982**	284.980
Total liabilities		**33.161.420**	38.939.112
Share capital and reserves attributable to the owners of the Bank			
Share capital	38	**1.369.444**	834.799
Share premium	38	**2.334.583**	2.252.897
Reserves	39	**(3.209.867)**	447.815
		494.160	3.535.511
Non-controlling interests		**106.398**	105.863
Total equity		**600.558**	3.641.374
Total equity and liabilities		**33.761.978**	42.580.486

Michalis Sarris, Chairman
Christos Stylianides, Group Chief Executive Officer
Annita Philippidou, Group Chief Financial Officer

The notes on pages 63 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

		Attributable to the owners of the Bank				Non-controlling interests	Total
	Note	Share capital € '000	Share premium € '000	Fair value, currency translation and other reserves € '000	Revenue reserves € '000	€ '000	€ '000
Balance 1 January 2010		720.930	2.179.146	(212.160)	948.006	123.321	3.759.243
Dividend payment and re-investment	38,39,50	8.613	4.965	-	(67.390)	-	(53.812)
Script dividend	38,39,50	105.256	73.952	-	(187.551)	-	(8.343)
Defence tax on deemed distribution	39	-	-	-	34	71	105
Share issue costs	38	-	(5.166)	-	-	-	(5.166)
Transfer from fair value reserves to revenue reserves	39	-	-	(2.017)	2.017	-	-
Cost of share-based payments to employees	39	-	-	-	2.480	19	2.499
Dividend paid by subsidiary companies		-	-	-	-	(1.735)	(1.735)
Effect of change in non-controlling interests from changes in shareholdings in subsidiary companies	39	-	-	-	4.240	(18.739)	(14.499)
Other movements	39	-	-	-	(315)	-	(315)
		834.799	2.252.897	(214.177)	701.521	102.937	3.677.977
Profit for the year		-	-	-	87.080	2.148	89.228
Other comprehensive (loss)/income for the year, net of tax		-	-	(126.609)	-	778	(125.831)
Total comprehensive (loss)/income for the year		-	-	(126.609)	87.080	2.926	(36.603)
Balance 31 December 2010 / 1 January 2011		**834.799**	**2.252.897**	**(340.786)**	**788.601**	**105.863**	**3.641.374**
Shares issued through exercise of rights	38	**414.942**	**73.226**	**-**	**-**	**-**	**488.168**
Script dividend	38,39,50	**119.703**	**21.124**	**-**	**(147.028)**	**-**	**(6.201)**
Share issue costs	38	**-**	**(12.664)**	**-**	**-**	**-**	**(12.664)**
Defence tax on deemed distribution	39	**-**	**-**	**-**	**(425)**	**(207)**	**(632)**
Transfer from fair value reserves to revenue reserves	39	**-**	**-**	**(176)**	**176**	**-**	**-**
Cost of share-based payments to employees	39	**-**	**-**	**-**	**1.383**	**9**	**1.392**
Dividend paid by subsidiary companies		**-**	**-**	**-**	**-**	**(2.212)**	**(2.212)**
Effect of change in non-controlling interests from changes in shareholdings in subsidiary companies	39	**-**	**-**	**-**	**(41)**	**296**	**255**
Other movements	39	**-**	**-**	**-**	**(60)**	**-**	**(60)**
		1.369.444	**2.334.583**	**(340.962)**	**642.606**	**103.749**	**4.109.420**
(Loss)/profit for the year		**-**	**-**	**-**	**(3.650.380)**	**4.078**	**(3.646.302)**
Other comprehensive income/(loss) for the year, net of tax		**-**	**-**	**138.929**	**(60)**	**(1.429)**	**137.440**
Total comprehensive income/(loss) for the year		**-**	**-**	**138.929**	**(3.650.440)**	**2.649**	**(3.508.862)**
Balance 31 December 2011		**1.369.444**	**2.334.583**	**(202.033)**	**(3.007.834)**	**106.398**	**600.558**

The notes on pages 63 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 € '000	2010 € '000
Cash used in operations	41	**(4.452.046)**	(305.664)
Tax paid		**(59.427)**	(49.802)
Net cash used in operating activities		**(4.511.473)**	(355.466)
Cash flows from investing activities			
Purchases of property and equipment	30	**(30.486)**	(31.818)
Purchases of computer software	28	**(10.514)**	(10.232)
Purchases of investment property	29	**(20.879)**	(13.257)
Proceeds from disposals of property and equipment	30	**835**	692
Proceeds from disposals of investment property		**447**	1.121
Purchases of available-for-sale financial assets		**(1.102.945)**	(1.118.474)
Purchases of held-to-maturity financial assets		**(376.799)**	(1.358.538)
Proceeds from disposals and redemption of available-for-sale financial assets		**1.377.583**	2.101.641
Proceeds from redemption of held-to-maturity financial assets		**716.989**	1.287.861
Interest received from financial assets		**234.922**	183.612
Dividend received from financial assets		**-**	3.819
Dividend received from investments in associates	27	**6.736**	12.829
Business disposals net of cash and cash equivalents		**36.772**	246
Net cash from investing activities		**832.661**	1.059.502
Cash flows from financing activities			
Dividend paid by subsidiary companies to non-controlling interests		**(2.212)**	(1.317)
Dividend paid		**-**	(62.155)
Defence tax on dividend paid		**(6.201)**	-
Interest paid on senior debt and loan capital		**(82.698)**	(68.981)
Share issue costs	38	**(12.664)**	(5.166)
Proceeds from the issue of senior debt and loan capital		**68.108**	318.022
Repayment of senior debt and loan capital		**(117.298)**	(1.022.870)
Proceeds from rights issue	38	**488.168**	-
Changes in shareholding in subsidiary companies		**-**	(14.937)
Net cash from/(used in) financing activities		**335.203**	(857.404)
Effects of exchange rate changes on cash and cash equivalents		**(282)**	10.513
Net decrease in cash and cash equivalents		**(3.343.891)**	(142.855)
Cash and cash equivalents at beginning of year		**4.127.458**	4.270.313
Cash and cash equivalents at end of year	42	**783.567**	4.127.458

The notes on pages 63 to 164 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Country of incorporation

Cyprus Popular Bank Public Co Ltd (the "Bank") was established in Cyprus in 1901 under the name "Popular Savings Bank of Limassol". In 1924 it was registered as the first public company in Cyprus under the name "The Popular Bank of Limassol Ltd". In 1967 the Bank changed its name to "Cyprus Popular Bank Ltd" and on 26 May, 2004 it was renamed to "Cyprus Popular Bank Public Company Ltd". An Extraordinary General Meeting held on 31 October, 2006 unanimously approved the change of its name to "Marfin Popular Bank Public Co Ltd". An Extraordinary General meeting held on 2 April, 2012 approved the change of its name to "Cyprus Popular Bank Public Co Ltd". The Bank's shares are listed on the Cyprus Stock Exchange and the Athens Exchange. The Bank's registered office is at 154, Limassol Avenue, 2025 Nicosia, Cyprus.

Principal activities

The principal activities of the Group, which were unchanged from last year, are the provision of banking and financial services. The Group also offers insurance services, through its associate (Note 27).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

As of the date of the authorisation of the consolidated financial statements, all IFRSs issued by the International Accounting Standards Board (IASB) that are effective as of 1 January, 2011 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding recovery or settlement of every asset and liability respectively within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in the respective notes in the consolidated financial statements.

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

The disclosures on risks from financial instruments are presented in Note 45 "Financial risk management".

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Note 42 shows in which item of the consolidated balance sheet cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Consolidated net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are also adjusted. The cash flows from investing and financing activities are determined by using the direct method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. Management believes that the underlying assumptions are appropriate and that the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Going concern considerations

The consolidated financial statements have been prepared on a going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors has taken into consideration the impact of the following factors.

The continued deterioration of the Greek and Cypriot economies throughout 2011, to which the Group is significantly exposed, has adversely affected the Group's operations and presents significant risks and challenges. Currently, there are a number of material economic, political and market risks and uncertainties that impact the Greek banking system. The main risks stem from the adverse macroeconomic environment, the developments on the eurozone sovereign debt crisis and the success, or otherwise, of the significant fiscal adjustment efforts and their impact on the Greek and Cypriot economies. The progress made to date could be compromised by external shocks from the global economy as well as implementation risks, reform fatigue and political instability in Greece. The restoration of confidence after the successful implementation of the PSI+ agreement, the attraction of new investments and the revival of economic growth remain the key challenges of the Greek economy.

The Group has incurred substantial impairment losses as a result of the Hellenic Republic's debt restructuring (PSI+) (Note 12) as well as increased impairment losses on its loans and advances portfolio (Note 11). Such losses had a respective impact on the accounting and regulatory capital of the Group as of 31 December, 2011, which has fallen below the minimum capital requirements (Note 45). With regards to liquidity the Group has increasing reliance on Eurosystem financing facilities.

On 26 October, 2011, a capital exercise proposed by the European Banking Authority (EBA) and approved by the European Council required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. Additionally, it required them to establish a buffer such that Core Tier I Capital ratio reaches 9% by the end of June 2012.

The Group has participated in the capital exercise of the EBA. The amount of the capital shortfall identified was based on 30 September, 2011 figures, with the estimated capital shortfall for the Group calculated at € 1,97 bn. The Group aims that by the end of June 2012 it will adhere to the 9% Core Tier I ratio. On 20 January, 2012, the Group, within the framework of the capital exercise, has submitted a comprehensive capital plan to the Central Bank of Cyprus with which the Group aims to comply with a Core Tier I ratio of 9% after including the Greek Government Bond impairments and loan impairments. The capital plan submitted to the Central Bank of Cyprus has been agreed with the appropriate regulatory authorities which will monitor its implementation.

The capital plan includes a diverse set of targeted initiatives including exchanging of existing capital securities, asset optimisation and active management of portfolio exposures and raising of new equity. At a very high level, the plan includes:

- The raising of up to € 1,8 bn via new ordinary equity from shareholders through a rights issue and/or private placement.
- Approximately € 600 m to be raised through exchanging into Core Tier I capital, of part of the Group's outstanding capital securities and subordinated debt (Tier II capital).
- Approximately € 400 m through the management of the Group's risk weighted assets including divestment of non-core positions.

By accomplishing the above initiatives the Group will restore its capital base to continue to support the development of its business. The Board of Directors has received authorisation from the Extraordinary General meeting that was held on 2 April, 2012, to proceed with the implementation of the capital plan (Note 52).

In assessing the Group's ability to continue as a going concern and in view of the uncertainties that exist until the completion of the Group's recapitalisation process, the Board of Directors has in addition taken into consideration, the confirmed commitment of the Republic of Cyprus to support the Bank if the need arises. In accordance with a letter received by the Board of Directors from the Ministry of Finance dated 27 April, 2012, the Republic of Cyprus has affirmed its commitment to provide the necessary support to the Bank to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue in business.

The Directors, having considered the factors set out above, have a reasonable expectation that the recapitalisation of the Group will be successfully completed and hence are satisfied that the consolidated financial statements can be prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised IFRSs

The accounting policies adopted are consistent with those of the previous financial year except for the adoption by the Group of all applicable new and revised IFRSs, all revised International Accounting Standards (IASs) and all new and revised interpretations which are relevant to its operations and are applicable for accounting periods beginning on 1 January, 2011 as stated below:

(i) Standards, amendments and interpretations effective in 2011

(a) Amendment to IAS 32, Classification of Rights Issues (effective for annual periods beginning on or after 1 February, 2010)
The amendment states that if rights issues offered in foreign currency are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity, not as derivative liabilities, regardless of the currency in which the exercise price is denominated.

(b) IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July, 2010)
The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

(c) Amendments to IFRIC 14, Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January, 2011)
The amendment applies to entities which are subject to minimum funding requirements and make an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

(d) Revised IAS 24, Related Party Disclosures (effective retrospectively for annual periods beginning on or after 1 January, 2011)
The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. It also provides a partial exemption from the disclosure requirements for government-related entities.

(e) Improvements to IFRSs
Additional "Improvements to IFRSs" were issued in May 2010. They contain amendments to six Standards and one Interpretation specifically IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.

(ii) Standards, amendments and interpretations to existing standards that are applicable to the Group, that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January, 2012 or later periods and the Group has not early adopted them:

(a) Amendment to IFRS 7, Financial Instruments: Disclosures – Transfers of financial assets (effective for annual periods beginning on or after 1 July, 2011)
The amendment aims to enhance the disclosure requirements relating to transfers of financial assets.

(b) Amendments to IAS 12, Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January, 2012)
The amendments are subject to endorsement by the EU and address the determination of deferred tax on investment property measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised IFRSs (continued)

(ii) Standards, amendments and interpretations to existing standards that are applicable to the Group, that are not yet effective and have not been early adopted by the Group (continued)

(c) Amendments to IAS 1, Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July, 2012)

The amendments are subject to endorsement by the EU and require entities to group items presented in other comprehensive income into those that will not be reclassified subsequently to the income statement and to those that will be reclassified subsequently to the income statement when specific conditions are met. The amendments do not address which items are presented in other comprehensive income but do change the structure of their presentation.

(d) IAS 19 (Revised 2011), Employee benefits (effective for annual periods beginning on or after 1 January, 2013)

This revision is subject to endorsement by the EU and is intended to improve the recognition, presentation and disclosure of defined benefit plans. It will have a particular impact on the amounts presented in the income statement and other comprehensive income by requiring the immediate recognition of all estimated changes in the cost of providing defined benefits and all changes in the value of plan assets by eliminating the "corridor" approach.

(e) IAS 27 (Revised 2011), Separate Financial Statements (effective for annual periods beginning on or after 1 January, 2013)

This revision is subject to endorsement by the EU. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the requirements regarding control and consolidation procedures of IAS 27 have been included in the new IFRS 10.

(f) IAS 28 (Revised 2011), Associates and Joint Ventures (effective for annual periods beginning on or after 1 January, 2013)

This revision is subject to endorsement by the EU. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

(g) Amendments to IFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January, 2013)

The amendments are subject to endorsement by the EU and are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.

(h) IFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after 1 January, 2013)

This standard is subject to endorsement by the EU. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 for the accounting period beginning on or after 1 January, 2013.

(i) IFRS 11, Joint Arrangements (effective for annual periods beginning on or after 1 January, 2013)

This standard is subject to endorsement by the EU. It is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

(j) IFRS 12, Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January, 2013)

This standard is subject to endorsement by the EU. It includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 for the accounting period beginning on or after 1 January, 2013.

(k) IFRS 13, Fair Value Measurement (effective for annual periods beginning on or after 1 January, 2013)

This standard is subject to endorsement by the EU. It aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 for the accounting period beginning on or after 1 January, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised IFRSs (continued)

(ii) Standards, amendments and interpretations to existing standards that are applicable to the Group, that are not yet effective and have not been early adopted by the Group (continued)

(l) IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January, 2015)

This standard is subject to endorsement by the EU. It replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The key features of the new standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision for the classification has to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the financial instrument.

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

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

- While adoption of IFRS 9 is mandatory from 1 January, 2015, earlier adoption is permitted.

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

(m) Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January, 2014)

The amendments are subject to endorsement by the EU and address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The amendments clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

Consolidation

The financial statements of the subsidiaries that are included in the Bank's consolidated financial statements were prepared as of the parent company's reporting date.

(a) Subsidiary companies

Subsidiaries are all entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies, and is able to exercise control over them in order to benefit from their activities. Usually in these entities there is a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. The consolidated financial statements consolidate the financial statements of the Bank and its subsidiaries, including certain special purpose entities, as of 31 December, 2011.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

(a) Subsidiary companies (continued)

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration arrangements. Cost also includes direct attributable costs of investment.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses arising from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

Even if there is no shareholder relationship, special purpose entities (SPEs) are consolidated in accordance with SIC-12, if the Group controls them from an economic perspective.

When assessing whether the Group controls an SPE, in addition to the criteria in IAS 27, it evaluates a range of factors, including whether:

- the activities of the SPE are being conducted on the Group's behalf according to its specific business needs so that the Group obtains the benefits from the SPE's operations;
- the Group has the decision-making power to obtain the majority of the benefits of the activities of the SPE, or the Group has delegated this decision-making power by setting up an "autopilot" mechanism; or
- the Group has the right to obtain the majority of the benefits of the activities of the SPE and therefore may be exposed to risks related to the activities of the SPE; or
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities.

Whenever there is a change in the substance of the relationship between the Group and the SPE, the Group performs a re-assessment of consolidation. Indicators for a re-assessment of consolidation are changes in ownership of the SPE, changes in contractual arrangements and changes in the financing structure.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

(d) Common control transactions

For business combinations involving entities under common control, the Group applies the predecessor values method of consolidation. Under this method, when an existing subsidiary of the Group is transferred within the Group, the predecessor values used to account for the common control transaction are the values that were included in the Group's consolidated financial statements when the subsidiary was first acquired. No goodwill arises under predecessor accounting and any difference arising on consolidation is recognised in equity. Under predecessor accounting the Group follows a policy whereby the consolidated financial statements incorporate the acquired entity's results from the date on which the transaction occurred and the comparatives are not restated.

(e) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the income statement where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit from associates" in the consolidated income statement.

Profits and losses resulting from transactions between the Group and its associate are recognised in the consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

For summarised financial information on the Group's associates accounted for using the equity method, see Note 27.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Euro, which is the functional and presentation currency of the Bank. All amounts are rounded to the nearest thousand, unless where otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except in the cases of qualifying net investment hedges and qualifying cash flow hedges, where foreign exchange gains and losses are recognised in other comprehensive income.

All foreign exchange gains and losses recognised in the income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, other than in relation to impairment, are recognised in other comprehensive income.

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

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction).
- All resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported in shareholders' equity within the "Currency Translation Reserve".

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is disposed of, or partially disposed of with loss of control, exchange differences that were recorded in equity, are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate. Exchange differences arising are recognised within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These measurement provisions do not apply to deferred tax assets and liabilities (IAS 12), financial assets in the scope of IAS 39 and investment properties that are accounted for in accordance with the fair value model in IAS 40.

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets. Management must be committed to the sale and must actively market the asset for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. These assets may be a component of an entity, a disposal group or an individual non-current asset.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Discontinued operations are presented in a separate line in the consolidated income statement.

Net profit from discontinued operations includes the net total of operating profit or loss before tax from operations, including net gain or loss on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, the Group restates prior periods in the consolidated income statement and the consolidated cash flow statement.

Interest income and expense

Interest income and expense are recognised in the consolidated income statement for all interest-bearing assets and liabilities using the effective interest rate method. Interest income includes interest earned on advances, held-to-maturity financial assets, available-for-sale financial assets, debt securities lending, financial assets at fair value through profit or loss, as well as the amortisation of discount and premium on bonds and other financial instruments.

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

Once a financial asset or a 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.

Fee and commission income and expense

Fee and commission income and expense are generally recognised on an accrual basis when the service has been provided. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised pro rata over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a financial 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 at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is recognised in the consolidated income statement within other administrative expenses.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank, its subsidiaries and its branches operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the date of the consolidated 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 and equipment, impairment and revaluation of certain financial assets and liabilities including derivative contracts, provisions for retirement benefits and carry-forwards and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

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

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(a) Retirement benefits

Group companies operate various retirement benefit plans. The Group has both defined benefit and defined contribution plans. Up to 31 December, 2011 the Bank in Cyprus and all the Cyprus subsidiaries, operated a defined benefit plan, which as from 1 January, 2012 was converted to a defined contribution plan (Note 52).

A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity. For a defined contribution plan the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a retirement plan that is not a defined contribution plan. Typically defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The liability recognised in the consolidated balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the date of the consolidated balance sheet less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in the consolidated income statement unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

A settlement of a defined benefit plan occurs when an entity enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, for example, where a lump sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits. A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. Before determining the effect of a curtailment or settlement, the Group measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices). The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gains or losses on a curtailment or settlement comprise: (a) any resulting change in the present value of the defined benefit obligation, (b) any resulting change in the fair value of plan assets, and (c) any related actuarial gains and losses and past service cost that had not previously been recognised.

For defined contribution plans, the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group also pays contributions to the Government Social Insurance Fund of each country in accordance with local legal requirements, where applicable.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: termination of the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the date of the consolidated balance sheet are discounted to present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

The Group's share option scheme is an equity-settled, share-based compensation plan in respect of services received from certain of its employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised as an expense in the consolidated income statement over the period that the services are received, which is the vesting period, with a corresponding credit in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value.

Upon a modification of a share option scheme, whereby the modification increases the fair value of the equity instruments granted (for example by reducing the exercise price), measured immediately before and after the modification, the Group includes the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

Upon a modification of a share option scheme, whereby the modification reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the Group continues to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. They are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately the amount recognised in the consolidated income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. The total amount expensed is recognised over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied. The Group recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' original maturity, including cash and non-restricted balances with Central Banks and amounts due from other banks.

Repossessed property for sale

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and are reported within "Other assets".

Advances to customers

Advances to customers are presented on the consolidated balance sheet net of accumulated impairment provisions.

The Group assesses at each balance sheet date whether there is objective evidence that advances to customers are impaired. Advances to customers are impaired and impairment losses are incurred only if there is objective evidence of impairment, as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event or events has an impact on the estimated future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advances to customers (continued)

The criteria that the Group uses to determine whether there is objective evidence for an impairment loss include:

(a) violation of the contractual terms resulting in the delay of capital or interest payment,

(b) evidence for significant deterioration in the loan repayment ability,

(c) undertaking of legal action,

(d) bankruptcy,

(e) other objective evidence that leads to the conclusion that the Group will not collect the full amount due.

The Group first assesses whether objective evidence of impairment exists individually for advances. If the Group determines that no objective evidence of impairment exists for an individually assessed advance, it includes the asset in a group of advances with similar credit risk characteristics and collectively assesses them for impairment. Advances 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.

The calculation of the present value of the estimated future cash flows of a collateralised advance reflects the cash flows that may result from foreclosure whether or not foreclosure is probable. The provision amount is calculated as the difference between the advance's carrying amount and the present value of the estimated future cash flows.

For the purposes of a collective evaluation of impairment, advances are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, 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 advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. 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.

Impaired advances are monitored continuously and are reviewed for provisioning purposes on a quarterly basis. If the amount of the impairment loss decreases in a subsequent period, due to an event occurring after the impairment was recognised, the provision is written back by reducing the impairment provision account accordingly.

When an advance is uncollectible, it is written off against the related provision for impairment. Such advances are written off after all the necessary procedures have been completed, there is no realistic potential of recovery, and the amount of the loss has been determined, notwithstanding the Group's right to collect in the future any amounts that have been written off.

Financial assets

The Group classifies its financial assets in the following IAS 39 categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

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

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

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative financial instruments are also categorised as held-for-trading, unless they are designated and effective as hedging instruments in which case hedge accounting is applied. Financial assets designated at fair value through profit or loss upon initial recognition are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to key management personnel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Group intends to sell immediately or in the short-term, which are classified as held-for-trading, and those that the Group upon initial recognition designates as at fair value through profit or loss, (b) those that the Group upon initial recognition designates as available-for-sale, or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than: (a) those that the Group upon initial recognition designates as at fair value through profit or loss, (b) those that the Group designates as available-for-sale, and (c) those that meet the definition of loans and receivables.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

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.

Regular-way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the financial asset. 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 carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. 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 financial assets are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated income statement within "Profit on disposal and revaluation of securities" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the consolidated income statement, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale, other than impairments, are recognised in other comprehensive income.

In particular circumstances the Group may reclassify non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) and for which there is no longer intention to trade or sell in the foreseeable future, out of the fair value through profit or loss category. In such cases any gain or loss already recognised in the consolidated income statement is not reversed and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The Group may also transfer out of the available-for-sale category to either the loans and receivables or the held-to-maturity category, a financial asset that would have met the definition of loans and receivables or held-to-maturity, if it has the intention and ability to hold that financial asset for the foreseeable future or until maturity, respectively. Any previous gain or loss on that asset that has been recognised directly in equity is amortised to the income statement over the remaining life of the investment using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "Profit on disposal and revaluation of securities" or "Impairment of debt and equity holdings" respectively.

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 Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). If the Group determines that the terms and conditions of the financial assets change substantially, that significantly alter the contractual rights to the cash flows from the existing financial assets, then this constitutes a derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the consolidated income statement within "Interest income". Dividends on available-for-sale equity instruments are recognised in the consolidated income statement within "Other income" when the Group's right to receive payments is established.

The fair value of investments quoted in an active market is based on quoted bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

Impairment of financial assets

(a) Available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indication of possible impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(b) Loans and receivables and held-to-maturity financial assets

For loans and receivables and held-to-maturity financial assets, the Group assesses at each balance sheet date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in "Impairment of debt and equity holdings" in the consolidated income statement. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed through the consolidated income statement.

Financial liabilities

The Group's holding in financial liabilities consists mainly of financial liabilities measured at amortised cost. Financial liabilities measured at amortised cost are due from banks, customer deposits, senior debt and loan capital. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held-for-trading from the held-for-trading category to another relevant 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 Group 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 Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassification of financial assets effected by the Group are shown in Note 18.

Reclassifications are made at fair values 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase agreements

The Group enters into agreements for purchases (sales) of investments and to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price.

Investments sold subject to repurchase agreements (repos) continue to be recognised in the consolidated balance sheet and are measured according to their classification. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. Investments purchased, on condition that they will be resold in the future (reverse repos), are not recognised in the consolidated balance sheet. The amounts paid for purchase thereof are recognised as receivables from either banks or customers. The difference between the sale (purchase) and repurchase (resale) consideration is recognised as interest expense (income) during the repurchase agreement period using the effective interest rate method.

The Group enters into share purchase agreements with the intention to resell them (stock reverse repos) through the Athens Derivatives Exchange. The acquired shares are then sold in the Athens Exchange. The shares are not recognised as assets but the resale of the shares is recognised as a liability in the balance sheet, and is measured at the fair value of the securities that the Group is committed to repurchase and return to the Derivatives Exchange Clearing House.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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.

Derivative financial instruments and hedge accounting

Derivative financial instruments include forward exchange contracts, currency and interest rate swaps, currency and index futures, equity and currency options and other derivative financial instruments. These are initially recognised in the consolidated balance sheet at fair value on the date a derivative contract is entered into and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques such as discounted cash flow models and other pricing models as appropriate. All derivatives are shown within assets when fair value is positive and within liabilities when fair value is negative.

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 consolidated income statement.

The Group uses derivative financial instruments for hedging risks that arise from changes in interest rates and exchange rates. The Group applies fair value hedges or cash flow hedges to these derivatives that meet the criteria for hedge accounting. For derivatives that do not meet the criteria for hedge accounting, any profit or loss arising from the changes in fair values is recorded in the consolidated income statement.

A hedge relationship for the purposes of applying hedge accounting exists when:

- At the inception of the hedge, the Group designates and documents the hedging relationship as well as its risk management objective and strategy for undertaking the hedge.
- The hedge is expected to be highly effective in offsetting changes in fair values or cash flows attributed to the hedged risk, pursuant to the documented risk management strategy for the said hedge relationship.
- For cash flow hedges, the forecast transaction that is the subject of the hedge is highly probable and must present an exposure to variations in cash flows that could ultimately affect the results.
- The effectiveness of the hedge can be reliably measured.
- The hedge is assessed as highly effective throughout the period.

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 Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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

(a) Fair value hedge

For fair value hedges that meet the criteria for hedge accounting, any profit or loss from the revaluation of the derivative at fair value is recognised in the consolidated income statement. Any profit or loss of the hedged instrument that is due to the hedged risk, adjusts the carrying amount of the hedged instrument and is recognised in the consolidated income statement, irrespective of the classification of the financial instrument.

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 rate method is used is amortised to the income statement over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the consolidated income statement when the equity security is disposed of as part of the gain or loss on the sale.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. Any ineffective portion is recognised in the consolidated income statement.

Amounts accumulated in equity are recycled in the consolidated income statement in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines associated with the related hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. For derivative instruments that do not qualify for hedge accounting, changes in the fair value are recognised immediately in the consolidated income statement, under “Profit on disposal and revaluation of securities”.

Investment property

Investment property includes land and buildings, owned by the Group with the intention of earning rentals or for capital appreciation or both, and are not used by the Group. Investment property is carried at fair value, representing open market value, as is determined annually by external independent professional valuers who apply recognised valuation techniques. Changes in fair values are included within “Other income” in the consolidated income statement.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16 and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the property will flow to the Group and the cost can be measured reliably. This is usually the day when all risks are transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property (continued)

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated balance sheet. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. At each balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after initial recognition. Intangible assets with indefinite useful life are tested annually for impairment and whenever there is an indication that the asset may be impaired.

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in the balance sheet in "Intangible assets". Goodwill on acquisitions of associates is included in "Investments in associates". Goodwill is tested for impairment annually and whenever there are indications of impairment by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying value of its net assets, including attributable goodwill and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified in accordance with IFRS 8.

(b) Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software programmes are carried at cost less accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement.

Costs associated with maintenance of computer software programmes are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful economic life, not exceeding a period of eight years (2010: eight years). Amortisation commences when the computer software is available for use and is included within "Depreciation, amortisation and impairment" in the consolidated income statement.

(c) Other intangible assets

Other intangible assets represent the estimated value of intangible assets, such as the value of core deposits and customer relationships, in relation to acquired businesses (Note 28).

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

(c) Other intangible assets (continued)

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. Other intangible assets that have a finite useful life are amortised on a straight-line basis during their useful economic life (ranging from 5 to 23 years). Amortisation is included within "Depreciation and amortisation" in the consolidated income statement. Other intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually and whenever there is an indication that the intangible assets may be impaired.

Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

(a) A Group company as a lessee

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful economic life of the asset or the lease term.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Total payments, including prepayments, made under operating leases (net of any incentives received by the lessor) are charged to "Administrative expenses" in the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A Group company as a lessor

Finance lease and hire purchase

When assets are leased out under finance lease/hire purchase agreements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. The present value of the receivable is recognised in the consolidated balance sheet under "Advances to customers". Lease income and hire purchase fees are recognised in the consolidated income statement in a systematic manner, based on instalments receivable during the year so as to provide a constant periodic rate of interest using the net investment method (before tax).

Operating lease

Assets leased out under operating leases are presented in the consolidated balance sheet as investment property and are accounted under the accounting policy for investment property. Payments received under operating leases are recorded in the consolidated income statement on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent professional valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the date of the balance sheet. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown within fair value reserves in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against those reserves. All other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from property fair value reserves to revenue reserves.

Land is not depreciated. Depreciation on other property and equipment is calculated using the straight-line method to allocate the cost or revalued amount of each asset less their residual values, over their estimated useful economic life. The estimated useful economic life of other property and equipment is as follows:

	Years
Buildings	33 - 50
Furniture and equipment	3 - 10

Improvements on leasehold buildings are included within the property of the Group and their estimated useful economic life is 12 years.

The assets' residual values and useful economic lives are reviewed and adjusted if appropriate at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment was impaired as at 31 December, 2011 (2010: nil).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to "Other administrative expenses" in the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are included in the consolidated income statement. When revalued assets are sold, the amounts included in the property fair value reserves are transferred to revenue reserves.

Properties under construction are carried at cost less any impairment loss where the recoverable amount of the property under construction is estimated to be lower than its carrying value. Depreciation for these assets commences when the assets are ready for their intended use.

Impairment of non-financial assets

Intangible assets that have an indefinite useful economic life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less costs to sell or the value-in-use can be determined reliably. Non-financial assets other than goodwill that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

Trade payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

Borrowings, comprising senior debt and loan capital, are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the borrowings. A financial liability is derecognised when it is extinguished, that is, when the obligation is discharged, cancelled or expired. This condition is met when the Group either discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or when the Group is legally released from the primary responsibility for the liability (or part of it) either by process of law or by the creditor. The condition for extinguishment is also met if the Group repurchases a bond or other instrument that it has previously issued. Where a financial liability (or part of a financial liability) is extinguished, the Group recognises any difference arising between the carrying amount of the financial liability (or part of the financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the consolidated income statement.

Where the Group exchanges a debt instrument with another debt instrument, the Group examines whether the exchange is performed with substantially different terms. In determining whether the terms are substantially different, the Group applies the accounting policy of performing a qualitative analysis of the modification of terms by comparing the terms of the existing financial liability with the terms of the newly issued instrument. Where the qualitative changes in the terms of the newly issued instrument compared to the original instrument indicate that the changes in terms are substantially different, the substantial modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability as described above.

Share capital

Ordinary shares are classified as equity.

(a) Share issue costs

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

(b) Dividends on ordinary shares

The dividend distribution to the Bank's ordinary shareholders is recognised in the period in which the dividend is approved by the Bank's shareholders.

Dividend for the year that is declared after the balance sheet date is disclosed in Note 50.

(c) Treasury shares

Where any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid, is deducted from total shareholders' equity as treasury shares until the shares are cancelled. Where such shares are subsequently sold or reissued, any consideration received, is included in shareholders' equity.

Share premium

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.

Script dividend

Script dividend is the issue of shares to existing shareholders for no additional consideration in the form of dividend. The shares are fully paid up out of the Bank's profits and are recognised in the consolidated financial statements at the amount of the cash alternative.

Provisions

Provisions for restructuring costs and legal claims are recognised when the Group 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 a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises no provisions for future operating losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

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

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

Credit-related transactions

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. The Group is also involved in trading transactions whereby it issues documentary credits on behalf of its customers. Assets arising from payments to a third party where the Group is awaiting reimbursement from the customer are shown on the consolidated balance sheet, less any necessary impairment provisions.

Fiduciary activities

Where the Group 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 consolidated financial statements.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group Executive Committee as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with overhead income/expenses and cost of funding being allocated appropriately to the business segments. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following six main business segments on a worldwide basis:

(a) corporate and investment banking, which includes all commercial and investment banking business derived from corporate clients;

(b) retail banking, which includes all commercial banking business from retail clients;

(c) wealth management, which includes all business from high net worth individuals (banking and asset management business);

(d) international business banking, which includes all business from services offered to international business banking customers;

(e) treasury and capital markets, which includes all treasury and capital market activity; and

(f) participations, investments and other segment, which includes the various participations and investments of the Group and all other business not falling into any of the other segments, none of which constitutes a separately reportable segment.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRSs are best estimates made in accordance with the applicable standard. Estimates, assumptions and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

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

(a) Impairment losses on advances to customers

The Group reviews its portfolio of advances to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of advances before the decrease can be identified within 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 Group. 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. Were the net present value of estimated future cash flows differ by +/- 1%, the impairment loss would be estimated to be € 4,1 m (2010: € 6,0 m) lower or € 12,1 m (2010: € 3,7 m) higher respectively.

(b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation techniques used are frequently assessed to ensure their validity and appropriateness. Changes in methods and assumptions about these factors could affect the reported fair value of financial instruments. Sensitivity analysis in relation to changes in the fair value of financial instruments, as a result of changes in interest rates is disclosed in Note 45.

(c) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates and assumptions as disclosed in Note 28.

For the corporate banking operations in Greece, the Group has incurred an impairment loss of € 640.906.000 on goodwill in 2011 (2010: nil) in order to reduce the carrying amount of goodwill to its recoverable amount. If the estimated return on equity was 50 basis points lower than the management's estimates, then a further impairment loss of € 158.400.000 would have to be recognised, while if the estimated return on equity was 50 basis points higher than the management's estimates, then the impairment loss recognised would be decreased by € 158.400.000. If the discount rate applied to the future cash flows was 50 basis points higher than the management's estimates, then a further impairment loss of € 238.500.000 would have to be recognised, while if the discount rate applied to the future cash flows was 50 basis points lower than the management's estimates, then the impairment loss would be decreased by € 273.600.000.

For the investment operations in Greece, the Group has incurred an impairment loss of € 60.191.000 on goodwill in 2011 (2010: nil), in order to reduce the carrying amount of goodwill to its recoverable amount. If the estimated return on equity was 50 basis points lower than management's estimates, then a further impairment loss of € 2.000.000 would have to be recognised, while if the estimated return on equity was 50 basis points higher than the management's estimates, then the impairment loss recognised would be decreased by € 5.800.000. If the discount rate applied to the future cash flows was 50 basis points higher than the management's estimates, then a further impairment loss of € 4.200.000 would have to be recognised, while if the discount rate applied to the future cash flows was 50 basis points lower than the management's estimates, then the impairment loss would be decreased by € 7.200.000.

For the factoring operations in Greece, the Group has incurred an impairment loss of € 6.216.000 on goodwill in 2011 (2010: nil), in order to reduce the carrying amount of goodwill to its recoverable amount. If the estimated return on equity was 50 basis points lower than the management's estimates, then a further impairment loss of € 300.000 would have to be recognised, while if the estimated return on equity was 50 basis points higher than the management's estimates, then the impairment loss recognised would be decreased by € 1.050.000. If the discount rate applied to the future cash flows was 50 basis points higher than the management's estimates, then a further impairment loss of € 510.000 would have to be recognised, while if the discount rate applied to the future cash flows was 50 basis points lower than the management's estimates, then the impairment loss would be decreased by € 570.000.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment of goodwill (continued)

For the banking operations in Romania, the Group has incurred an impairment loss of € 5.000.000 on goodwill in 2011 (2010: nil), in order to reduce the carrying amount of goodwill to its recoverable amount. If the estimated return on equity was 100 basis points lower than the management's estimates, then a further impairment loss of € 7.000.000 would have to be recognised, while if the estimated return on equity was 100 basis points higher than the management's estimates, then no impairment loss would have to be recognised. If the discount rate applied to the future cash flows was 100 basis points higher than the management's estimates, then a further impairment loss of € 11.200.000 would have to be recognised, while if the discount rate applied to the future cash flows was 100 basis points lower than the management's estimates, then no impairment loss would have to be recognised.

For the banking operations in Russia, the Group has incurred an impairment loss of € 5.000.000 on goodwill in 2011 (2010: nil), in order to reduce the carrying amount of goodwill to its recoverable amount. If the estimated return on equity was 100 basis points lower than the management's estimates, then a further impairment loss of € 4.500.000 would have to be recognised, while if the estimated return on equity was 100 basis points higher than the management's estimates, then the impairment loss recognised would be decreased by € 4.500.000. If the discount rate applied to the future cash flows was 100 basis points higher than the management's estimates, then a further impairment loss of € 9.800.000 would have to be recognised, while if the discount rate applied to the future cash flows was 100 basis points lower than the management's estimates, then no impairment loss would have to be recognised.

For the banking operations in Ukraine, if the estimated return on equity was more than 11 basis points lower than management's estimates, or if the discount rate applied to the future cash flows was more than 10 basis points higher than the management's estimates, the Group would have to start recognising impairment of goodwill.

For the banking operations in Malta, if the estimated return on equity was more than 200 basis points lower than management's estimates, or the discount rate applied to the future cash flows was more than 80 basis points higher than the management's estimates, the Group would have to start recognising impairment of goodwill.

Finally, for the investment operations in Cyprus, if the growth rate of future cash flows was more than 100 basis points lower than management's estimates, still no impairment arises. If the discount rate applied to the future cash flows was more than 225 basis points higher than the management's estimates, the Group would have to start recognising impairment of goodwill.

(d) Impairment of Greek Government Bonds (GGBs) classified in the debt securities lending and held-to-maturity financial asset portfolios

In relation to the Group's GGBs classified as debt securities lending and held-to-maturity financial asset portfolios which are measured at amortised cost, the Group measured the impairment loss as the difference between each bond's carrying amount as at 31 December, 2011 and the present value of the estimated future cash flows.

The discount rate used in discounting the expected future cash flows was 11,9% and relates to the current yield of the bonds resulting from the terms of the proposed plan.

If the discount rate used in discounting the expected future cash flows was increased by 100 basis points an additional impairment loss net of tax of € 27.600.000 would need to be recognised.

(e) Held-to-maturity financial assets

The Group follows the guidance provided in IAS 39 in relation to the classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. Critical judgement is required when applying the classification, which takes into account the Group's intention and ability to hold investments to maturity. If the Group fails to hold the investments to maturity for any reason other than those explained in IAS 39, all financial assets held in the asset class will have to be reclassified as available-for-sale financial assets. Under these circumstances, investments will be presented at fair value and not at amortised cost, in which case the book value of investments will decrease by € 112.458.000 (2010: € 42.108.000) with a corresponding debit in the fair value reserves within equity.

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

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. For information purposes, it is noted that if all the declines in fair value below cost had been considered significant or prolonged, the Group would have recognised an additional loss of € 50.479.000 (2010: € 144.856.000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. NET INTEREST INCOME

	2011 € '000	2010 € '000
Interest income		
Interest from advances to customers	**1.382.827**	1.267.220
Interest from other banks	**85.096**	75.947
Interest from bonds and other interest	**236.630**	210.153
	1.704.553	1.553.320
Interest expense		
Interest on customer deposits	**609.530**	603.511
Interest to other banks	**210.279**	160.670
Interest on loan capital, senior debt and other interest	**86.058**	79.596
	905.867	843.777

5. NET FEE AND COMMISSION INCOME

	2011 € '000	2010 € '000
Fee and commission income		
Banking related fees and commissions	**168.129**	173.412
Portfolio and other management fees	**11.878**	10.458
Other fees and commissions	**38.653**	59.221
	218.660	243.091
Fee and commission expense		
Fees	**25.287**	21.338
Commissions	**13.672**	21.272
	38.959	42.610

6. PROFIT ON DISPOSAL AND REVALUATION OF SECURITIES

	2011 € '000	2010 € '000
(Loss)/profit on disposal of financial assets at fair value through profit or loss – held-for-trading	**(9.275)**	6.336
(Loss)/profit on disposal of available-for-sale financial assets	**(13.400)**	29.170
Profit on disposal of debt securities lending	**2.144**	17.016
Profit on disposal of subsidiary companies (Note 51)	**53.412**	841
Profit on redemption of held-to-maturity financial assets	**68**	58
Loss on revaluation of financial assets at fair value through profit or loss:		
Held-for-trading	**(10.099)**	(2.859)
Designated at fair value through profit or loss at inception	**(5.493)**	(131)
Profit/(loss) on revaluation and disposal of derivatives	**6.313**	(1.096)
	23.670	49.335

7. OTHER INCOME

	2011 € '000	2010 € '000
Dividend from available-for-sale financial assets	**1.251**	3.642
Dividend from financial assets at fair value through profit or loss	**206**	561
Fair value loss on investment property (Note 29)	**(1.042)**	(1.669)
Fair value loss on repossessed property for sale	**(28.021)**	-
Profit on disposal of investment property	**1**	193
Loss on disposal of property and equipment (Note 30)	**(304)**	(415)
Other income	**33.223**	25.992
	5.314	28.304

8. STAFF COSTS

	2011 € '000	2010 € '000
Salaries and employer's contributions	**341.775**	338.729
Retirement benefit costs:		
Defined benefit plans	**35.728**	32.906
Defined contribution plans	**128**	562
Share-based payment compensation	**1.392**	2.499
Other staff costs	**11.691**	11.506
	390.714	386.202

Defined benefit plans

The amounts recognised in the consolidated income statement with respect to the defined benefit plans are as follows:

	2011 € '000	2010 € '000
Current service cost	**18.736**	18.743
Interest cost on plan liabilities	**16.103**	16.497
Expected return on plan assets	**(2.127)**	(3.942)
Actuarial loss recognised in the year	**252**	208
Loss on curtailments and settlements	**2.764**	1.400
	35.728	32.906

The amounts recognised in the consolidated balance sheet with respect to the defined benefit plans are shown below:

	2011 € '000	2010 € '000
Present value of funded obligations	**82.019**	93.676
Fair value of plan assets	**(21.525)**	(39.493)
	60.494	54.183
Present value of unfunded obligations	**227.761**	231.844
Unrecognised actuarial gain/(loss)	**8.727**	(1.047)
Retirement benefit obligations in the consolidated balance sheet	**296.982**	284.980

Included in the fair value of plan assets is an amount of € 14.038.000 (2010: €17.798.000) which relates to the fair value of the assets belonging to the Bank.

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

	2011 € '000	2010 € '000
Balance 1 January	**284.980**	255.019
Total expense charged in the consolidated income statement	**35.728**	32.906
Benefits paid	**(22.990)**	(2.245)
Contributions	**(852)**	(718)
Other movements	**58**	(25)
Exchange differences	**58**	43
Balance 31 December	**296.982**	284.980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. STAFF COSTS (continued)

Defined benefit plans (continued)

The movement in the present value of funded and unfunded obligations is as follows:

	2011 € '000	2010 € '000
Balance 1 January	325.520	310.629
Current service cost	18.736	18.743
Interest cost	16.103	16.497
Contributions	140	135
Benefits paid	(30.965)	(10.282)
Actuarial gain on obligation	(23.248)	(12.058)
Loss on curtailments and settlements	2.764	1.400
Other movements	58	(25)
Exchange differences	672	481
Balance 31 December	309.780	325.520

The movement in the fair value of plan assets is as follows:

	2011 € '000	2010 € '000
Balance 1 January	39.493	56.459
Expected return on plan assets	2.127	3.942
Contributions	992	853
Benefits paid	(7.975)	(8.037)
Actuarial loss on plan assets	(13.529)	(14.052)
Exchange differences	417	328
Balance 31 December	21.525	39.493

Plan assets comprise the following:

	2011		2010	
	€ '000	%	€ '000	%
Equities	12.899	60,0	20.758	52,5
Bonds	1.320	6,1	1.529	3,9
Cash	7.306	33,9	17.206	43,6
	21.525	100,0	39.493	100,0

Actual return on plan assets is € 11.402.000 loss (2010: € 10.110.000 loss).

Equities include shares of the Bank of a value of € 3,6 m (2010: € 16,6 m).

The principal assumptions used in the actuarial valuations were:

	2011			2010		
	Cyprus	United Kingdom	Greece	Cyprus	United Kingdom	Greece
Discount rate	4,9%	4,7%	5,2%	4,9%	5,4%	5,5%
Average annual expected return on plan assets	4,5%	6,6%	-	4,3%	7,5%	-
Average annual increase in basic insurable earnings	3,0%	-	-	3,5%	-	-
Average annual increase in salaries	5,3%	2,7%	3,0%	5,5%	3,3%	3,5%
Average annual increase in inflation	2,0%	2,7%	2,0%	2,0%	2,8%	2,5%
Rate of increase of retirement benefit payments	-	2,1%	-	-	2,3%	-

8. STAFF COSTS (continued)

Defined benefit plans (continued)

	2011 € '000	2010 € '000	2009 € '000	2008 € '000	2007 € '000
At 31 December					
Present value of obligations	**309.780**	325.520	310.629	267.344	356.013
Fair value of plan assets	**(21.525)**	(39.493)	(56.459)	(43.635)	(170.679)
Unrecognised actuarial gain/(loss)	**8.727**	(1.047)	849	5.008	34.493
Retirement benefit obligations in the consolidated balance sheet	**296.982**	284.980	255.019	228.717	219.827
Experience adjustments on obligations	**17.134**	6.100	3.185	48.118	(30.662)
Experience adjustments on plan assets	**(13.529)**	(14.052)	8.986	(134.590)	29.128

Under the new collective agreement that was signed between the Cyprus Union of Bank Employees and the Cyprus Bankers Employers' Association, the defined benefit plan is converted to a defined contribution plan as from 1 January, 2012. The conversion of the plan does not affect in any way the 2011 consolidated financial statements.

9. DEPRECIATION AND AMORTISATION

	2011 € '000	2010 € '000
Depreciation of property and equipment (Note 30)	**24.619**	25.509
Revaluation adjustment on property	**42**	-
Amortisation of computer software (Note 28)	**9.069**	8.078
Amortisation of other intangible assets (Note 28)	**22.495**	22.575
	56.225	56.162

10. ADMINISTRATIVE EXPENSES

	2011 € '000	2010 € '000
Occupancy costs	**26.438**	25.711
Computer maintenance costs	**14.801**	14.505
Marketing and sales expenses	**14.163**	20.281
Operating lease rentals	**37.681**	38.555
Printing and stationery expenses	**8.703**	9.882
Telephone expenses	**6.727**	7.474
Auditors' remuneration	**1.828**	1.638
Contribution to depositor protection schemes	**13.925**	14.938
Other administrative expenses	**78.000**	70.419
	202.266	203.403

The "Other administrative expenses" include fees of € 155.000 (2010: € 175.000) for tax consultancy services, € 189.000 (2010: € 224.000) for other assurance services and € 74.000 (2010: € 161.000) for other non-assurance services charged by the Group's statutory audit firms.

11. PROVISION FOR IMPAIRMENT OF ADVANCES

	2011 € '000	2010 € '000
Provision for impairment of advances for the year (Note 45)	**1.264.388**	368.839
Release of provision and recoveries (Note 45)	**(113.276)**	(102.693)
	1.151.112	266.146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. IMPAIRMENT OF DEBT AND EQUITY HOLDINGS

	2011	2010
	€ '000	€ '000
Available-for-sale financial assets:		
Debt	**308.808**	36
Equities	**191.686**	4.815
Held-to-maturity financial assets (Note 24)	**41.355**	4.493
Debt securities lending (Note 22)	**1.985.233**	-
	2.527.082	9.344

An amount of € 2.330.585.000 (2010: nil) relates to Greek Government Bonds' impairment (Note 45).

13. TAX

	2011	2010
	€ '000	€ '000
Current year tax		
Cyprus corporation tax	**1.579**	7.341
Cyprus defence tax	**11**	18
Overseas corporation tax	**23.806**	27.952
Deferred tax (Note 37)	**(479.829)**	(18.546)
Total current year tax	**(454.433)**	16.765
Prior years' tax	**(49)**	8.681
Total tax (credit)/charge	**(454.482)**	25.446

The deferred tax asset in relation to the 53,5% of the notional value forgiven on the bonds participating in the PSI+ programme, was calculated on the basis that the Bank is expected to have sufficient taxable profits over the five year period following the crystallisation of the tax loss, as stipulated by the tax legislation that existed on 31 December, 2011. On 14 February, 2012 Greek Law 4046/2012 was enacted and provided that the tax losses arising from the bond exchange under the PSI+ programme will be tax deductible in equal instalments over the life of the new bonds received.

The profit of the Bank and its subsidiaries in Cyprus is subject to corporation tax at the rate of 10% (2010: 10%). The profit from overseas operations is subject to taxation at the tax rates applicable in the countries in which the profit is derived. In Greece, the tax rate applicable is 20% (2010: 24%), in Ukraine it was 25% up to 31 March, 2011 and 23% as from 1 April, 2011 (2010: 25%), in Guernsey and Serbia 10% (2010: 10%), in Romania 16% (2010: 16%), in Malta 35% (2010: 35%), in the United Kingdom it was 28% up to 31 March, 2011 and 26% as from 1 April, 2011 (2010: 28%) and in Russia 20% (2010: 20%). In Estonia the income tax rate is 21% (2010: 21%) and it is applied on the gross amount of actual and deemed profit distributions and not on profit earned.

For tax purposes in Cyprus, under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 10% which increased to 15% as from 31 August, 2011.

In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 15% which increased to 17% as from 31 August, 2011 and increased again to 20% as from 1 January, 2012.

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2011	2010
	€ '000	€ '000
(Loss)/profit before tax	**(4.100.784)**	114.674
Tax calculated at the applicable tax rates in Cyprus	**(410.078)**	11.467
Tax effect of expenses not deductible for tax purposes	**159.364**	473
Tax effect of income not subject to tax	**(458.762)**	(23.599)
Tax effect of different tax rates between overseas countries and Cyprus	**255.043**	28.424
Total current year tax	**(454.433)**	16.765

14. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share was calculated by dividing (loss)/profit attributable to the owners of the Bank with the weighted average number of ordinary shares in issue during the year.

	2011	2010
	€ '000	€ '000
(Loss)/profit attributable to the owners of the Bank	(3.650.380)	87.080
	2011	2010
	'000	'000
Weighted average number of ordinary shares in issue during the year	1.483.899	874.785
(Loss)/earnings per share (basic and diluted) - cent	(246,0)	10,0

The weighted average number of ordinary shares for the year ended 31 December, 2010 has been adjusted to reflect the issue of shares through the exercise of rights completed in February 2011.

The Share Options Scheme does not have an impact on the diluted earnings per share, as the exercise price of the Share Options was higher than the average market share price of the Bank at the Cyprus Stock Exchange and the Athens Exchange during the year ended 31 December, 2011 and 31 December, 2010.

15. INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2011			2010		
	Before tax amount € '000	Tax (expense)/ benefit € '000	Net-of-tax amount € '000	Before tax amount € '000	Tax benefit/ (expense) € '000	Net-of-tax amount € '000
Exchange differences arising in the year	(717)	-	(717)	11.588	-	11.588
Net effect of available-for-sale financial assets	151.353	(12.246)	139.107	(152.417)	16.433	(135.984)
Revaluation of property	(381)	105	(276)	11	(194)	(183)
Cash flow hedges	91	44	135	(543)	163	(380)
Share of other comprehensive income of associates	(809)	-	(809)	(872)	-	(872)
Other comprehensive income/(loss) for the year	149.537	(12.097)	137.440	(142.233)	16.402	(125.831)

16. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with Central Banks include obligatory minimum reserves held for liquidity purposes. These reserves are not available for financing the Group's operational transactions.

	2011	2010
	€ '000	€ '000
Cash in hand	221.123	200.920
Balances with Central Banks other than obligatory reserves for liquidity purposes	159.729	91.819
Obligatory reserves for liquidity purposes	653.234	420.840
	1.034.086	713.579
Current	832.148	618.085
Non-current	201.938	95.494
	1.034.086	713.579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. DUE FROM OTHER BANKS

	2011	2010
	€ '000	€ '000
Advances to other banks	**15.119**	27.852
Items in course of collection from other banks	**310.213**	338.590
Placements with other banks	**364.237**	4.263.102
Reverse repurchase agreements	**-**	66.568
	689.569	4.696.112
Current	**561.632**	4.559.300
Non-current	**127.937**	136.812
	689.569	4.696.112

18. RECLASSIFICATION OF FINANCIAL ASSETS

The Group adopted the amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" and reclassified held-for-trading and available-for-sale bonds to debt securities lending. In accordance with the provisions of the amended IAS 39, the Group identified the financial assets for which, on the date of reclassification, there was no intention of trading or sale in the foreseeable future and which met the criteria for reclassification.

In 2008, under IAS 39, as amended, the reclassifications were made with effect from 1 July, 2008 at the fair value on that date.

The book and fair value of the held-for-trading financial assets reclassified to debt securities lending at 1 July, 2008 was € 33,3 m and their book and fair value at 31 December, 2011 was € 27,4 m (2010: € 32,1 m) and € 25,8 m (2010: € 31,9 m) respectively. In 2011, bonds with a book value at 1 July, 2008 of € 2,9 m (2010: nil) were sold at a profit of € 88.000 and bonds with a book value at 1 July, 2008 of € 1,8 m (2010: nil) matured.

The book and fair value of the available-for-sale financial assets reclassified to debt securities lending at 1 July, 2008 was € 684 m and their book and fair value at 31 December, 2011 was € 487,1 m (2010: € 617,9 m) and € 437,8 m (2010: € 605 m) respectively. Out of the reclassified available-for-sale financial assets, debt securities amounting to € 224,3 m with fair value 31 December, 2011 € 113,4 m (2010: € 182,3 m) have been hedged for changes in their fair value, which arise because of the risk of change in interest rates. The Group continues to use hedge accounting for these financial assets. In 2011, bonds with a book value at 1 July, 2008 of € 10,1 m (2010: nil) matured and during 2011, bonds with a book value at 1 July, 2008 of € 116,8 m (2010: € 78,1 m) were sold at a profit of € 7,4 m (2010: € 5 m).

Had the Group not reclassified the bonds on 1 July, 2008 the consolidated income statement for 2011 would have included additional unrealised fair value losses on the reclassified held-for-trading financial assets of € 1,1 m (2010: unrealised fair value gains of € 0,5 m). In addition, the fair value reserves would have included € 35,2 m of additional unrealised fair value losses for 2011 (2010: € 1,7 m), as a result of the change in the fair value of the bonds reclassified out of the available-for-sale financial assets.

At 1 October, 2008 the Group reclassified equity securities held-for-trading to available-for-sale financial assets. Their book and fair value at 1 October, 2008 was € 1,3 m and at 31 December, 2011 was € 0,1 m (2010: € 0,2 m). Had the Group not reclassified these equity securities, unrealised fair value losses of € 0,1 m (2010: € 0,3 m) would have been included in the consolidated income statement for 2011 instead of in the fair value reserves.

In the last quarter of 2009, the Group made additional reclassifications of bonds from available-for-sale to debt securities lending, with book and fair value on the date of reclassification of € 1.428,3 m. The book and fair value of these bonds at 31 December, 2011 was € 451,5 m (2010: € 1.417 m) and € 367,5 m (2010: € 1.032,1 m), respectively. During 2011, the Group recognised an impairment loss of € 895,9 m on reclassified Greek Government Bonds (GGBs) with book and fair value on the date of reclassification of € 1.192 m. Out of the reclassified available-for-sale financial assets € 552,6 m, debt securities with fair value 31 December, 2011 € 166,3 m (2010: € 499,6 m) have been hedged for changes in their fair value, which arise because of the risk of change in interest rates. The Group will continue to use hedge accounting for the financial assets which have not been impaired. During 2011, bonds with a book value on reclassification date of € 40,6 m (2010: € 10 m) were sold at a loss of € 0,4 m (2010: nil) and bonds with a book value on reclassification date of € 36,6 m (2010: € 0,5 m) matured.

Had the Group not reclassified these bonds in the last quarter of 2009, the fair value reserves would have included € 316,2 m of additional unrealised gains (2010: unrealised fair value losses of € 297,8 m), as a result of the change in the fair value of the bonds reclassified out of the available-for-sale financial assets and the impairment loss recognised.

18. RECLASSIFICATION OF FINANCIAL ASSETS (continued)

During 2010, the Group reclassified available-for-sale financial assets to debt securities lending with effect from 1 April, 2010. The Group identified the debt securities for which, on the date of reclassification, there was no intention of trading or sale in the foreseeable future and which met the criteria for reclassification.

The book and fair value of the reclassified debt securities at 1 April, 2010 was € 228,5 m and their book and fair values at 31 December, 2011 were € 61,9 m (2010: € 232,7 m) and € 49,5 m (2010: € 166,2 m) respectively. Out of the reclassified available-for-sale financial assets € 68,2 m debt securities, with fair value 31 December, 2011 € 18,2 m (2010: € 68,1 m), have been hedged for changes in the fair value which arise because of the risk of change in interest rates. During 2011, the Group recognised an impairment loss of € 174,2 m on reclassified GGBs, with book and fair value on the date of reclassification of € 228,5 m.

Had the Group not reclassified the debt securities on 1 April, 2010, the Group's fair value reserves would have included € 54 m of additional unrealised gains (2010: unrealised fair value losses of € 66,4 m) as a result of the change in the fair value of these reclassified debt securities and the impairment loss recognised.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Held-for-trading		Designated at fair value through profit or loss at inception		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€ '000	€ '000	**€ '000**	€ '000	**€ '000**	€ '000
Debt securities	**9.610**	8.385	**-**	-	**9.610**	8.385
Government bonds and treasury bills	**7.908**	29.219	**-**	-	**7.908**	29.219
Equity securities and funds	**7.892**	14.081	**79.913**	83.032	**87.805**	97.113
Derivative financial instruments with positive fair value (Note 40)	**129.182**	94.619	**-**	-	**129.182**	94.619
	154.592	146.304	**79.913**	83.032	**234.505**	229.336
Current	**154.592**	146.304	**79.913**	83.032	**234.505**	229.336
Non-current	**-**	-	**-**	-	**-**	-
	154.592	146.304	**79.913**	83.032	**234.505**	229.336
Debt securities						
Listed on the Cyprus Stock Exchange	**255**	352	**-**	-	**255**	352
Listed on other Stock Exchanges	**6.261**	8.033	**-**	-	**6.261**	8.033
Not listed	**3.094**	-	**-**	-	**3.094**	-
	9.610	8.385	**-**	-	**9.610**	8.385
Government bonds and treasury bills						
Listed on other Stock Exchanges	**7.908**	29.219	**-**	-	**7.908**	29.219
Equity securities and funds						
Listed on the Cyprus Stock Exchange	**160**	380	**-**	-	**160**	380
Listed on other Stock Exchanges	**7.620**	12.477	**-**	-	**7.620**	12.477
Not listed	**112**	1.224	**79.913**	83.032	**80.025**	84.256
	7.892	14.081	**79.913**	83.032	**87.805**	97.113

Financial assets at fair value through profit or loss amounting to € 12.954.000 (2010: € 34.579.000) have been pledged in relation to funding from Central Banks.

Financial assets at fair value through profit or loss are presented as part of "Cash used in operations" in the consolidated statement of cash flows (Note 41).

Changes in fair values of financial assets at fair value through profit or loss are included in "Profit on disposal and revaluation of securities" in the consolidated income statement (Note 6).

Financial assets designated at fair value through profit or loss at inception, are those whose performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. ADVANCES TO CUSTOMERS

	2011 € '000	2010 € '000
Advances to individuals	**7.988.776**	8.537.036
Advances to corporate entities:		
Large corporate customers	**10.230.301**	10.116.112
Small and medium size enterprises (SMEs)	**8.489.392**	8.778.662
Advances to customers – gross	**26.708.469**	27.431.810
Provision for impairment of advances (Note 45)	**(1.929.846)**	(1.014.477)
Advances to customers – net	**24.778.623**	26.417.333
Current	**12.333.306**	7.438.284
Non-current	**12.445.317**	18.979.049
	24.778.623	26.417.333

The gross amount of advances to customers, includes gross receivables from instalment finance and leasing, amounting to € 901.727.000 (2010: € 1.067.327.000) (Note 21).

Marfin Egnatia Bank has pledged advances to customers amounting to € 2.066.487.000 (2010: € 2.153.375.000) as required by the Cypriot legislation which constitute the security (cover) for the outstanding € 2 bn of covered bonds. A balance of advances equivalent to € 1.840.729.000 (2010: € 2.306.614.000) has been assigned for the purposes of the Synergatis Plc securitisation.

The Bank has pledged residential loans amounting to € 1.610.404.000 (2010: nil), which constitute the security (cover) as required by the Cypriot legislation for the outstanding € 1,5 bn covered bonds.

Additionally, the Bank has pledged advances to customers amounting to € 1.077 m (2010: € 979 m) as collateral to the Republic of Cyprus for the issue of € 744 m (2010: € 744 m) special government bonds, which are used as collateral for obtaining financing. These funds were used for providing housing loans and loans to small and medium sized enterprises.

21. INSTALMENT FINANCE AND LEASING

	2011 € '000	2010 € '000
Gross investment in hire purchase and finance leases	**1.043.501**	1.251.938
Unearned finance income	**(141.774)**	(184.611)
Present value of minimum hire purchase and finance lease payments (Note 20)	**901.727**	1.067.327
Provision for impairment of hire purchase and finance leases	**(168.195)**	(152.068)
	733.532	915.259
Gross investment in hire purchase and finance leases		
Less than one year	**283.639**	338.558
Over one but less than five years	**345.398**	450.289
Over five years	**414.464**	463.091
	1.043.501	1.251.938
Present value of minimum hire purchase and finance lease payments		
Less than one year	**262.728**	309.484
Over one but less than five years	**296.675**	375.494
Over five years	**342.324**	382.349
	901.727	1.067.327

21. INSTALMENT FINANCE AND LEASING (continued)

The most important terms of the hire purchase contracts are as follows:

- The hirer pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase the goods.
- The hirer pays monthly instalments including interest on the outstanding amount.
- The hirer is responsible for any loss or damage incurred on the goods concerned.

The most important terms of the finance lease contracts are as follows:

- The lessee undertakes the equipment under lease for the rental period concerned and pays during that period rentals and any other amounts that are payable in accordance with the terms of the contract.
- The rentals and any other amounts payable are subject to interest.
- The lessee is obliged to maintain the equipment in good condition and to compensate the owner for any damage or fault occurred.
- Upon expiry of the agreement, the lessee can either return the equipment to the owner or pay a minimal annual nominal fee in exchange for the right to continue to use the equipment.

22. DEBT SECURITIES LENDING

	2011 **€ '000**	2010 € '000
Debt securities	**964.895**	1.172.391
Government bonds and treasury bills	**804.290**	2.788.397
	1.769.185	3.960.788
Current	**130.373**	90.536
Non-current	**1.638.812**	3.870.252
	1.769.185	3.960.788
Movement for the year		
Balance 1 January	**3.960.788**	3.395.068
Transfer from available-for-sale financial assets (Note 23)	**-**	228.536
Revaluation of hedged debt securities lending in relation to hedged risk	**39.931**	28.264
Additions	**61.637**	481.256
Redemptions and disposals	**(304.660)**	(197.117)
Accrued interest and amortisation of premium/discount	**(7.672)**	16.298
Impairment loss of debt securities lending	**(1.985.233)**	-
Exchange differences	**4.394**	8.483
Balance 31 December	**1.769.185**	3.960.788
Allowance for impairment		
Balance 1 January	**-**	-
Charge for the year (Note 12)	**1.985.233**	-
Balance 31 December	**1.985.233**	-

Debt securities lending amounting to € 1.661.002.000 (2010: € 2.342.925.000) have been pledged in relation to funding from Central Banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011	2010
	€ '000	€ '000
Debt securities	**753.904**	1.047.517
Government bonds and treasury bills	**788.316**	925.369
Equity securities and funds	**248.985**	305.525
	1.791.205	2.278.411
Listed on the Cyprus Stock Exchange	**16.629**	18.388
Listed on other Stock Exchanges	**1.588.430**	2.053.105
Not listed	**186.146**	206.918
	1.791.205	2.278.411
Current	**415.870**	216.625
Non-current	**1.375.335**	2.061.786
	1.791.205	2.278.411
Movement for the year		
Balance 1 January	**2.278.411**	3.564.893
Transfer of subsidiary due to reduction in participation	**18.579**	-
Transfer from financial assets at fair value through profit or loss	**1.223**	7.295
Transfer from held-to-maturity financial assets (Note 24)	**118.667**	-
Transfer to debt securities lending (Note 22)	**-**	(228.536)
Additions	**1.102.945**	1.115.721
Redemptions and disposals	**(1.410.056)**	(2.094.600)
Revaluation for the year	**(340.463)**	(131.710)
Accrued interest and amortisation of premium/discount	**12.861**	22.079
Exchange differences	**9.038**	23.269
Balance 31 December	**1.791.205**	2.278.411

Available-for-sale financial assets include debt securities amounting to € 1.186.200.000 (2010: € 613.495.000) which have been pledged in relation to funding from Central Banks.

24. HELD-TO-MATURITY FINANCIAL ASSETS

	2011	2010
	€ '000	€ '000
Debt securities	585.591	770.200
Government bonds and treasury bills	303.864	709.846
	889.455	1.480.046
Listed on the Cyprus Stock Exchange	167.039	97.176
Listed on other Stock Exchanges	722.416	1.382.870
	889.455	1.480.046
Current	201.868	500.804
Non-current	687.587	979.242
	889.455	1.480.046
Movement for the year		
Balance 1 January	1.480.046	1.381.330
Held-to-maturity financial assets from business disposal	(101.695)	-
Transfer to available-for-sale financial assets (Note 23)	(118.667)	-
Additions	376.799	1.358.538
Redemptions	(716.921)	(1.287.803)
Accrued interest and amortisation of premium/discount	11.303	9.653
Impairment loss of held-to-maturity financial assets	(41.764)	(4.490)
Exchange differences	354	22.818
Balance 31 December	889.455	1.480.046
Allowance for impairment		
Balance 1 January	4.490	-
Charge for the year (Note 12)	41.355	4.493
Exchange differences	409	(3)
Balance 31 December	46.254	4.490

Held-to-maturity financial assets amounting to € 788.329.000 (2010: € 1.001.241.000) have been pledged in relation to funding from Central Banks.

25. OTHER ASSETS

	2011	2010
	€ '000	€ '000
Repossessed property for sale	313.087	157.452
Hedging derivative financial instruments with positive fair value (Note 40)	7.148	12.412
Extra contribution to Deposit Guarantee Fund	159.720	149.259
Other assets	213.279	216.659
	693.234	535.782
Current	391.667	381.369
Non-current	301.567	154.413
	693.234	535.782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. INCOME TAX ASSETS

	2011	2010
	€ '000	€ '000
Income tax assets	**58.847**	32.642
Adjustment recognised during the year for income tax assets of prior years	**214**	1.414
	59.061	34.056
Income tax assets to be recovered within 12 months	**11.462**	22.935
Income tax assets to be recovered after more than 12 months	**47.599**	11.121
	59.061	34.056

27. INVESTMENTS IN ASSOCIATES

	2011	2010
	€ '000	€ '000
Movement for the year		
Balance 1 January	**113.600**	113.071
Share of profit after tax	**9.774**	14.177
Dividend from associates	**(6.736)**	(12.829)
Share in fair value reserves	**(809)**	(872)
Exchange differences	**(88)**	53
Balance 31 December	**115.741**	113.600

The investments in associates relate to a 30% interest (2010: 30%) in the share capital of JCC Payment Systems Ltd, a 30% interest (2010: 30%) in the share capital of Aris Capital Management LLC and a 49,9% interest (2010: 49,9%) in the share capital of CNP Marfin Insurance Holdings Ltd.

CNP Marfin Insurance Holdings Ltd holds 100% of Laiki Cyprialife Ltd, Laiki Insurance Ltd, Marfin Life S.A. and Marfin Brokers S.A.

The summary financial information of the associates is as follows:

			2011		
	Assets	**Liabilities**	**Revenues**	**Profit/(loss) for the year**	**Issued share capital**
	€ '000	**€ '000**	**€ '000**	**€ '000**	**€ '000**
JCC Payment Systems Ltd	**64.567**	**30.968**	**19.322**	**2.364**	**1.800**
CNP Marfin Insurance Holdings Ltd group	**787.226**	**650.040**	**67.691**	**19.180**	**90**
Aris Capital Management LLC	**395**	**77**	**447**	**(128)**	**7**

			2010		
	Assets	**Liabilities**	**Revenues**	**Profit for the year**	**Issued share capital**
	€ '000	**€ '000**	**€ '000**	**€ '000**	**€ '000**
JCC Payment Systems Ltd	44.885	17.984	20.891	4.999	1.800
CNP Marfin Insurance Holdings Ltd group	815.131	679.121	54.702	23.513	90
Aris Capital Management LLC	731	60	911	269	7

28. INTANGIBLE ASSETS

	Goodwill € '000	Computer software € '000	Other[1] € '000	Total € '000
At 1 January 2010				
Cost or valuation	1.287.224	104.964	408.263	1.800.451
Accumulated amortisation and impairment	(8.382)	(76.088)	(69.139)	(153.609)
Net book value	1.278.842	28.876	339.124	1.646.842
Year ended 31 December 2010				
Net book value at the beginning of the year	1.278.842	28.876	339.124	1.646.842
Transfer from the category "Property and equipment" (Note 30)	-	1.228	-	1.228
Additions	-	10.232	-	10.232
Amortisation charge (Note 9)	-	(8.078)	(22.575)	(30.653)
Exchange differences	5.790	56	1.239	7.085
Net book value at the end of the year	1.284.632	32.314	317.788	1.634.734
At 31 December 2010				
Cost or valuation	1.293.014	116.820	409.730	1.819.564
Accumulated amortisation and impairment	(8.382)	(84.506)	(91.942)	(184.830)
Net book value	1.284.632	32.314	317.788	1.634.734
Year ended 31 December 2011				
Net book value at the beginning of the year	**1.284.632**	**32.314**	**317.788**	**1.634.734**
Intangible assets from business disposals	**-**	**(465)**	**-**	**(465)**
Transfer from the category "Property and equipment" (Note 30)	**-**	**2.206**	**-**	**2.206**
Additions	**-**	**10.514**	**-**	**10.514**
Amortisation charge (Note 9)	**-**	**(9.069)**	**(22.495)**	**(31.564)**
Impairment	**(759.865)**	**-**	**(60.592)**	**(820.457)**
Exchange differences	**2.820**	**26**	**(34)**	**2.812**
Net book value at the end of the year	**527.587**	**35.526**	**234.667**	**797.780**
At 31 December 2011				
Cost or valuation	**1.295.834**	**126.321**	**409.908**	**1.832.063**
Accumulated amortisation and impairment	**(768.247)**	**(90.795)**	**(175.241)**	**(1.034.283)**
Net book value	**527.587**	**35.526**	**234.667**	**797.780**

[1] The category "Other" included in "Intangible assets" relates to the estimated value of trade names, customer relationships and intangible assets in relation to core deposits, computer software and asset management of the Group's subsidiary companies: (a) in Greece which were acquired in 2006, (b) in the Ukraine which were acquired in 2007, (c) in Malta which was acquired in 2008, (d) in Russia which were acquired in 2008 and (e) in Cyprus (CLR Capital acquisition in 2009). Intangible assets in relation to core deposits and asset management have a remaining useful economic life of 10 and 18 years respectively, while the remaining useful economic life of customer relationships is 12 years.

Intangible assets with indefinite useful lives amount to € 6.762.000 (2010: € 51.202.000). These intangibles have been recognised in relation to the acquisition of the Group's subsidiary companies in Greece and Malta that carry out banking operations and relate to trade names and licences. These intangibles have been assessed as having indefinite useful lives on the basis that there is no foreseeable limit to the period over which the trade names will generate net cash inflows for the Group.

During 2011, the trade name recognised in relation to the acquisition of the Group's subsidiary companies in Greece was subject to impairment testing. The impairment loss for the trade name amounted to € 44.230.000 (2010: nil) allocated to corporate banking segment and € 210.000 (2010: nil) allocated to asset management segment.

The other intangible assets recognised in relation to the acquisition of the Group's subsidiary companies in Greece, were also subject to impairment testing during 2011 due to the significant worsening of the economic conditions in Greece. The impairment loss for the other intangibles amounted to € 3.294.000 (2010: nil) and related to customer relationships of the corporate banking segment and € 12.858.000 (2010: nil) related to customer relationships of the asset management segment.

The recoverable amounts of all the other intangible assets are represented by their value-in-use.

All impairment charges are included within "Impairment of goodwill and other intangibles" in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. INTANGIBLE ASSETS (continued)

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the country of operation and the business segment for impairment test purposes. The analysis of goodwill after impairment is presented below:

	Corporate banking € '000	Wealth management € '000	Total € '000
Cyprus	-	23.118	23.118
Greece	359.880	-	359.880
Romania	22.700	-	22.700
Estonia	21	-	21
Ukraine	54.540	-	54.540
Malta	26.186	-	26.186
Russia	41.142	-	41.142
Total	504.469	23.118	527.587

The recoverable amount for the above CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial business plans approved by management covering a period between five to ten years. Cash flows beyond the period covered by financial business plans are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business in which each CGU operates.

Key assumptions used for the calculation of value-in-use of the corporate banking cash-generating units of the Group are:

	Romania	Serbia	Ukraine	Malta	Russia
Average deposit growth rate	27,94%	26,60%	27,94%	5,35%	17,90%
Average gross advances growth rate	23,90%	21,82%	32,33%	9,91%	35,41%
Return on equity	16,00%	18,00%	23,00%	17,00%	20,00%
Cash flow growth rate	5,00%	4,00%	5,20%	3,00%	8,00%
Discount rate	13,17%	16,15%	17,00%	9,67%	13,79%

Following the completion of the integration of the Greek banking operations of the Group as a branch of the Bank as of 31 March, 2011 and the resulting interdependency with regards to funding and capital requirements, the Group has tested for impairment of the related goodwill and intangible assets at the Group banking operations level. On this basis, the following assumptions were used in the impairment testing: average deposit growth rate – 11,41%, average gross advances growth rate – 6,74%, return on equity – 12,25%, cash flow growth rate – 2,90% and discount rate – 10,20%.

Management determines the budgeted net profit margin based on past performance and its expectations for the market development. The weighted average profit growth rate used is consistent with the macroeconomic forecasts for the country of operation. The discount rate used reflects specific risks relating to the CGU. Critical accounting estimates and judgements in relation to impairment test for goodwill are disclosed in Note 3.

The financial business plans for the Greek operations reflect the significant deterioration of the economic conditions in Greece since the last impairment test for goodwill in 2010 and the loss incurred by the Group as a result of the impairment of 76,4% to the nominal value of the Greek Government Bonds held as at 31 December, 2011, following the implementation of the PSI+ terms announced on 24 February, 2012. These latest developments resulted to an impairment of goodwill.

The related goodwill impairment in respect of the Greek operations of € 735.767.000 in 2011 (2010: nil), was allocated to the corporate banking segment € 674.482.000 (2010: nil), the investment banking segment € 60.191.000 (2010: nil) and the wealth management segment € 1.094.000 (2010: nil) and was included within "Impairment of goodwill and other intangibles" in the consolidated income statement.

28. INTANGIBLE ASSETS (continued)

Impairment test for goodwill (continued)

Romania, Serbia and Russia CGUs

The economic conditions that existed during 2011 in the Romanian, Serbian and Russian markets have caused the sustainable return on equity holders to deteriorate, resulting in a reduction of goodwill to the recoverable amounts of the respective CGUs.

The related goodwill impairment loss in 2011 for the Group was € 5.000.000 (2010: nil) in respect to the Romanian GGU, € 14.098.000 (2010: nil) in respect to the Serbian GGU and € 5.000.000 (2010: nil) in respect to the Russian GGU.

Goodwill impairment loss was allocated to the corporate banking business segment and was included within "Impairment of goodwill and other intangibles" in the consolidated income statement.

29. INVESTMENT PROPERTY

	2011	2010
	€ '000	€ '000
Balance 1 January	**68.322**	57.626
Additions	**20.879**	13.257
Disposals	**(447)**	(928)
Transfer to the category "Repossessed property for sale"	**(49.619)**	-
Fair value loss (Note 7)	**(1.042)**	(1.669)
Exchange differences	**(37)**	36
Balance 31 December	**38.056**	68.322

The investment properties are revalued annually on 31 December using market prices by independent, professionally qualified valuers with adequate and relevant experience on the nature and the location of the property. Changes in the fair value are included in the consolidated income statement.

Included within "Other income" in the consolidated income statement is an amount of € 900.000 (2010: € 460.000) that relates to income from operating lease rentals from investment properties held by the Group. Included within "Administrative expenses" is an amount of € 14.000 (2010: € 71.000) which represents direct operating expenses arising from investment properties that generated rental income and an amount of € 5.000 (2010: € 220.000) which represents direct operating expenses from investment properties that did not generate rental income during the year.

At 31 December, 2011 there were contractual obligations of € 11.000 (2010: nil) to purchase, construct or develop investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. PROPERTY AND EQUIPMENT

	Property € '000	Equipment € '000	Total € '000
At 1 January 2010			
Cost or valuation	283.196	209.159	492.355
Accumulated depreciation	(50.777)	(147.123)	(197.900)
Net book value	232.419	62.036	294.455
Year ended 31 December 2010			
Net book value at the beginning of the year	232.419	62.036	294.455
Property and equipment from business disposals	(6.958)	(9)	(6.967)
Transfer between the categories "Property" and "Equipment"	2.612	(2.612)	-
Transfer to the category "Intangible assets" (Note 28)	854	(2.082)	(1.228)
Additions	11.427	20.391	31.818
Disposals	(195)	(912)	(1.107)
Revaluation of property	11	-	11
Depreciation charge (Note 9)	(9.112)	(16.397)	(25.509)
Exchange differences	(528)	257	(271)
Net book value at the end of the year	230.530	60.672	291.202
At 31 December 2010			
Cost or valuation	298.437	211.228	509.665
Accumulated depreciation	(67.907)	(150.556)	(218.463)
Net book value	230.530	60.672	291.202
Year ended 31 December 2011			
Net book value at the beginning of the year	**230.530**	**60.672**	**291.202**
Property and equipment from business disposals	**(1.362)**	**(1.056)**	**(2.418)**
Transfer between the categories "Property" and "Equipment"	**254**	**(254)**	**-**
Transfer to the category "Intangible assets" (Note 28)	**-**	**(2.206)**	**(2.206)**
Additions	**13.798**	**16.688**	**30.486**
Disposals	**(110)**	**(1.029)**	**(1.139)**
Revaluation of property	**(423)**	**-**	**(423)**
Depreciation charge (Note 9)	**(9.092)**	**(15.527)**	**(24.619)**
Exchange differences	**289**	**60**	**349**
Net book value at the end of the year	**233.884**	**57.348**	**291.232**
At 31 December 2011			
Cost or valuation	**308.132**	**218.134**	**526.266**
Accumulated depreciation	**(74.248)**	**(160.786)**	**(235.034)**
Net book value	**233.884**	**57.348**	**291.232**

As at 31 December, 2011 the Group had buildings under construction within "Property" of an amount of € 1.326.000 (2010: nil).

In the consolidated statement of cash flows, proceeds from disposal of property and equipment comprise:

	2011 € '000	2010 € '000
Net book value	**1.139**	1.107
Loss on disposal of property and equipment (Note 7)	**(304)**	(415)
Proceeds from disposal of property and equipment	**835**	692

At 31 December, 2007 a valuation of the Group's property was performed by independent professional valuers. The fair value of the Group's property is based on market values. Increases in the carrying amount arising on revaluation were credited to property fair value reserves. Decreases that offset previous increases of the same asset are charged against those reserves. All other decreases are charged to the consolidated income statement.

Included within the property of the Group is an amount of € 42.410.000 (2010: € 46.698.000) which represents improvements on leasehold buildings.

The net book value of revalued property that would have been included in the financial statements had the assets been carried at cost less depreciation is € 116.324.000 (2010: € 109.049.000).

31. DUE TO OTHER BANKS

	2011 € '000	2010 € '000
Interbank borrowing	**345.526**	1.977.823
Obligations to Central Banks	**9.292.780**	6.945.184
Repurchase agreements	**663.064**	1.726.843
	10.301.370	10.649.850
Current	**9.715.336**	10.247.851
Non-current	**586.034**	401.999
	10.301.370	10.649.850
Analysis by geographical area		
Cyprus	**6.476.501**	2.915.389
Greece	**3.783.767**	7.509.037
Other countries	**41.102**	225.424
	10.301.370	10.649.850

Covered bonds

During the year ended 31 December, 2011 the Bank issued € 1,5 bn covered bonds in three tranches (24 May, 2011: € 1 bn, 22 July, 2011: € 300 m and 26 August, 2011: € 200 m), with a maturity of two years, an extension period of one year, an annual interest rate equal to the three month Euribor plus 2,00% and in accordance with the rest of the terms of the Covered Bond Programme (the "Programme"). The bonds are wholly owned by the Bank. The covered bonds are rated B1 by the international rating agency Moody's Investors Services and BBB- by Fitch Ratings.

This was the first issue of covered bonds in Cyprus and it has been completed under a € 5 bn Programme, in accordance with the Covered Bond Law of 2010 (130(I)/2010) (the "Law"), which came into force on 23 December, 2010, and the Central Bank of Cyprus Directive (526/2010) which was issued under the provisions of the above Law.

The issue was completed following the approval of the Central Bank of Cyprus. The "cover" of the covered bonds, in the context of article 2 of the Law, is comprised of residential loans plus additional complementary assets (predominantly bonds issued by third parties), all of which are eligible with the terms and conditions of the legal framework in force. The covered bonds are listed on the Irish Stock Exchange.

Information for the covered bonds is available in the Group website www.laiki.com/EN/InvestorRelations/DebtInvestors.

On 4 August, 2010 Marfin Egnatia Bank S.A., issued the third series of covered bonds for the amount of € 1 bn, while it cancelled the second series of covered bonds amounting to € 500 m, which was issued in March 2010. The bonds mature on 20 August, 2012 and have an issuer extension option of one year. The issuance was effected as part of a programme for the issuance of covered bonds of up to € 3 bn. The cover pool assets constituting the "cover" for the bonds are comprised of residential mortgage loans. The first series of covered bonds amounting to € 1 bn, was issued on 17 November, 2008 with maturity date (as amended in 2011) of 19 November, 2012 and the option of one year extension. Following the issuance of the third series, the total amount of the covered bonds of Marfin Egnatia Bank S.A. is € 2 bn. The bonds are listed for trading on the Irish Stock Exchange and, upon issuance, were retained by Marfin Egnatia Bank S.A. at the price of issuance, for the purpose of placing them to institutional investors when the right market conditions prevail. Until their disposal, the bonds are used as security for obtaining liquid funds from the European Central Bank through the Bank of Greece. The covered bonds are rated B1 by the international rating agency Moody's Investors Services and BBB- by Fitch Ratings.

The above € 2 bn outstanding covered bonds of Marfin Egnatia Bank S.A. have been "grandfathered" to the Bank following the cross-border merger on 31 March, 2011.

On 19 August, 2009 the securitisation of corporate bond loan and other corporate loans by Marfin Egnatia Bank S.A. for the total amount of € 2,3 bn was completed. The respective amount as at 31 December, 2011 amounts to € 1,8 bn. The issuer of the bonds for the purposes of the securitisation was Synergatis Plc. The bonds are wholly owned by the Bank. The bonds are rated B2 by the international rating agency Moody's Investors Services.

Obligations to Central Banks include financing of € 560 m (2010: € 672 m) from the Central Bank of Cyprus secured through the pledging of € 744 m (2010: € 744 m) special government titles of a three year duration which were issued by the Republic of Cyprus for this purpose. The aforementioned financing was solely used for providing housing loans and loans to small and medium size enterprises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. CUSTOMER DEPOSITS

	2011	2010
	€ '000	€ '000
Analysis by category		
Demand	**4.358.278**	4.757.807
Savings	**1.487.223**	1.811.820
Time or notice	**14.315.303**	18.938.734
	20.160.804	25.508.361
Current	**19.377.336**	25.144.161
Non-current	**783.468**	364.200
	20.160.804	25.508.361

33. SENIOR DEBT

	2011	2010
	€ '000	€ '000
Debentures 2009/2012	**332.194**	376.953
Debentures 2009/2014	**22.988**	22.813
Debentures 2009/2013	**20.481**	17.756
Bond loan (Schuldschein) 2008/2011	**-**	50.220
Promissory Notes due 2012	**444**	9.895
	376.107	477.637
Current	**332.763**	60.115
Non-current	**43.344**	417.522
	376.107	477.637

Debentures 2009/2012, Debentures 2009/2014 and Debentures 2009/2013

During 2004, the Bank set up a Euro Medium Term Note (EMTN) Programme (the "Programme") for a total amount of € 750 m. In May 2006, an increase of the size of the Programme to € 1 bn was approved and in May 2007 a further increase to € 3 bn was approved. Pursuant to the Programme the Bank has the ability to issue senior and/or subordinated debt in accordance to its needs. In December 2008, the Programme was revised to enable Marfin Egnatia Bank S.A. and Egnatia Finance Plc, guaranteed by Marfin Egnatia Bank S.A., to issue senior and/or subordinated debt.

In September 2009, the Bank issued € 500 m of senior debt, due in 2012. In August 2011, the Bank repurchased and cancelled debentures of € 55 m. The debentures are repayable within three years from their issue and pay interest once a year, on 21 September. The interest rate is set at 4,375%. Part of the debentures is held by Group companies.

In November 2009, the Bank issued € 25 m of senior debt, due in 2014. The debentures are repayable within five years from their issue and pay interest once a year, on 20 November. The interest rate is set at 4,35%. Part of the debentures is held by Group companies.

In September 2009, Egnatia Finance Plc issued USD 30 m (€ 21m) of senior debt, due in 2013. The debentures are repayable within four years from their issue and pay interest every three months. The interest rate is set at the three-month rate of United States Dollar with a minimum interest rate of 3,1%. Part of the debentures is held by Group companies.

The debentures are issued based on the Programme and are listed on the Luxembourg Stock Exchange. The market value at 31 December, 2011 was € 250,8 m (2010: € 368,4 m) for the debentures 2009/2012 and € 15,6 m (2010: € 17,8 m) for the debentures 2009/2013.

33. SENIOR DEBT (continued)

Bond loan (Schuldschein) 2008/2011

In March 2008, Marfin Egnatia Bank S.A. issued € 50 m three year bond loan (Schuldschein), due in 2011. In March 2011 the debentures matured in accordance with their terms of issue and an amount equal to the nominal value of the debentures plus accrued interest was paid to the holders.

Promissory Notes due 2012

Rossiysky Promyishlenny Bank Company Ltd issued promissory notes to customers due in 2012. As at 31 December, 2011 the issued promissory notes bore interest rates for Russian Roubles up to 7,5% and maturity up to March 2012. These promissory notes were issued at a discount and will be repaid at face value on their maturity.

34. LOAN CAPITAL

	2011	2010
	€ '000	€ '000
Debentures 2009/2019	**107.790**	106.308
Eurobonds due 2016	**413.598**	414.793
Capital securities	**737.872**	737.870
Convertible enhanced capital securities	**65.195**	-
Subordinated debt 2004/2014	**9.272**	8.960
	1.333.727	1.267.931
Current	**1.402**	-
Non-current	**1.332.325**	1.267.931
	1.333.727	1.267.931

Debentures 2009/2019 and Eurobonds due 2016

During 2004 the Bank set up a Euro Medium Term Note (EMTN) Programme (the "Programme") for a total amount of € 750 m. In May 2006, an increase of the size of the Programme to € 1 bn was approved and in May 2007 a further increase to € 3 bn was approved. Pursuant to the Programme the Bank has the ability to issue senior and/or subordinated debt in accordance to its needs. In December 2008, the Programme was revised to enable Marfin Egnatia Bank S.A. and Egnatia Finance Plc, guaranteed by Marfin Egnatia Bank S.A., to issue senior and/or subordinated debt.

In May 2006, the Bank issued € 450 m of subordinated debt, due in 2016. The Bank has the right to call in the bonds after five years from their issue. The interest rate was set at the three-month rate of Euro (Euribor) plus 0,75% for the first five years, increased by 1% if the bonds are not called in. In June 2010, the Bank repurchased and cancelled bonds of nominal value of € 23 m. Part of the bonds is held by Group companies.

In May 2009, Egnatia Finance Plc issued USD 60 m (€ 41 m) of subordinated debt, under the guarantee of Marfin Egnatia Bank S.A. The issue was in the form of subordinated bonds, maturing in ten years, with the right to call in the bonds after five years from the issue date, upon written authorisation of the Bank of Greece. The interest rate is set at 5,5% over their whole duration. Part of the bonds is held by Group companies.

In July 2009, Egnatia Finance Plc, issued € 60 m of subordinated debt under the guarantee of Marfin Egnatia Bank S.A. The issue was in the form of subordinated bonds, maturing in ten years, with the right to call in the bonds after five years from the issue date, upon written authorisation of the Bank of Greece. The interest rate is set at 6,5% over their whole duration.

The bonds constitute direct, unsecured, subordinated obligations (Tier II Capital) and they rank for payment after the claims of depositors and other creditors. The bonds are issued based on the Programme and are listed on the Luxembourg Stock Exchange. Their market value at 31 December, 2011 was € 238,6 m (2010: € 330,1 m) for the Eurobonds due 2016 and € 52,3 m (2010: € 106,3 m) for the debentures 2009/2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. LOAN CAPITAL (continued)

Capital securities

On 17 March, 2008 the Board of Directors of the Bank approved the issue of capital securities up to the amount of € 200 m. Capital securities of € 116 m (1st Tranche) that were addressed to a limited group of individuals, professional investors and individuals who invested at least € 50.000 each, were issued on 14 April, 2008 at a nominal value of € 1.000 each. During the second phase (2nd Tranche), capital securities of € 84 m that were addressed to the general public through a Public Offer, were issued on 30 June, 2008 at a nominal value of € 1.000 each. The capital securities of the 1st Tranche for the first four quarters and the capital securities of the 2nd Tranche for the first three quarters paid 6,5% fixed interest rate and subsequently both tranches pay a floating rate, which is reviewed on a quarterly basis. The interest rate is equal to the three-month rate of Euro (Euribor) at the beginning of each quarter plus 1,5% and the interest is payable every three months, at 31 March, 30 June, 30 September and 31 December.

On 19 March, 2009 the Board of Directors of the Bank approved the issue of capital securities up to the amount of € 250 m. The issue, which was addressed to a limited group of individuals, professional investors and individuals who invested at least € 50.000 each, was completed on 13 May, 2009 and amounted to € 242,2 m. The interest rate was set at 7% and the interest is payable every three months.

On 30 March, 2010 the Board of Directors of the Bank approved the issue of capital securities, in one or more series, up to the amount of € 300 m. The first tranche, which was addressed to a limited group of individuals, professional investors and individuals who invested at least € 50.000 each, was completed on 19 May, 2010 and amounted to € 250,5 m. The second tranche, which was addressed to the general public, was completed on 25 June, 2010 and amounted to € 45,1 m. The interest rate was set at 7% and the interest is payable every three months.

The capital securities do not have a maturity date but may, at the Bank's discretion, after approval by the Central Bank of Cyprus, be acquired in their entirety at their nominal value, together with any accrued interest, five years after the date of issue or on any interest payment date after that. The capital securities constitute direct, unsecured, subordinated obligations of the Bank and rank for payment after the claims of the depositors and other creditors and are included in the Tier I Capital of the Bank. The capital securities are listed on the Cyprus Stock Exchange.

Convertible enhanced capital securities

On 29 July, 2011 the Bank issued € 65,2 m Convertible Enhanced Capital Securities (CECS). The CECS were offered to all existing shareholders through pre-emption rights in exchange for a cash consideration of € 1,00 per CECS and at an exchange ratio of one (1) CECS for every five (5) shares of the Bank.

The CECS qualify as Tier I Capital under Basel III and bear a fixed interest rate of 7% per annum. The interest is payable on a quarterly basis: 31 March, 30 June, 30 September and 31 December of each year. The first payment on 30 September, 2011 was covering the period 2 July, 2011 (included) until 30 September, 2011 (not included).

Conversion price was set at € 1,80 per ordinary share and is subject to customary adjustments for corporate actions with a minimum being the nominal value of the Bank's ordinary share (presently € 0,10). The conversion price was adjusted to € 1,54 from € 1,80, as a result of the dividend distribution for the year 2010 of € 0,10 per share of nominal value € 0,85 in the form of shares issued by the Bank. The conversion periods are between 1-15 of September and November of years 2011-2015 and 1-15 of March and May of years 2012-2016. No conversion rights were exercised neither on September, nor on November 2011. If a Contingency Event or Viability Event occurs, the CECS shall be mandatorily converted into ordinary shares at a mandatory conversion price. The CECS are perpetual but may be redeemed all, but not part, at the Bank's discretion, at par together with any accrued interest, five years after the date of issue and on any subsequent interest payment date, subject to the approval of the Central Bank of Cyprus.

The CECS constitute direct, unsecured and subordinated securities of the Bank and will rank senior only to the Bank's ordinary shares. The CECS are listed on the Athens Exchange and the Cyprus Stock Exchange.

Subordinated debt 2004/2014

In December 2004, Rossiysky Promyishlenny Bank Company Ltd received a USD deposit maturing in 2014. Interest rate is set at 8% annually. The deposit constitutes a direct, unsecured and subordinated obligation and ranks for payment after the claims of other creditors.

35. OTHER LIABILITIES

	2011 € '000	2010 € '000
Suppliers and other creditors	**30.759**	28.640
Accrued expenses	**24.192**	56.769
Cheques and orders payables	**39.633**	35.781
Derivative financial instruments with negative fair value (Note 40):		
Trading derivatives	**133.228**	107.694
Hedging derivatives	**179.460**	172.817
Other liabilities	**149.864**	190.815
	557.136	592.516
Current	**316.181**	376.058
Non-current	**240.955**	216.458
	557.136	592.516

36. INCOME TAX LIABILITIES

	2011 € '000	2010 € '000
Income tax liabilities	**14.673**	18.060
Adjustment recognised during the year for income tax liabilities of prior years	**-**	5.143
	14.673	23.203
Income tax liabilities to be settled within 12 months	**9.826**	19.203
Income tax liabilities to be settled after more than 12 months	**4.847**	4.000
	14.673	23.203

37. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are calculated on all temporary differences under the liability method using the applicable tax rates (Note 13). Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. Deferred tax assets are recognised after the evaluation of financial business plans approved by management which demonstrate that future taxable profits will be available against which these temporary differences can be utilised.

The movement in deferred tax is as follows:

	2011 € '000	2010 € '000
Balance 1 January	**7.449**	41.923
Deferred tax assets/(liabilities) from business disposals	**622**	(150)
Credit in consolidated income statement (Note 13)	**(479.829)**	(18.546)
(Credit)/debit in property fair value reserves	**(105)**	194
Debit/(credit) in available-for-sale financial assets fair value reserves and cash flow hedge reserve	**12.202**	(16.596)
Exchange differences	**36**	624
Balance 31 December	**(459.625)**	7.449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets and liabilities are attributable to the following items:

	2011 € '000	2010 € '000
Deferred tax liabilities		
Differences between depreciation and wear and tear allowances	**1.976**	1.612
Revaluation of property	**13.287**	13.629
Investment property	**2.514**	2.455
Intangible assets	**59.386**	79.992
Financial assets	**-**	205
Provision for impairment of advances	**14.956**	16.656
Other temporary differences	**28.502**	20.085
	120.621	134.634
Deferred tax assets		
Available-for-sale financial assets	**110.418**	44.325
Financial instruments	**244.393**	3.147
Tax losses	**6.094**	17.687
Provision for impairment of advances	**201.587**	47.038
Retirement benefit obligations	**2.940**	3.030
Other temporary differences	**14.814**	11.958
	580.246	127.185
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	**15.101**	10.652
Deferred tax liabilities to be recovered after more than 12 months	**105.520**	123.982
	120.621	134.634
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**16.115**	4.796
Deferred tax assets to be recovered after more than 12 months	**564.131**	122.389
	580.246	127.185

The credit relating to deferred tax in the consolidated income statement is analysed by temporary differences as follows:

	2011 € '000	2010 € '000
Investment property	**59**	167
Intangible assets	**(20.600)**	(5.674)
Tax losses	**11.588**	(5.754)
Available-for-sale financial assets	**(78.524)**	-
Financial instruments	**(241.303)**	(1.467)
Provision for impairment of advances	**(156.379)**	(6.958)
Other temporary differences	**5.330**	1.140
	(479.829)	(18.546)

38. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Share capital € '000	Share premium € '000	Total € '000
1 January 2010	848.153	720.930	2.179.146	2.900.076
Dividend re-investment (a)	10.133	8.613	4.965	13.578
Script dividend (b)	123.830	105.256	73.952	179.208
Share issue costs	-	-	(5.166)	(5.166)
31 December 2010 / 1 January 2011	**982.116**	**834.799**	**2.252.897**	**3.087.696**
Shares issued through exercise of rights (c)	**488.168**	**414.942**	**73.226**	**488.168**
Script dividend (d)	**140.827**	**119.703**	**21.124**	**140.827**
Share issue costs	**-**	**-**	**(12.664)**	**(12.664)**
31 December 2011	**1.611.111**	**1.369.444**	**2.334.583**	**3.704.027**

38. SHARE CAPITAL AND SHARE PREMIUM (continued)

(a) In June 2010, the Bank issued 10.133.000 new ordinary shares, of nominal value € 0,85, which resulted from the re-investment of the dividend for the year 2009 in accordance with the Dividend Re-Investment Plan. Based on the Plan, the Bank's shareholders had the option of part or full re-investment of the net 2009 dividend paid, into shares of the Bank. The exercise price of the re-investment right of the 2009 dividend was set at € 1,34 per share, that was 10% lower than the average closing price of the Bank's share on the Cyprus Stock Exchange and the Athens Exchange for the period from 1 June to 7 June, 2010. The trading of the newly issued shares commenced on 15 July, 2010.

(b) In December 2010, the Bank issued 123.830.000 new ordinary shares, of nominal value € 0,85, which resulted from the distribution of an interim dividend for the year 2010 in the form of shares. The issue price was set at € 1,45, that was 10% lower than the average closing price of the Bank's share on the Cyprus Stock Exchange and the Athens Exchange for the period from 11 October to 15 October, 2010. The trading of the newly issued shares commenced on 22 December, 2010.

(c) On 14 February, 2011 the € 488,2 m increase of share capital through the exercise of rights was completed. The rights have been allotted in the ratio of one nil-paid right for each ordinary share of the Bank. For every two rights exercised, at an exercise price of € 1,00, one fully paid new share resulted. The period of exercise of rights was from 24 January, 2011 until 11 February, 2011 while the period of the trading of the rights was between 24 January, 2011 and 4 February, 2011. The exercise of the rights had as a result the issue of 488.168.000 new ordinary shares. The trading of the newly issued shares commenced on 23 February, 2011.

(d) In June 2011, the Bank issued 140.827.000 new ordinary shares, of nominal value € 0,85, which resulted from the distribution of a dividend for the year 2010 in the form of shares. The issue price was set at € 1,00. The trading of the newly issued shares commenced on 27 June, 2011.

As at 31 December, 2010 the Bank's authorised share capital comprised of 2.090.000.000 shares of € 0,85 nominal value each. At the Extraordinary General Meeting of the shareholders of the Bank which was held on 31 May, 2011 approval was granted for the increase of the authorised nominal share capital of the Bank from € 1.776.500.000 to € 1.870.000.000 by the creation of 110.000.000 additional ordinary shares of € 0,85 nominal value each. At the Extraordinary General Meeting of the shareholders of the Bank which was held on 28 September, 2011 approval was granted for the increase of the authorised nominal share capital of the Bank from € 1.870.000.000 to € 2.465.000.000 by the creation of 700.000.000 additional ordinary shares of € 0,85 nominal value each.

As at 31 December, 2011 the Bank's authorised nominal share capital was € 2.465.000.000 (2010: € 1.776.500.000) divided into 2.900.000.000 (2010: 2.090.000.000) ordinary shares of nominal value € 0,85 each (2010: € 0,85).

All issued ordinary shares are fully paid and carry the same rights.

The share premium is not available for distribution to equity holders. The Nicosia District Court confirmed on 12 April, 2012, the utilisation of the share premium of up to € 1,9 bn for writing off losses.

Share Options

In April 2007, the Extraordinary General Meeting of the shareholders of the Bank approved the introduction of a Share Options Scheme (the "Scheme") for the members of the Board of Directors of the Bank and the Group's employees. The shares to be issued with the application of this Scheme will have the same nominal value as the existing issued shares, that was € 0,85 each. The exercise price of each share option (the "Option") was set at € 10.

Following the aforementioned approval and the ensuant decision of the Bank's Board of Directors on 9 May, 2007, 70.305.000 Options were granted to the beneficiaries with an expiration date on 15 December, 2011. The Options could be exercised by the beneficiaries during the years 2007 to 2011, according to the allocation determined by the Board of Directors, following a recommendation by the Remuneration Committee, based on the beneficiaries' performance being up to the Bank's expectations.

The fair value of the Options granted was measured initially on grant date using the Black and Scholes model. The model's pricing inputs were: share price of € 8,48 at the grant date, the Euro swap rate curve as the discount rate for the duration of the Scheme 4,15% (average), implied share price volatility determined on the basis of historic volatility 12% and a dividend yield of 3,82%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. SHARE CAPITAL AND SHARE PREMIUM (continued)

Share Options (continued)

On 23 December, 2009 the Extraordinary General Meeting of the shareholders of the Bank approved the amendment of the terms of the Scheme originally approved by the Extraordinary General Meeting held in April 2007. In particular, it approved the amendment of the exercise price from € 10 to € 4,50 and the extension of the Scheme by two years with 2013 as the last exercise period instead of 2011. The incremental fair value arising from the modification of the terms of the Scheme was calculated based on the following: share price as at 23 December, 2009 of € 2,32, the Euro swap rate curve as the discount rate for the duration of the Scheme 1,9% (average), implied share price volatility of 27,3% and dividend yield 3,45%. This incremental fair value is recognised over the period from the modification date until the date when the Options vest.

On 31 May, 2011 the Extraordinary General Meeting of the shareholders of the Bank approved the amendment of the terms of the Scheme originally approved by the Extraordinary General Meeting held in April 2007 and the amendment approved by the Extraordinary General Meeting held on 23 December, 2009. In particular, it approved the amendment of the exercise price from € 4,50 to € 1,80 and confirmed the authorisation to the Board of Directors to issue in the framework of the implementation of the Scheme up to 80.000.000 shares of the Bank of nominal value € 0,85 without the shares first being offered to the existing shareholders of the Bank as provided by the Articles of Association of the Bank and the law. The incremental fair value arising from the modification of the terms of the Scheme was calculated based on the following: share price as at 31 May, 2011 of € 0,63, the Euro swap rate curve as the discount rate for the duration of the Scheme 2,1% (average), implied share price volatility of 40,85% and dividend yield 12,70%. This incremental fair value is recognised over the period from the modification date until the date when the Options vest.

The total expense recognised in the consolidated income statement for the year ended 31 December, 2011 for Options granted amounts to € 1.392.000 (2010: € 2.499.000) (Note 8). During the years 2007, 2008, 2009, 2010 and 2011 no Options were exercised and as at 31 December, 2011 and 31 December, 2010 the number of Options outstanding was 70.305.000.

39. RESERVES

	2011 € '000	2010 € '000
Revenue reserves		
Balance 1 January	**788.601**	948.006
(Loss)/profit for the year attributable to the owners of the Bank	**(3.650.380)**	87.080
Transfer from property fair value reserves	**176**	985
Dividend (Note 50)	**(147.028)**	(254.941)
Cost of share-based payments to employees	**1.383**	2.480
Effect of change in non-controlling interest from changes in shareholdings in subsidiary companies and other movements	**(101)**	3.925
Defence tax on deemed distribution	**(425)**	34
Share of revenue reserves of associates	**(60)**	1.032
Balance 31 December	**(3.007.834)**	788.601
Property fair value reserves		
Balance 1 January	**47.681**	49.759
Revaluation for the year	**(381)**	11
Deferred tax	**105**	(72)
Transfer to revenue reserves	**(176)**	(985)
Share of fair value reserves of associates	**1.381**	(1.032)
Balance 31 December	**48.610**	47.681
Available-for-sale financial assets fair value reserves		
Balance 1 January	**(326.187)**	(189.460)
Revaluation for the year	**(356.927)**	(142.438)
Deferred tax	**(12.541)**	16.474
Transfer to results on disposal	**(19.750)**	(21.886)
Transfer to results due to impairment	**520.847**	4.542
Amortisation of loss on available-for-sale financial assets reclassified	**8.564**	7.453
Transfer to results due to business disposal	**(13)**	-
Share of fair value reserves of associates	**(2.130)**	(872)
Balance 31 December	**(188.137)**	(326.187)
Currency translation reserves		
Balance 1 January	**(65.571)**	(76.130)
Exchange differences arising in the year	**5.265**	10.559
Transfer to results due to business disposal	**(5.626)**	-
Balance 31 December	**(65.932)**	(65.571)
Cash flow hedges reserve		
Balance 1 January	**(135)**	245
Loss from changes in fair value recognised directly in equity	**(148)**	(543)
Transfer to results due to business disposal	**239**	-
Deferred tax	**44**	163
Balance 31 December	**-**	(135)
Difference from conversion of share capital into Euro reserve		
Balance 1 January / 31 December	**3.426**	3.426
	(3.209.867)	447.815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. RESERVES (continued)

The distributability of reserves is in accordance with the requirements of the Cyprus Companies Law, Cap. 113 for public companies and the Articles of Association of the Bank. In addition, in accordance with the regulations of the Central Bank of Cyprus the reserves arising from exchange differences are not available for distribution.

From the tax year commencing 1 January, 2003 onwards, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, within two years after the end of the relevant tax year, will be deemed to have distributed these profits as dividend. Special contribution for defence will be payable on such deemed dividend to the extent that the shareholders (companies and individuals) at the end of the period of the two years after the end of the relevant tax year, are Cyprus tax residents. Special contribution for defence is charged at the rate of 15% which increased to 17% as from 31 August, 2011 which increased again to 20% as from 1 January, 2012. The amount of deemed distribution is reduced by any actual dividend paid out of the profits of the relevant year during the following two years. This special contribution for defence is payable for the account of the shareholders.

40. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group primarily uses derivative financial instruments to hedge risks stemming from interest rate and foreign exchange fluctuations. In addition, the Group uses derivative financial instruments for own trading, with the purpose of increasing its earnings. The main derivative financial instruments, used by the Group, and the method of determining their fair value are as follows.

Forward foreign exchange contracts specify the rate at which two currencies will be exchanged at a future date. The exchange rate agreed is determined when the deal is made. Forward foreign exchange contracts are revalued daily (using the current exchange rates) by calculating the new forward rate until the settlement of the contract, based on the current market rates.

Currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a future date. The currency swaps are revalued to fair value (using the current exchange rates) by calculating the new swap points at the time of the revaluation.

Interest rate swaps are commitments to exchange one set of cash flows based on a fixed interest rate with one set of cash flows based on a floating interest rate. The cash flows are calculated on a fixed notional amount and for a fixed period of time. The fair value of interest rate swaps is calculated by comparing the present value of the discounted cash flows at the date of the revaluation with the current outstanding notional amount of the swap.

Furthermore, the Group deals in futures and options, as well as forward rate agreements.

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised on the balance sheet, but they do not indicate the amounts of future cash flows or the fair value of the instruments and, therefore, do not present the Group's exposure to credit and other market 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.

40. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional and fair value of derivatives were:

	2011			2010		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Trading derivatives:						
Foreign currency derivatives						
Currency forwards	812.371	32.382	28.744	101.955	12.449	11.710
Currency swaps	3.006.058	30.532	39.882	2.526.944	41.617	49.986
Currency options OTC	74.839	197	200	97.217	-	-
		63.111	68.826		54.066	61.696
Interest rate derivatives						
Interest rate swaps	1.137.391	20.348	23.092	1.370.083	17.342	21.969
Interest rate options	1.838.779	25.285	23.930	-	-	-
Forward rate agreements	1.795	1.225	961	-	-	-
		46.858	47.983		17.342	21.969
Index/equity and other derivatives						
Futures	250.343	-	-	380.603	67	56
Options	142.145	4.761	2.493	367.618	21.642	22.927
Credit default swaps	-	-	-	63.613	1.413	987
Other (Index swaps, asset swaps, etc)	180.876	14.452	13.926	30	89	59
		19.213	16.419		23.211	24.029
Total trading derivatives (Notes 19 and 35)		129.182	133.228		94.619	107.694
Hedging derivatives:						
Derivatives designated as fair value hedges						
Options	30.254	837	839	49.480	1.326	1.844
Futures	93.705	-	-	88.700	-	-
Interest rate swaps	1.783.348	5.991	51.959	2.344.721	7.963	52.521
Asset swaps	1.300.458	320	126.662	1.719.765	3.123	117.886
		7.148	179.460		12.412	172.251
Derivatives designated as cash flow hedges						
Interest rate swaps	-	-	-	39.329	-	566
		-	-		-	566
Total hedging derivatives (Notes 25 and 35)		7.148	179.460		12.412	172.817
Total derivative financial instruments		136.330	312.688		107.031	280.511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. CASH USED IN OPERATIONS

	2011	2010
	€ '000	€ '000
(Loss)/profit before tax	(4.100.784)	114.674
Adjustments for:		
Share of profit of associates after tax (Note 27)	(9.774)	(14.177)
Depreciation of property and equipment (Note 30)	24.619	25.509
Amortisation of intangible assets (Note 28)	31.564	30.653
Impairment of goodwill and other intangibles (Note 28)	820.457	-
Fair value loss on investment property (Note 29)	1.042	1.669
Revaluation adjustment on property (Note 9)	42	-
Cost of share-based payment to employees (Note 8)	1.392	2.499
Impairment of debt and equity holdings (Note 12)	2.527.082	9.344
Interest received from financial assets	(225.391)	(207.520)
Dividends (Note 7)	(1.457)	(4.203)
Interest on senior debt and loan capital	83.361	76.290
Loss on disposal of property and equipment (Note 7)	304	415
Loss/(profit) on disposal of available-for-sale financial assets (Note 6)	13.400	(29.170)
Profit on redemption of held-to-maturity financial assets (Note 6)	(68)	(58)
Profit on disposal of subsidiary companies (Note 6)	(53.412)	(841)
Profit on disposal of investment property (Note 7)	(1)	(193)
	(887.624)	4.891
Change in:		
Due to other banks	(318.999)	180.227
Customer deposits	(4.701.351)	1.622.585
Other liabilities	(25.916)	(240.347)
Retirement benefit obligations	12.002	29.985
Restricted balances with Central Banks	(231.639)	15.310
Due from other banks	573.784	(155.894)
Financial assets at fair value through profit or loss	2.424	9.736
Advances to customers	1.051.782	(1.335.170)
Debt securities lending	207.841	(346.802)
Other assets	(134.350)	(90.185)
	(4.452.046)	(305.664)

42. CASH AND CASH EQUIVALENTS

	2011	2010
	€ '000	€ '000
Cash and non-restricted balances with Central Banks – due within three months	369.419	280.552
Due from other banks – due within three months from original maturity	414.148	3.846.906
	783.567	4.127.458

43. SEGMENTAL ANALYSIS

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has six main business segments on a worldwide basis:

(a) Corporate and investment banking, which includes all commercial and investment banking business derived from corporate clients.

(b) Retail banking, which includes all commercial banking business from retail clients.

(c) Wealth management, which includes all business from high net worth individuals (banking and asset management business).

(d) International business banking, which includes all business from services offered to international business banking customers.

(e) Treasury and capital markets, which includes all treasury and capital market activity.

(f) Participations, investments and other segments, which includes the various participations and investments of the Group and all other business not falling into any of the other segments, none of which constitutes a separately reportable segment.

As the Group's segment operations are all financial with the majority of revenues deriving from interest and as the Group Executive Committee relies primarily on net interest revenue to assess the performance of the segment, total interest income and expense for all reportable segments is presented on a net basis.

There were no changes in the reportable segments during the year 2011.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Committee is measured in a manner consistent with that in the consolidated income statement.

The Group's management reporting is based on a measure of profit before tax and before share of profit from associates comprising net interest income, net fee and commission income, financial and other income, less operating expenses, impairment of debt and equity holdings and provision for impairment of advances. This measurement basis excludes the effects of non-recurring expenditure of the operating segments such as goodwill impairments when the impairment is the result of an isolated, non-recurring event as well as amortisation of intangible assets.

The information provided about each segment is based on the internal reports about segment profit or loss and other information, which are regularly reviewed by the Group Executive Committee.

The information reported to the Group Executive Committee in relation to the consolidated balance sheet items comprises advances to customers and customer deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. SEGMENTAL ANALYSIS (continued)

Segment information

The segment information provided to the Group Executive Committee for the reportable segments is as follows:

	Corporate and investment banking € '000	Retail banking € '000	Wealth management € '000	International business banking € '000	Treasury and capital markets € '000	Participations, investments and other segments € '000	Total € '000
For the year ended 31 December 2011							
Net interest income from external customers	**310.020**	**347.042**	**3.440**	**79.631**	**52.310**	**4.763**	**797.206**
Net fee and commission income	**41.608**	**75.483**	**23.794**	**40.545**	**2.820**	**302**	**184.552**
Financial and other income	**4.692**	**(705)**	**(2.569)**	**8.932**	**(24.363)**	**103.680**	**89.667**
Operating expenses	**(81.570)**	**(385.041)**	**(44.042)**	**(37.375)**	**(22.159)**	**(67.986)**	**(638.173)**
Provision for impairment of advances	**(314.164)**	**(510.627)**	**(283.093)**	**(43.228)**	**-**	**-**	**(1.151.112)**
Impairment of debt and equity holdings	**-**	**-**	**-**	**-**	**(2.527.082)**	**-**	**(2.527.082)**
Segment result	**(39.414)**	**(473.848)**	**(302.470)**	**48.505**	**(2.518.474)**	**40.759**	**(3.244.942)**
As at 31 December 2011							
Advances to customers	**10.393.846**	**10.772.470**	**1.433.349**	**2.178.958**	**-**	**-**	**24.778.623**
Customer deposits	**3.269.891**	**10.876.309**	**1.090.881**	**4.923.723**	**-**	**-**	**20.160.804**
For the year ended 31 December 2010							
Net interest income from external customers	270.608	311.057	(177)	38.943	80.912	3.634	704.977
Net fee and commission income	49.215	80.828	31.034	37.506	5.257	739	204.579
Financial and other income	17.847	7.318	1.770	(673)	94.214	22.916	143.392
Operating expenses	(67.522)	(384.928)	(43.575)	(44.677)	(25.555)	(63.961)	(630.218)
Provision for impairment of advances	(62.524)	(177.594)	(6.228)	(17.820)	-	(1.980)	(266.146)
Impairment of debt and equity holdings	-	-	-	-	(9.344)	-	(9.344)
Segment result	207.624	(163.319)	(17.176)	13.279	145.484	(38.652)	147.240
As at 31 December 2010							
Advances to customers	10.862.618	12.288.157	1.465.062	1.801.496	-	-	26.417.333
Customer deposits	5.095.762	12.931.229	1.492.440	5.988.930	-	-	25.508.361

Reconciliation of segment results to (loss)/profit for the year

	Total management reporting € '000	Consolidation and adjustments € '000	Total consolidated € '000
For the year ended 31 December 2011			
Net interest income	**797.206**	**1.480**	**798.686**
Net fee and commission income	**184.552**	**(4.851)**	**179.701**
Financial and other income	**89.667**	**(30.756)**	**58.911**
Operating expenses	**(638.173)**	**11.463**	**(626.710)**
Provision for impairment of advances	**(1.151.112)**	**-**	**(1.151.112)**
Impairment of debt and equity holdings	**(2.527.082)**	**-**	**(2.527.082)**
Segment result	**(3.244.942)**	**(22.664)**	**(3.267.606)**
Amortisation of other intangible assets			**(22.495)**
Impairment of goodwill and other intangibles			**(820.457)**
Share of profit from associates			**9.774**
Tax			**454.482**
Loss for the year			**(3.646.302)**
As at 31 December 2011			
Advances to customers	**24.778.623**	**-**	**24.778.623**
Customer deposits	**20.160.804**	**-**	**20.160.804**

43. SEGMENTAL ANALYSIS (continued)

Reconciliation of segment results to (loss)/profit for the year (continued)

	Total management reporting € '000	Consolidation and adjustments € '000	Total consolidated € '000
For the year ended 31 December 2010			
Net interest income	704.977	4.566	709.543
Net fee and commission income	204.579	(4.098)	200.481
Financial and other income	143.392	(31.662)	111.730
Operating expenses	(630.218)	7.026	(623.192)
Provision for impairment of advances	(266.146)	-	(266.146)
Impairment of debt and equity holding	(9.344)	-	(9.344)
Segment result	147.240	(24.168)	123.072
Amortisation of other intangible assets			(22.575)
Share of profit from associates			14.177
Tax			(25.446)
Profit for the year			89.228
As at 31 December 2010			
Advances to customers	26.417.333	-	26.417.333
Customer deposits	25.508.361	-	25.508.361

Geographical information

	2011			
	Operating income € '000	**Total assets € '000**	**Advances to customers € '000**	**Customer deposits € '000**
Cyprus	**601.612**	**14.528.985**	**10.652.543**	**11.706.370**
Greece	**292.887**	**15.934.151**	**11.808.374**	**6.753.484**
Other countries	**176.926**	**3.298.842**	**2.317.706**	**1.700.950**
Total	**1.071.425**	**33.761.978**	**24.778.623**	**20.160.804**

	2010			
	Operating income € '000	**Total assets € '000**	**Advances to customers € '000**	**Customer deposits € '000**
Cyprus	451.911	19.302.358	10.114.848	13.157.728
Greece	423.082	19.343.854	13.425.646	9.684.980
Other countries	177.955	3.934.274	2.876.839	2.665.653
Total	1.052.948	42.580.486	26.417.333	25.508.361

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. CONTINGENCIES AND COMMITMENTS

Credit-related financial instruments

Credit-related financial instruments include commitments relating to documentary credits and guarantees, which are designed to meet the financial requirements of the Group's customers. The credit risk on these transactions represents the contract amount. However, the majority of these facilities are offset by corresponding obligations of third parties.

	2011	2010
	€ '000	€ '000
Acceptances	**144.828**	387.088
Guarantees	**1.238.905**	1.313.082
	1.383.733	1.700.170

Unutilised credit facilities

The amount of approved unutilised credit facilities was € 141.042.000 (2010: € 205.581.000).

Trustee services

The Bank acts as a trustee of approved investments of insurance companies according to the provisions of the Insurance Companies Laws of 1984 and 1990.

Capital commitments

Capital expenditure contracted at 31 December, 2011 amounted to € 5,2 m (2010: € 6,4 m).

Legal proceedings

As at 31 December, 2011 there were pending litigations against the Group in connection with its activities. Based on legal advice, the Board of Directors believes that there is adequate defence against all claims and it is not probable that the Group will suffer any significant damage. Therefore, no provision has been made in the consolidated financial statements regarding these cases.

Operating lease commitments

The Group leases various branches, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
	€ '000	€ '000
Less than one year	**27.191**	28.548
Over one but less than five years	**79.932**	81.937
Over five years	**55.723**	65.548
	162.846	176.033

45. FINANCIAL RISK MANAGEMENT

Similar to all other financial institutions, the Group is exposed to risks, the most important being credit risk, liquidity risk, interest rate risk, equity risk and currency risk. For this purpose, in an attempt to minimise the Group's risk exposure, risk management is one of the key functions of the Group. These risks are being continuously monitored using common international methodologies, so as to avoid the excessive concentration of risks. The nature of the primary risks undertaken and the ways in which they are managed by the Group are outlined below.

Conditions in global economy turned out to be more difficult compared to the immediate aftermath of the Lehman bankruptcy in late 2008. This primarily relates to the emergence and severity of the sovereign crisis in Greece. Outlook in the eurozone deteriorated sharply, as increasing concerns over the sustainability of Greek sovereign debt led to heightened concerns over contagion in other peripheral countries but even in the core European countries. To this respect, the governments in the majority of eurozone Member States proceeded to the adoption of drastic measures for the improvement of their public and fiscal deficits via substantial cost cutting efforts in public payroll and other expenses, the imposition of new taxes as well as other fiscal measures. As a result, business environment also deteriorated in the second half of the year, despite the reduction in the ECB's base rate and other monetary easing measures. All of the above materially weighted on European banks, with the ability of banks to refinance themselves via the money markets and capital markets becoming increasingly difficult.

Banking systems across the eurozone area were amongst the first casualties of the widespread sovereign crisis, whilst global financial markets experienced highly volatile conditions as investors began to disregard riskier assets. In developed markets, bank shares came under intense pressure, reflecting fears over exposure to peripheral eurozone economies and possible repercussions on capital adequacy, access to liquidity and funding quality. Risk premiums on sovereign bonds surged particularly in Greece and other peripheral countries of the eurozone, whilst at the late stages of the year strong pressures on core eurozone countries' bond yields (e.g. Italy, Spain, Belgium and at a lesser extend France) elevated contagion fears across the eurozone. Evidently, the sovereign debt crisis turns into a eurozone bank solvency issue whereby a new credit crisis may prove deeper and longer than the 2008 credit crunch.

Regarding Greece, despite the corrective fiscal and other measures and actions decided by the Greek government to tackle the debt crisis, the elevated concerns of the economic and investment community for a disorderly Greek default became more apparent, as their faith on the successful implementation of the measures decided up to that point were being gradually eroded. To this respect, on 21 July, 2011, a new bailout package worth of € 109 bn was approved for Greece, which aimed to finance the Greek debt through governments and private debt holders. Private participation was agreed to be on a voluntary basis so that the rollover of the Greek debt would not be interpreted as a selective default for Greece. That new package aimed to benefit all euro area sovereigns by containing the contagion risk from a likely disorderly payment default on existing Greek debt.

Rather than implementing the July agreement on Greece, on 26 October, 2011 the EU Council Members, in an attempt to resolve the elevated pressures from the widespread sovereign and banking crisis, decided on a broader policy framework to address the sovereign crisis in the eurozone. Additionally, the main parameters of Greece's bailout plan were set as follows: (a) new EU-IMF financing up to € 100 bn until 2014, (b) eurozone member state contributions of up to € 30 bn for a new enhanced and voluntary PSI+ package for Greece and (c) provision of credit enhancements to support the quality of collateral to allow its continued use for access to euro system liquidity operations by Greek banks. On 24 February, 2012, the Hellenic Republic announced the final terms of the PSI+ offer for the exchange of Greek Government Bonds (GGBs), which includes the following instruments: (a) 31,5% of new GGBs split into 20 new bonds, (b) 15% EFSF notes equally split in 1 year and 2 year bonds, (c) GDP-linked securities contingent on GDP growth reaching pre-specified levels and (d) accrued interest notes in the form of 6-monthly EFSF bonds to cover accrued interest due on bonds.

The implementation of PSI+ took effect in March 2012. Following the completion of the invitation of private investors to the tender issued or guaranteed by the Greek Republic on 24 February, 2012, for the participation of the private sector to the plan concerning the long-term viability of the Greek public debt, the Republic has received tenders for exchange and consents from holders of bonds governed by Greek law of 85,8% (€ 152 bn out of a total of € 177 bn). The Republic has also received tenders for exchange and consents to the proposed amendments from holders of € 19,3 bn out of a total of € 27,2 bn (face value), of its bonds issued under laws other than Greek law and of bonds issued by state enterprises and guaranteed by the Republic. Following the final extension given to GGBs holders issued under laws other than Greek law and of bonds issued by state enterprises and guaranteed by the Republic, the final acceptance rate of the PSI+ programme following the activation of the collective action clauses (CACs) for the bonds issued under Greek law, the total bond swap reached 96,9% (i.e. € 199 bn out of a total of € 206 bn).

According to the Ministry of Finance of Greece, with the implementation of the above process, the total Greek government debt is estimated to have been contained by approximately € 110 bn, in nominal terms. Part of this reduction, an amount of approximately € 40 bn relates to bonds held by Greek banks, whose losses are expected to be covered at the recapitalisation process of the Greek banks, for which a € 50 bn earmarking will be funded from the European Financial Stability Fund (EFSF). Apart from the significant reduction of public debt (by about 50 percentage points of GDP) and following the implementation of PSI+, Greece has achieved to significantly extend the maturity of the new bonds up to 2042, whilst at the same time Greece achieved a much longer average duration of the debt at a lower average service cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

Following the rapidly deteriorating macroeconomic and financial conditions in Cyprus and Greece, Group operations came under pressure. The impairment charges recorded from the Group's participation in the PSI+ plan for GGBs, the additional provisioning from higher NPLs coupled with the higher cost of funds in deposits were the primary reasons for the weaker performance of the main indicators compared to the prior year.

Under this framework, on 26 October, 2011, a capital exercise proposed by the European Banking Authority (EBA) and approved by the European Council required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. Additionally, it requires them to establish a buffer such that Core Tier I Capital ratio reaches 9% by the end of June 2012. The recapitalisation requirement for Cypriot banks would reach € 3,53 bn, whilst Greek banks in general would require € 30 bn, which are all covered from the current bailout program.

The Group has participated in the capital exercise of the EBA. The amount of any final capital shortfall identified is based on 30 September, 2011 figures, with the estimated capital shortfall for the Group calculated at € 1,97 bn. The Group aims to ensure that by the end of June 2012 the Bank will adhere to the 9% Core Tier I ratio. On 20 January, 2012, the Group submitted to the Central Bank of Cyprus (CBC) a comprehensive capital enhancement plan, which has been agreed with the appropriate regulatory authorities (the CBC and the EBA). The capital plan includes a diverse set of targeted initiatives including exchanging of existing capital securities, asset optimisation and active management of portfolio exposures and raising of new equity. For the process of the issue of new shares and other capital initiatives, the Board of Directors has received authorisation from the Extraordinary General Meeting of the shareholders that was held on 2 April, 2012.

Based on the current difficult operational environment, the Group's strategic goals aim to: (a) enhance its capital base and deleverage its balance sheet and core assets that do not meet the appropriate quality levels, (b) improve its liquidity position to reduce dependence on ECB and capital markets, (c) exercise prudent management of expenses and (d) restructure its balance sheet in order to better utilise its capital.

CREDIT RISK

Credit risk stems from the possibility of non-prompt repayment of existing and contingent obligations of the Group's counterparties, resulting in the loss of funds and earnings. Credit risk management focuses on ensuring a disciplined risk culture, risk transparency and rational risk taking, based on international common practices.

Credit risk management

The credit risk management function covers a wide range of activities, which commences at the stage of the credit risk undertaken, continues at the stage of credit risk management and ending up at the workout and collection stage.

Credit risk management methodologies are reviewed and modified to reflect the changing financial environment. The various credit risk assessment methods used are being revised at least annually or whenever deemed necessary and adjusted to be in line with the Group's overall strategy and objectives.

Credit risk undertaken

Credit policy

The Group's lending portfolio is split into retail, commercial and corporate. Retail lending comprises individuals and very small businesses, commercial lending comprises small and medium size enterprises and corporate lending comprises large and listed companies.

The Group's primary lending criterion is the borrower's repayment ability. Additionally, emphasis is placed on the quality of collateral, either in the form of tangible collateral or guarantees. The majority of the Group's customers are either private borrowers or small and medium businesses, utilising a number of different lending products and facilities.

In the area of corporate and commercial lending, periodical sectoral studies are prepared to identify those areas that may present problems and the target areas for credit expansion. These studies are also used in the formulation and review of the credit policy.

In order for the Group to determine its target markets, it takes into account aspects such as macroeconomic indicators, the local banking system, empirical evidence on the effects of stress scenarios, guidance from the regulator and current mix of the lending portfolio. Taking into consideration materiality issues and the local socio-economic environment, the main target markets are summarised and categorised based on the following: (a) economic sector, (b) banking division, (c) country, (d) type of facility, (e) type of security, (f) credit quality, and (g) currency. Once the above are identified, further detailed analysis is carried out to decide the amount of credit to be granted to each target market.

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Credit risk undertaken (continued)

Stress tests

Stress testing is used to capture the impact of exceptional but possible scenarios that could have a major impact on a portfolio. It could be generally implemented using one or a combination of the following two concepts: scenario tests (multiple factors) and sensitivity analysis (single factor). The purpose of stress testing is to assist the Group to assess the impact of a stress scenario on its profitability, loan portfolio and capital requirements.

Stress tests are performed on a semi-annual basis or whenever deemed necessary. Each subsidiary of the Group performs its own stress test, which depends on the particular risks that it faces.

Limits of authority

Credit limits of authority indicate the hierarchy of approving credit facilities to the Group's customers indicating that the higher the credit risk involved in the transaction, the higher the level of authority required to approve the transaction. The structure of the credit limits of authority is based on: (a) the customer's creditworthiness, (b) the quality of the collateral/security, (c) the type of facility e.g. advance or letter of guarantee, (d) the facility duration, and (e) the level of approving authority.

Limits of authority can be divided into two categories:

(a) Front line limits, i.e. limits given to branch and sectoral managers and subsidiary companies.

(b) Head office limits, i.e. limits given to Credit Committee and the Group Executive Committee.

All limits are usually reviewed on a yearly basis or whenever deemed necessary. The Risk Management Division may initiate limit changes based on specific guidelines of the Central Banks of the countries in which the Group operates, with which the Group needs to conform or with new management policy decisions that need to be adopted.

Rating models

The methods for assessing credit quality vary according to the counterparty type, which falls in one of the following categories: central governments (for buy and hold strategies with respect to bonds), financial institutions, small, medium and large businesses and private individuals.

In respect of the credit assessment of governments and financial institutions, this is analysed in the subsections "Counterparty banks' risk" and "Country risk".

Private individuals are being assessed by two different internal rating systems, depending on the Group subsidiary in which they belong, as well as the availability of data. The first system is applicable to existing customers and is based on their past credit behaviour and overall cooperation with the Group. The second system includes: (a) credit scoring that utilises both demographic factors and other objectively defined criteria, such as income and property owned, and (b) a separate credit scorecard for different product types.

For the assessment of small, medium and large businesses, the Group uses both the behavioural rating system, as outlined above, and the Moody's Risk Analyst system, which assesses the financial strength of a business based on both financial and qualitative data, as well as on the industry sector in which the business operates.

Counterparties are assessed by the internal rating systems on a monthly basis in order to ensure that ratings are up to date with respect to the risk taken and acts as a warning sign for monitoring purposes. The ongoing quality evaluation is supported by periodic audits conducted by both the Risk Management Division and the Internal Audit Division.

A counterparty's credit rating is used during the approval process of new credit facilities and for defining the respective credit limits. In addition, it is used for the internal calculation of probabilities of default, as well as for the monitoring of changes in the quality of the Group's lending portfolio, with the aim of developing prompt strategic actions in order to minimise any potential increase in the risks undertaken.

Assessment of new products

As part of monitoring credit risk, the Risk Management Division ensures that the credit risk inherent in new products is identified and analysed in order to ensure that the Group will comply with the credit risk policy, the procedures of the Group and the directives issued by the Central Banks of the countries in which the Group operates. In addition, based on a cost-benefit analysis, the Risk Management Division assesses the effect of the new product on the Group's product portfolio and ensures that the credit risk of the portfolio does not exceed the desired levels.

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45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Credit risk undertaken (continued)

Customer profitability and risk based pricing
Customer profitability is measured taking into account all income received from a customer and all associated direct and indirect costs. Furthermore, the cost of capital and the expected loss are taken into account to derive to the risk adjusted profitability (Economic Value Added), which is in turn used to determine the required pricing of advances. The degree and level of this application varies according to country and loan portfolio size.

Management of credit risk

Rating models
Rating models have been explained in detail in the previous section.

Monitoring of problematic advances
Problematic credit exposures are identified and monitored at an early stage through the internal rating system, the credit facilities approval procedures and controls and lending portfolio evaluation. These exposures are closely monitored at both the divisional management level and at head office level (by the Risk Management Division and the Internal Audit Division). Action plans and specific targets for improvement are set in co-operation with the banking units and regular follow up takes place to ensure that timely corrective action is taken.

Furthermore, specialised reports analysing and evaluating the credit portfolio and overdue amounts are prepared by the Risk Management Division and sent to the appropriate Committees and Senior Management of the Group with recommendations for actions.

Reporting
The Risk Management Division is responsible for preparing extensive reporting to the Group Risk Management Committee, the Group Executive Committee and the Group Assets and Liabilities Committee on credit risk management issues, including credit risk limits, limits of authority and results of stress tests. The Risk Management Division is also responsible for preparing reports on a solo and on a consolidated basis for the Central Bank of Cyprus regarding the quality of the lending portfolio and the percentage of accomplishment of quantitative targets set.

Collateral policy
The collateral policy followed, enables the Group to better manage credit risk and common principles exist for all subsidiaries. Minor differences with regards to the acceptable collaterals exist between Group subsidiaries due to different environments and country specific rules and culture.

The collateral policy principles determine: (a) the desired cover per collateral type, (b) the types of acceptable collaterals, which vary depending on the country specific environment, and (c) that periodic revaluations should be performed, either by the credit officers or by external official valuers.

The main types of collateral taken by the Group are: (a) mortgages, (b) bank guarantees, (c) cash, (d) shares and bonds pledged, and (e) other charges.

Collection

The Risk Management Division is responsible for the early detection of problematic credit exposures through the internal rating system and for setting criteria for the referral of customers to the specialised Debt Collection Division.

Concentration risk

Concentration risk is defined as the risk that arises from the uneven distribution of exposures to individual borrowers, specific industry or economic sectors, geographical regions or product type.

The Group recognises that concentration of exposures in credit portfolios is an important aspect of credit risk. Concentrated portfolios imply volatile returns and have to be supported by capital buffers, therefore the effective management and limit setting for this risk are fundamentally important.

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Concentration risk (continued)

Concentration of exposures in credit portfolios is an important aspect of credit risk. It may principally arise from the following types of imperfect diversification:

- Name concentration, which relates to imperfect diversification risk in the portfolio because of large exposures to a single borrower or a group of related borrowers.

- Sector concentration, which relates to imperfect diversification across systematic components of risk, namely sectoral factors (industry or geographical sectors).

- Collateral concentration, which relates to concentration in respect of individual collateral types.

- Foreign currency concentration, which arises from lending activities in non-domestic currencies.

The Risk Management Division ensures that exposures to individual borrowers, groups, geographical areas and other concentrations do not become excessive in relation to the Group's capital base and that are in line with limits set by the Board of Directors. The Risk Management Division is also responsible for reporting concentrations of risks to the Group Risk Management Committee, the Group Assets and Liabilities Committee, the Central Bank of Cyprus and the Central Banks of the countries in which the Group operates.

The monitoring and control of concentration risk is achieved by limit setting (e.g. industry limits) and reporting.

Concentration at customer level

As part of the management of concentration risk and in compliance with the current regulatory framework of the Central Bank of Cyprus, the Group recognises large customer exposures which are considered major from a regulatory perspective, i.e. exposures that exceed 10% of the Group's Regulatory Capital. The exposure of the Marfin Investment Group Holdings S.A. group is greater than this limit and as with all large exposures, receives the required monitoring.

As at 31 December, 2011 the Group had given advances to Marfin Investment Group Holdings S.A. group of € 670 m (2010: € 884 m), as shown on the following table:

	2011	2010
	€ m	€ m
Loans and other advances	**637**	840
Financial derivatives	**4**	10
Total on balance sheet	**641**	850
Guarantees and acceptances	**29**	34
Total off-balance sheet	**29**	34
	670	884

The above advances are secured by real estate mortgages, blocked deposits, pledging of company shares (listed and not listed in stock exchanges), invoices and company cars. The shares of Marfin Investment Group Holdings S.A. have not been pledged as collateral for the above advances.

In addition, 102 m shares (2010: 115 m) and 3 m bonds (2010: 3m) of Marfin Investment Group Holdings S.A. have been pledged in benefit of the Group as collateral for customer facilities.

IRB programme implementation

In the current macro-economic environment, one of the most important challenges that the banking sector faces worldwide, is the maintenance of high capital adequacy ratios and the mandatory prerequisite for the maintenance of high levels of liquidity.

In the context of efforts for the continuous upgrading of risk management methods and procedures and further enhancement of liquidity and capital adequacy ratios, the Group has made steps towards the future adoption of the Internal Ratings Based Approach for the calculation of capital requirements, under the Basel II Directive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

IRB programme implementation (continued)

The key goal is to deliver substantial benefits other than regulatory through:

- Enhancement of organisational structure and operations.
- Upgrade of policies and processes to promote robust and prudent risk management practices across the Group.
- Improvement of risk modelling capabilities and methodologies.
- Enhancement of system capabilities so as to ensure that accurate risk management related data is captured and made available for various purposes.

Credit rating of advances

The following table analyses the percentages of advances and the related impairment provision for each internal credit rating category of the Group.

	2011		2010	
	Advances %	**Provision for impairment of advances %**	Advances %	Provision for impairment of advances %
Credit rating category:				
Low risk	**33**	**0,51**	38	0,35
Medium risk	**45**	**2,70**	47	0,32
High risk	**22**	**26,65**	15	22,95
	100	**7,23**	100	3,70

The provision for impairment of advances percentages disclosed above relate to the cumulative provision for impairment of advances for each credit rating category as a percentage of the gross advances per credit rating category.

Provision for impairment of advances

The following is an analysis of the total provision for impairment of advances:

	Individual impairment € '000	**Collective impairment € '000**	**Total € '000**
2011			
Balance 1 January	**673.937**	**340.540**	**1.014.477**
Provision for impairment of advances from business disposal	**(34)**	**(114)**	**(148)**
Provision for impairment of advances for the year (Note 11)	**886.367**	**378.021**	**1.264.388**
Release of provision and recoveries (Note 11)	**(94.686)**	**(18.590)**	**(113.276)**
Advances written-off	**(153.686)**	**(82.444)**	**(236.130)**
Exchange differences	**532**	**3**	**535**
Balance 31 December	**1.312.430**	**617.416**	**1.929.846**
2010			
Balance 1 January	561.984	249.645	811.629
Provision for impairment of advances for the year (Note 11)	242.299	126.540	368.839
Release of provision and recoveries (Note 11)	(87.315)	(15.378)	(102.693)
Advances written-off	(44.681)	(21.404)	(66.085)
Exchange differences	1.650	1.137	2.787
Balance 31 December	673.937	340.540	1.014.477

The total amount of non-performing loans amounts to € 3.721.473.000 (2010: € 2.008.552.000).

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Provision for impairment of advances (continued)

The following is an analysis of the movement of the provision for impairment of advances by class:

Individual impairment

		Corporate entities		
	Individuals € '000	Large corporate customers € '000	Small and medium size enterprises € '000	Total € '000
2011				
Balance 1 January	**214.220**	**153.880**	**305.837**	**673.937**
Provision for impairment of advances from business disposal	**(24)**	**-**	**(10)**	**(34)**
Provision for impairment of advances for the year	**78.278**	**635.531**	**172.558**	**886.367**
Release of provision and recoveries	**(31.939)**	**(25.656)**	**(37.091)**	**(94.686)**
Advances written-off	**(32.097)**	**(49.278)**	**(72.311)**	**(153.686)**
Exchange differences	**(190)**	**(121)**	**843**	**532**
Balance 31 December	**228.248**	**714.356**	**369.826**	**1.312.430**
2010				
Balance 1 January	181.564	119.287	261.133	561.984
Provision for impairment of advances for the year	94.082	51.900	96.317	242.299
Release of provision and recoveries	(51.488)	(13.168)	(22.659)	(87.315)
Advances written-off	(11.932)	(4.051)	(28.698)	(44.681)
Exchange differences	1.994	(88)	(256)	1.650
Balance 31 December	214.220	153.880	305.837	673.937

Collective impairment

		Corporate entities		
	Individuals € '000	Large corporate customers € '000	Small and medium size enterprises € '000	Total € '000
2011				
Balance 1 January	**270.197**	**46.908**	**23.435**	**340.540**
Provision for impairment of advances from business disposal	**(52)**	**-**	**(62)**	**(114)**
Provision for impairment of advances for the year	**251.668**	**39.360**	**86.993**	**378.021**
Release of provision and recoveries	**(9.413)**	**(5.547)**	**(3.630)**	**(18.590)**
Advances written-off	**(80.024)**	**(3)**	**(2.417)**	**(82.444)**
Exchange differences	**(20)**	**80**	**(57)**	**3**
Balance 31 December	**432.356**	**80.798**	**104.262**	**617.416**
2010				
Balance 1 January	203.369	30.143	16.133	249.645
Provision for impairment of advances for the year	88.882	26.910	10.748	126.540
Release of provision and recoveries	(3.931)	(8.939)	(2.508)	(15.378)
Advances written-off	(18.495)	(1.889)	(1.020)	(21.404)
Exchange differences	372	683	82	1.137
Balance 31 December	270.197	46.908	23.435	340.540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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

The following table presents the Group's maximum credit risk exposure as at the balance sheet date, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet financial assets, the exposures set out are based on the net carrying amounts as reported in the balance sheet.

	Maximum exposure	
	2011	2010
	€ '000	€ '000
Credit risk exposures relating to on-balance sheet assets:		
Balances with Central Banks (Note 16)	**812.963**	512.659
Due from other banks (Note 17)	**689.569**	4.696.112
Financial assets at fair value through profit or loss:		
Debt securities (Note 19)	**17.518**	37.604
Derivative financial instruments with positive fair value (Note 19)	**129.182**	94.619
Advances to customers:		
Advances to individuals	**7.328.172**	8.052.619
Advances to corporate entities:		
Large corporate customers	**9.435.147**	9.915.324
Small and medium size enterprises (SMEs)	**8.015.304**	8.449.390
Debt securities lending (Note 22)	**1.769.185**	3.960.788
Available-for-sale financial assets – debt securities (Note 23)	**1.542.220**	1.972.886
Held-to-maturity financial assets (Note 24)	**889.455**	1.480.046
Other assets	**361.260**	129.056
	30.989.975	39.301.103
Credit risk exposures relating to off-balance sheet items:		
Acceptances (Note 44)	**144.828**	387.088
Guarantees (Note 44)	**1.238.905**	1.313.082
Amount of unutilised credit facilities (Note 44)	**141.042**	205.581
	1.524.775	1.905.751
	32.514.750	41.206.854

As shown above, 78% (2010: 76%) of the total maximum exposure is derived from due from other banks and advances to customers, 5% (2010: 5%) represents available-for-sale financial assets – debt securities and 8% (2010: 13%) represents debt securities measured at amortised cost.

The management of the Group is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both the advances portfolio and debt securities based on the following:

- 78% (2010: 85%) of advances portfolio is categorised in the top two rating categories of the internal rating system.
- 69% (2010: 80%) of the advances portfolio are assessed to be neither past due nor impaired.
- € 3.721 m or 14% (2010: € 2.009 m or 7%) of advances are assessed to be individually impaired.

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Advances

The following table analyses the credit quality of the Group's advances.

	2011			2010		
	Advances to customers € '000	**Due from other banks € '000**	**Balances with Central Banks € '000**	Advances to customers € '000	Due from other banks € '000	Balances with Central Banks € '000
Neither past due nor impaired	**18.447.244**	**689.569**	**812.963**	21.918.068	4.696.112	512.659
Past due but not impaired	**4.539.752**	**-**	**-**	3.505.190	-	-
Impaired	**3.721.473**	**-**	**-**	2.008.552	-	-
Gross	**26.708.469**	**689.569**	**812.963**	27.431.810	4.696.112	512.659
Provision for impairment of advances	**(1.929.846)**	**-**	**-**	(1.014.477)	-	-
Net	**24.778.623**	**689.569**	**812.963**	26.417.333	4.696.112	512.659
Analysis of provision for impairment of advances						
Individual impairment	**1.312.430**	**-**	**-**	673.937	-	-
Collective impairment	**617.416**	**-**	**-**	340.540	-	-
Total provision for impairment of advances	**1.929.846**	**-**	**-**	1.014.477	-	-

(a) Advances neither past due nor impaired

The following table analyses the Group's advances classified as neither past due nor impaired, for each credit rating category.

	Advances to customers					
		Corporate entities				
	Individuals € '000	**Large corporate customers € '000**	**Small and medium size enterprises € '000**	**Total € '000**	**Due from other banks € '000**	**Balances with Central Banks € '000**
2011						
Credit rating category:						
Low risk	**3.699.361**	**2.666.171**	**2.035.781**	**8.401.313**	**590.377**	**812.963**
Medium risk	**1.267.952**	**4.182.331**	**3.572.682**	**9.022.965**	**39.192**	**-**
High risk	**246.822**	**385.667**	**390.477**	**1.022.966**	**60.000**	**-**
Advances neither past due nor impaired	**5.214.135**	**7.234.169**	**5.998.940**	**18.447.244**	**689.569**	**812.963**
Fair value of collateral	**4.196.724**	**4.534.051**	**4.267.789**	**12.998.564**		
2010						
Credit rating category:						
Low risk	4.352.726	3.212.432	2.577.426	10.142.584	4.650.763	512.659
Medium risk	1.619.982	5.455.653	4.106.049	11.181.684	45.349	-
High risk	217.949	37.640	338.211	593.800	-	-
Advances neither past due nor impaired	6.190.657	8.705.725	7.021.686	21.918.068	4.696.112	512.659

The fair value of collateral is based on valuation techniques commonly used for the corresponding assets, which include reference to market prices.

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45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Advances (continued)

(b) Advances past due but not impaired

Advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

The following table presents advances which were past due but not impaired, as at the balance sheet date by category, as well as the fair value of collateral held as security.

		Corporate entities		
	Individuals € '000	Large corporate customers € '000	Small and medium size enterprises € '000	Total € '000
2011				
Past due up to 30 days	**632.214**	**697.566**	**511.485**	**1.841.265**
Past due 31 to 60 days	**346.626**	**183.513**	**223.751**	**753.890**
Past due 61 to 90 days	**250.666**	**361.914**	**222.025**	**834.605**
Past due over 90 days	**334.475**	**325.885**	**449.632**	**1.109.992**
Advances past due but not impaired	**1.563.981**	**1.568.878**	**1.406.893**	**4.539.752**
Fair value of collateral	**1.022.823**	**853.385**	**1.163.893**	**3.040.101**
2010				
Past due up to 30 days	620.184	596.296	285.753	1.502.233
Past due 31 to 60 days	306.477	144.400	194.015	644.892
Past due 61 to 90 days	200.585	108.481	107.600	416.666
Past due over 90 days	271.977	245.769	423.653	941.399
Advances past due but not impaired	1.399.223	1.094.946	1.011.021	3.505.190
Fair value of collateral	831.890	758.870	810.665	2.401.425

(c) Advances individually impaired

The following table presents advances which have been individually impaired, as well as the fair value of collateral held as security, for each category. Advances included in this table are more than 90 days past due and are classified as non performing.

		Corporate entities		
	Individuals € '000	Large corporate customers € '000	Small and medium size enterprises € '000	Total € '000
2011				
Individually impaired advances	**1.210.660**	**1.427.254**	**1.083.559**	**3.721.473**
Fair value of collateral	**302.685**	**506.666**	**575.444**	**1.384.795**
2010				
Individually impaired advances	947.156	315.441	745.955	2.008.552
Fair value of collateral	209.509	131.290	318.962	659.761

The interest income on advances individually impaired amounted to € 105.203.000 for 2011 (2010: € 83.130.000).

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Debt securities

The following table analyses the credit quality of the Group's debt securities.

	Held-for-trading € '000	Available-for-sale financial assets € '000	Debt securities lending € '000	Held-to-maturity financial assets € '000	Total € '000
2011					
Neither past due nor impaired	**17.518**	**1.408.037**	**1.098.409**	**872.647**	**3.396.611**
Impaired	**-**	**134.183**	**2.656.009**	**63.062**	**2.853.254**
Gross	**17.518**	**1.542.220**	**3.754.418**	**935.709**	**6.249.865**
Allowance for impairment[1]	**n/a**	**n/a**	**(1.985.233)**	**(46.254)**	**(2.031.487)**
Net	**17.518**	**1.542.220**	**1.769.185**	**889.455**	**4.218.378**
2010					
Neither past due nor impaired	37.604	1.972.886	3.960.788	1.473.035	7.444.313
Impaired	-	-	-	11.501	11.501
Gross	37.604	1.972.886	3.960.788	1.484.536	7.455.814
Allowance for impairment[1]	n/a	n/a	-	(4.490)	(4.490)
Net	37.604	1.972.886	3.960.788	1.480.046	7.451.324

[1] The allowance for impairment is applicable for the debt securities lending and held-to-maturity financial assets categories which are measured at amortised cost.

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by credit rating based on international rating agency ratings.

	Treasury bills and other bills € '000	Trading securities € '000	Investment securities € '000	Total € '000
2011				
AAA	**250.197**	**123**	**193.138**	**443.458**
AA+ to AA-	**-**	**-**	**380.713**	**380.713**
A+ to A-	**276.853**	**70**	**529.160**	**806.083**
BBB+ to BBB-	**384.285**	**137**	**520.918**	**905.340**
BB+ to B-	**104.374**	**-**	**418.515**	**522.889**
CCC to C	**888.669**	**5.976**	**182.082**	**1.076.727**
Unrated	**-**	**3.304**	**79.864**	**83.168**
	1.904.378	**9.610**	**2.304.390**	**4.218.378**
2010				
AAA	326.275	626	343.040	669.941
AA+ to AA-	176.492	100	517.499	694.091
A+ to A-	258.721	-	879.101	1.137.822
BBB+ to BBB-	226.830	-	840.017	1.066.847
BB+ to B-	3.464.513	4.536	328.836	3.797.885
CCC to C	-	1.895	4.656	6.551
Unrated	-	1.228	76.959	78.187
	4.452.831	8.385	2.990.108	7.451.324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Government bonds and treasury bills

The table below analyses the Group's government bonds and treasury bills by geographical region based on the country of domicile of the counterparties.

	Cyprus € '000	Greece € '000	Other Eurozone countries € '000	Other countries € '000	Total € '000
2011					
Financial assets at fair value through profit or loss – held-for-trading	**-**	**7.908**	**-**	**-**	**7.908**
Debt securities lending	**46.563**	**709.765**	**-**	**47.962**	**804.290**
Available-for-sale financial assets	**123.261**	**134.000**	**419.306**	**111.749**	**788.316**
Held-to-maturity financial assets	**167.053**	**38.532**	**-**	**98.279**	**303.864**
	336.877	**890.205**	**419.306**	**257.990**	**1.904.378**
2010					
Financial assets at fair value through profit or loss – held-for-trading	-	29.219	-	-	29.219
Debt securities lending	19.985	2.677.261	-	91.151	2.788.397
Available-for-sale financial assets	154.852	328.501	367.660	74.356	925.369
Held-to-maturity financial assets	96.411	377.909	97.675	137.851	709.846
	271.248	3.412.890	465.335	303.358	4.452.831

Greek Government Bonds

Throughout the year, various plans for the voluntary exchange of the existing Greek Government Bonds (GGBs) were agreed by the Heads of State or Government of the Euro Area, regarding the need for private sector involvement to strengthen further the sustainability of the Greek public debt.

The first plan was agreed on 21 July, 2011, and involved the voluntary replacement of existing securities issued by the Greek Government with new securities of extended maturities and revised coupons. A revised plan was agreed on 26 October, 2011, which invited Greece, private investors and all parties concerned to develop a voluntary bond exchange with a 50% discount on the nominal value of Greek debt held by private investors. On 24 February, 2012, the Hellenic Republic announced its invitation to holders of Designated Securities to tender any and all Designated Securities in exchange for New Bonds, Gross Domestic Product (GDP) linked Securities and EFSF notes. In more detail, subject to the terms and conditions of the invitation (i.e. the PSI+ offer for the exchange of GGBs) the Hellenic Republic has invited holders of each series of Designated Securities to tender each € 1.000 face amount of Designated Securities in exchange for: (a) 31,5% of new GGBs split into 20 new bonds carrying a step-up coupon rate and maturing between 2023 and 2042, (b) GDP-linked securities paying up to 1% interest per annum contingent on GDP growth reaching pre-specified levels, (c) 15% EFSF notes equally split in 1 year and 2 year bonds carrying a fixed coupon rate and (d) accrued interest notes in the form of 6-monthly EFSF zero coupon bonds to cover accrued interest due on bonds up to 24 February, 2012.

Following the 2011 impairment provision of GGBs as a result of the PSI+ programme, the GGBs carrying value has been impaired. The aggregate write-off on GGBs reached € 2.331 m, representing 76,4% of their nominal value, whereby part of this relates to the hedging cost of the GGBs upto their impairment date as well as changes in the fair value of derivatives used to hedge their interest rate risk.

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Greek Government Bonds (continued)

As at 31 December, 2011, the Group holds GGBs of a total nominal value of € 3.071 m whose maturity and accounting classification is analysed below:

	Up to 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 2 years € '000	Over 2 years but less than 5 years € '000	Over 5 years but less than 10 years € '000	Over 10 years € '000	Total € '000
Financial assets at fair value through profit or loss	**12.397**	**99**	**265**	**4.498**	**420**	**1.811**	**19.490**
Debt securities lending	**6.000**	**10.000**	**1.399.500**	**455.063**	**614.933**	**94.476**	**2.579.972**
Held-to-maturity financial assets	**-**	**-**	**18.570**	**30.000**	**-**	**20**	**48.590**
Available-for-sale financial assets	**198.755**	**26.628**	**11.850**	**10.000**	**80.250**	**95.471**	**422.954**
	217.152	**36.727**	**1.430.185**	**499.561**	**695.603**	**191.778**	**3.071.006**

The methodology followed for the calculation of the impairment loss differs depending on the accounting classification adopted. The methodology followed for each portfolio is described as follows:

(a) GGBs classified as available-for-sale financial assets carried at fair value

For GGBs that were classified as available-for-sale financial assets carried at fair value that were considered to be actively traded, fair value was derived using quoted market prices as at 31 December, 2011 (i.e. Level 1 measurement). For GGBs whose quoted market prices were not available as at 31 December, 2011, fair value was estimated using prices of bonds with similar characteristics (currency, maturity, coupon) and adjusted accordingly (i.e. Level 2 measurement).

The total impairment loss relating to GGBs classified as available-for-sale financial assets recognised in the consolidated income statement for the year ended 31 December, 2011, is summarised as follows:

	Original acquisition cost € '000	Impairment loss € '000	Fair value as at 31 December, 2011 € '000
Available-for-sale financial assets – Level 1 measurement	**266.904**	**181.870**	**85.034**
Available-for-sale financial assets – Level 2 measurement	**157.874**	**108.908**	**48.966**
	424.778	**290.778**	**134.000**

(b) GGBs classified in the debt securities lending and held-to-maturity financial assets portfolios carried at amortised cost

In relation to the Group's bond portfolio, classified as debt securities lending and held-to-maturity financial assets, which is measured at amortised cost, the Group measured the impairment loss as the difference between each bond's carrying amount as at 31 December, 2011 and the present value of the revised estimated future cash flows.

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Greek Government Bonds (continued)

(b) GGBs classified in the debt securities lending and held-to-maturity financial assets portfolios carried at amortised cost (continued)

In determining the estimated future cash flows the Group has exercised significant judgment. The Group has determined that the terms and conditions of the proposed plan have significantly altered the nature of the contractual rights to the cash flows from the existing bonds which have been assessed as expired. Hence, the impairment test was performed on the basis of de-recognition of the existing holding of the Group. The discount rate used in discounting the expected future cash flows was 11,9% and relates to the current yield of the bonds resulting from the terms of the proposed plan (Note 3).

In line with IAS 39, the impairment loss has therefore been calculated as follows:

	Carrying amount as at 31 December, 2011 before impairment € '000	Impairment loss € '000	Carrying amount as at 31 December, 2011 after impairment € '000
Debt securities lending	**2.656.009**	**1.985.233**	**670.776**
Held-to-maturity financial assets	**49.178**	**36.544**	**12.634**
	2.705.187	**2.021.777**	**683.410**

The carrying amount after impairment as at 31 December, 2011 represents 26% of the nominal amount of the GGBs.

(c) GGBs reclassified from the available-for-sale financial assets

All the unamortised revaluation loss remaining in the available-for-sale fair value reserve as at 31 December, 2011, amounting to € 18 m for the Group, on GGBs that were originally included in the balance sheet as available-for-sale financial assets and were subsequently reclassified to debt securities lending has been transferred out of the available-for-sale revaluation reserve and recognised in the consolidated income statement. Furthermore, these bonds were tested for impairment in the context of the impairment of the GGBs in the debt securities lending category as described above.

Repossessed collateral

The table below presents the nature and carrying amount of assets that have been obtained by the Group during the year and are held at 31 December, 2011 and at 31 December, 2010, either by taking possession of collateral held as security or by activating other credit enhancements which satisfy the criteria of recognition of other standards.

	2011 € '000	2010 € '000
Land	**14.073**	60.196
Buildings	**29.847**	79.062
Other	**94.472**	5.799
	138.392	145.057

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Concentration of risks of financial assets with credit risk

(a) Geographical sectors

The table below analyses the Group's main credit exposures at carrying amount, as categorised by geographical region. For this table, the Group has allocated exposures to regions, based on the country of domicile of the counterparties.

	Cyprus € '000	Greece € '000	Other Eurozone countries[1] € '000	CEE countries[2] € '000	Other countries € '000	Total € '000
On-balance sheet assets:						
Balances with Central Banks (Note 16)	167.833	231.774	50.680	187.599	175.077	812.963
Due from other banks (Note 17)	23.835	78.362	161.178	30.353	395.841	689.569
Financial assets at fair value through profit or loss:						
Debt securities (Note 19)	6.390	7.217	3.477	-	434	17.518
Derivative financial instruments with positive fair value (Note 19)	531	38.463	37.558	165	52.465	129.182
Advances to customers:						
Advances to individuals	2.720.950	3.764.927	47.875	247.220	547.200	7.328.172
Advances to corporate entities:						
Large corporate customers	2.298.207	3.791.264	255.395	1.398.625	1.691.656	9.435.147
Small and medium size enterprises	4.190.648	2.991.168	303.062	333.742	196.684	8.015.304
Debt securities lending (Note 22)	46.755	1.023.495	67.145	130.626	501.164	1.769.185
Available-for-sale financial assets - debt securities (Note 23)	123.835	144.012	718.404	231.319	324.650	1.542.220
Held-to-maturity financial assets (Note 24)	167.120	225.831	329.134	98.279	69.091	889.455
Other assets	13.908	319.721	20.029	3.413	4.189	361.260
Total on-balance sheet	9.760.012	12.616.234	1.993.937	2.661.341	3.958.451	30.989.975
Off-balance sheet items:						
Acceptances (Note 44)	133.695	206	7.814	1.002	2.111	144.828
Guarantees (Note 44)	767.690	406.126	13.597	40.369	11.123	1.238.905
Amount of unutilised credit facilities (Note 44)	7.762	12	78.978	38.245	16.045	141.042
Total off-balance sheet	909.147	406.344	100.389	79.616	29.279	1.524.775
31 December 2011	10.669.159	13.022.578	2.094.326	2.740.957	3.987.730	32.514.750
31 December 2010	11.473.236	16.930.681	4.995.673	2.108.006	5.699.258	41.206.854

(1) **Other Eurozone countries:** Belgium, Germany, Ireland, Spain, France, Italy, Luxemburg, Malta, The Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

(2) **CEE Countries:** Estonia, Latvia, Lithuania, Poland, Czech Republic, Hungary, Romania, Croatia, Bosnia-Herzegovina, Serbia, Kosovo, Albania, Montenegro, Bulgaria, Russia and Ukraine.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Concentration of risks of financial assets with credit risk (continued)

(b) Industry sectors

The table below analyses the Group's main credit exposures at carrying amount, as categorised by the industry sectors in which counterparties operate.

	Manu-facturing € '000	Tourism € '000	Trade € '000	Property and construction € '000	Personal, professional and home loans € '000	Financial institutions € '000	Shipping € '000	Other sectors € '000	Total € '000
On-balance sheet assets:									
Balances with Central Banks (Note 16)	-	-	-	-	-	812.809	-	154	812.963
Due from other banks (Note 17)	-	-	-	-	-	689.553	-	16	689.569
Financial assets at fair value through profit or loss:									
Debt securities (Note 19)	-	256	-	-	-	9.045	-	8.217	17.518
Derivative financial instruments with positive fair value (Note 19)	-	-	87	-	-	90.233	-	38.862	129.182
Advances to customers:									
Advances to individuals	30.869	46.577	139.417	88.590	6.949.370	-	-	73.349	7.328.172
Advances to corporate entities:									
Large corporate customers	326.021	262.943	1.151.549	1.672.038	1.037.838	345.700	1.919.092	2.719.966	9.435.147
Small and medium size enterprises	706.488	960.745	1.791.886	2.603.192	968.558	31.305	-	953.130	8.015.304
Debt securities lending (Note 22)	-	-	-	-	-	1.197.308	-	571.877	1.769.185
Available-for-sale financial assets - debt securities (Note 23)	27.208	1.198	1.988	949	106	463.443	-	1.047.328	1.542.220
Held-to-maturity financial assets (Note 24)	-	-	-	-	328.640	362.181	-	198.634	889.455
Other assets	435	-	493	367	3	232.775	-	127.187	361.260
Total on-balance sheet	**1.091.021**	**1.271.719**	**3.085.420**	**4.365.136**	**9.284.515**	**4.234.352**	**1.919.092**	**5.738.720**	**30.989.975**
Off-balance sheet items:									
Acceptances (Note 44)	15.605	-	38.631	4.213	35.888	7.681	-	42.810	144.828
Guarantees (Note 44)	88.418	51.253	175.254	525.190	77.780	86.368	-	234.642	1.238.905
Amount of unutilised credit facilities (Note 44)	12.863	1.557	31.444	69.510	10.439	151	-	15.078	141.042
Total off-balance sheet	**116.886**	**52.810**	**245.329**	**598.913**	**124.107**	**94.200**	**-**	**292.530**	**1.524.775**
31 December 2011	**1.207.907**	**1.324.529**	**3.330.749**	**4.964.049**	**9.408.622**	**4.328.552**	**1.919.092**	**6.031.250**	**32.514.750**
31 December 2010	1.247.035	1.318.960	3.396.568	5.022.853	10.268.325	9.246.872	1.810.040	8.896.201	41.206.854

45. FINANCIAL RISK MANAGEMENT (continued)

COUNTERPARTY BANKS' RISK

The Group runs the risk of loss of funds due to the possibility that a counterparty (i.e. a bank) with which the Group enters into a specific transaction, defaults before the final settlement of the transaction.

This risk may include derivative transactions, interbank transactions and capital market transactions.

To monitor and manage this risk effectively, the Group has established appropriate counterparty limits, which take as their basis the maximum acceptable limits for risk assumption and the business needs of each subsidiary, as well as the Group as a whole.

As a result of the current distressed economic and banking environment, particularly in the eurozone, the Group has proceeded with reduction in the number of counterparty banks as well as in counterparty limits.

Emphasis is given to counterparty banks that have:

- stable and healthy financial position,
- satisfactory credit rating from global rating agencies,
- significant position with respect to the market share possessed in the local market,
- satisfactory financial robustness and healthy macroeconomic data of the local economy they operate, and
- the ability of governments to support the counterparty banks, if necessary.

The Risk Management Division monitors on a daily basis the world financial developments, the financial announcements of counterparty banks, as well as, the changes of their credit ratings from global rating agencies and acts accordingly.

Roles and responsibilities

The Risk Management Division is responsible for setting prudent and appropriate policies, procedures and common risk methodologies for controlling, evaluating and measuring all major sources of counterparty bank risk embedded in the Group's operations. The Risk Management Committee and/or the Group Market Risk Committee have the responsibility for approving the limit framework for counterparty bank risk, the Group risk profile and the relative risk management strategies, policies and risk methodologies.

Upon approval of limits these are communicated to the respective Treasury location. For international operations, the responsibility for monitoring this risk is performed by local Risk Management Units.

Policies and procedures

The Group's Market Risk Manual describes the principles of managing and controlling counterparty bank risk, sets the responsibilities of the relevant authorities and describes the procedures of allocating limits and monitoring counterparty risk. Also, a Market Risk Methodology Manual exists which describes the methodologies and formulae used to calculate credit risk exposure to counterparties.

Measurement assessment and control

The Bankscope credit risk model is the basis for the Group's rating system, which sets the maximum allowable Group limits on the basis of a score derived as a result of assessment of specific quantitative and qualitative criteria. The total score is multiplied by the own funds of the counterparty in order to calculate the maximum allowable limit. A secondary analysis of each counterparty creditworthiness and financial condition is supplemented by the Moody's credit rating reports, as well as reports from other global rating agencies. In addition, other factors, which are taken into account, include:

- requirements imposed by regulatory authorities,
- the credit rating of the counterparties and the rating of country of operation, and
- the current financial environment and market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

COUNTERPARTY BANKS' RISK (continued)

Monitoring and reporting

The Group monitors and controls limits and excesses while it consolidates major exposures on a frequent basis.

Positions against counterparty limits are monitored daily. The review of the limits per counterparty takes place once a year and if necessary, these are revised earlier depending on the Group's strategy and prevailing market conditions, following their approval by the relevant authorities.

COUNTRY RISK

Country risk is the risk that the Group may suffer a loss and involves various risks that may be generated at country level as a result of political or economic events. These include political risk as well as social upheaval, risk of government default (due to severe deterioration of macroeconomic conditions), inability of converting local currency to any major currency (convertibility risk) and transferring it out of the country (transferability risk) due to direct sovereign intervention. Accordingly, country risk incorporates every kind of cross-border financing in a country, whether the financing concerns the central government, a financial institution, corporations or individuals.

Roles and responsibilities

The Group Executive Committee, the Group Risk Committee and the Group Market Risk Committee ensure that any approved business decisions regarding the Group's international operations have taken into account country risk considerations and that they are in line with the Group's strategy and desired risk profile. The Risk Management Division and Risk Management Units of subsidiaries are responsible for ensuring that all required systems are in place in order to measure, report and monitor country risk exposures accurately and promptly.

Policies and procedures

The Group Risk Management Committee has approved the Group Country Risk Policy Manual, which is applicable at Group level and sets general standards for the management of country risk, including roles and responsibilities, evaluation of country risk, measurement, monitoring and reporting.

Measurement and control

In light of the economic developments stemming from the current deteriorating economic, fiscal and financial instabilities in the eurozone and the subsequent and continuous downgrades of a majority of European sovereigns, the Group is taking the necessary measures and re-evaluates at regular intervals the risk and the limits of each country. To this respect, the Group, as with counterparty bank limits, has proceeded with the reduction of country limits depending on:

- the degree that the country has been affected by the global macroeconomic backdrop,
- the actions taken and the relative strengths of each country,
- the support that the country receives from other countries and whether the country belongs to any organisations which will support it, if necessary,
- the general macroeconomic, social and political environment, and
- the rating given by international credit rating organisations and relevant reports provided by institutional organisations.

45. FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK

Interest rate risk is defined as the exposure of a bank's financial condition to adverse movements in interest rates since the financial position and the cashflows of the Group are exposed to risk from the effects of the movements of the prevailing market interest rates.

Interest rate risk management aims to protect the net asset value of Group entities and optimise their interest margins. Net asset value and interest margins vary according to the sensitivity of net present values and cash flows on financial instruments, held on or off the balance sheet, to changes in interest rates. This sensitivity arises when the interest rate reset dates on assets and liabilities do not coincide.

The primary form of interest rate risk for the Group is considered to be the repricing risk, which arises from its banking book and the timing differences in the maturity (for fixed rate) and repricing date (for floating rate) of assets, liabilities and off-balance sheet positions. As a result of interest rate fluctuations, the changes in the fair value of financial instruments and the interest rate margins may create losses. A secondary source of interest rate risk arises from the Group's trading and available-for-sale bond portfolios, as well as the interest rate related products.

Roles and responsibilities

The Group Asset and Liability Committee (GALCO), the Group Risk Management Committee (GRMC) and/or the Group Market Risk Committee (GMRC) approve the interest rate risk strategy, policy and limits. The maximum loss limits are defined on a Group level and on a subsidiary level. The allocation of limits to subsidiaries takes place by taking into account the size, the experience, the nature of operations, the market nature where they operate, contribution to net income and interest received, the level of capital and equity and other special features of every subsidiary, as well as, the stress testing scenarios. The GALCO and GRMC review the Group's interest rate risk profile.

Policies and procedures

The Group Interest Rate Risk Policy Manual describes the risk management practices and guidelines for effective measurement, management and monitoring of interest rate risk.

Measurement

The main methodologies for measuring, monitoring and managing interest rate risk is the Present Value of a Basis Point methodology (PVBP) and the Static Repricing Gap methodology in order to assess the interest rate risk exposure of the banking book and trading book.

The Group's interest rate gaps measure the surplus or deficit on sources of fixed-rate funds. By convention, a positive/(negative) figure represents a downside/(upside) risk on interest rates in the year concerned. The figure indicates the economic sensitivity to a change in interest rates.

Interest rate risk exposures are mainly created from the retail and corporate activity and are usually hedged through transactions in derivative products (mainly interest rate swaps) or in the interbank market. In addition, there is limited activity in the trading book, with positions in capital market securities and interest rate futures.

Exposure calculations and associated limit structures are used for monitoring:

- interest rate risk exposure in each currency per predefined time period,
- interest rate risk total exposure in each main currency,
- interest rate risk exposure in all currencies per predefined time period, and
- interest rate risk total exposure in all periods and all currencies.

In addition to the monitoring of interest rate gaps, the Group's Risk Management Division is also monitoring the sensitivity of the value of financial assets and liabilities and the net interest income by applying different scenarios of interest rate risk changes.

Approved limits are monitored on a frequent basis and reviewed at least annually and amended whenever necessary according to the strategy of the Group and the prevailing market conditions, after the approval by the eligible authorities. Moreover, at regular time intervals interest rate risk exposure is evaluated by using stress test scenarios in order to evaluate potential gains/losses that may arise under stressed conditions at Bank level and at Group level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

Measurement (continued)

The Group also employs the Value at Risk methodology (VaR). Specifically, for assessing the VaR for trading and available-for-sale activities, the Group uses the variance – covariance methodology at a confidence level of 99% and a holding period of one day.

The VaR is calculated on a daily basis for the Group's trading and available-for-sale portfolios along with the VaR per risk type (i.e. interest rate risk, credit spread risk, equity risk and foreign currency risk). The Group also performs back testing in order to verify the predictive power of the VaR model. Further to the VaR model, the Group performs stress testing on a quarterly basis. Such stress testing scenarios aim to evaluate gains/losses that may occur under extreme market conditions.

The table below presents the impact on net interest income and impact on fair value of financial instruments of the Group from significant movements on interest rates of all currencies that the Group is exposed to.

	Euro € '000	United States Dollar € '000	Sterling Pound € '000	Other currencies € '000	Total € '000
2011					
Impact on net interest income:					
+200 b.p. in all currencies	**72.900**	**900**	**4.700**	**5.300**	**83.800**
-200 b.p. in all currencies	**(18.200)**	**-**	**(1.200)**	**(1.500)**	**(20.900)**
Impact on fair value of financial instruments:					
+200 b.p. in all currencies	**(97.400)**	**(2.600)**	**2.500**	**7.700**	**(89.800)**
-200 b.p. in all currencies	**24.300**	**100**	**(600)**	**(8.100)**	**15.700**
2010					
Impact on net interest income:					
+200 b.p. in all currencies	82.300	4.400	(600)	3.900	90.000
-200 b.p. in all currencies	(20.600)	(200)	100	-	(20.700)
Impact on fair value of financial instruments:					
+200 b.p. in all currencies	71.400	(33.800)	4.800	9.400	51.800
-200 b.p. in all currencies	(17.800)	1.700	(1.200)	(9.600)	(26.900)

A parallel 200 basis points (2010: 200 basis points) increase in market interest rates across all currencies, applied to the Group's balance sheet banking book as at 31 December, 2011, would result in an increase in yearly net interest income by € 83,8 m (2010: € 90,0 m) and a decrease in the fair value of financial instruments by € 89,8 m (2010: € 51,8 m increase). For those currencies where the base interest rate levels were below 2% (Euro, United States Dollar, Sterling Pound and Japanese Yen) a parallel decrease averaging approximately 1% and varying on a case by case basis would result in a decrease in yearly net interest income by € 20,9 m (2010: € 20,7 m) and an increase in the fair value of financial instruments by € 15,7 m (2010: € 26,9 m decrease). For the above sensitivity analysis for those currencies where the base interest rate was above 2%, a parallel 200 basis points (2010: 200 basis points) decrease was used.

The following tables summarise the Group's exposure to interest rate risk. Included in the tables are the Group's assets and liabilities at carrying amounts categorised by contractual repricing date for floating rate items and maturity date for fixed rate items. The tables also present the notional amount of interest rate derivatives, which are used to reduce the Group's exposure to interest rate movement.

45. FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

Measurement (continued)

	Up to 1 month € '000	Over 1 month but less than 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 5 years € '000	Over 5 years € '000	Non-interest bearing € '000	Total € '000
2011							
Assets							
Cash and balances with Central Banks	812.963	-	-	-	-	221.123	1.034.086
Due from other banks	675.959	12.667	927	16	-	-	689.569
Financial assets at fair value through profit or loss	38.523	12.512	123	3.240	410	179.697	234.505
Advances to customers	17.297.403	4.069.650	1.820.816	1.310.544	280.210	-	24.778.623
Debt securities lending	160.185	741.934	106.814	510.942	249.310	-	1.769.185
Available-for-sale financial assets	164.381	233.465	117.314	371.340	655.720	248.985	1.791.205
Held-to-maturity financial assets	319.286	272.581	190.142	70.521	36.925	-	889.455
Other assets	6.105	1.567	-	-	189	1.324.680	1.332.541
Investments in associates	-	-	-	-	-	115.741	115.741
Intangible assets	-	-	-	-	-	797.780	797.780
Investment property	-	-	-	-	-	38.056	38.056
Property and equipment	-	-	-	-	-	291.232	291.232
Total assets	19.474.805	5.344.376	2.236.136	2.266.603	1.222.764	3.217.294	33.761.978
Liabilities							
Due to other banks	10.259.685	34.370	7.003	312	-	-	10.301.370
Customer deposits	11.754.391	3.911.593	4.069.149	378.713	46.958	-	20.160.804
Senior debt	444	20.481	332.194	22.988	-	-	376.107
Loan capital	-	613.598	-	612.339	107.790	-	1.333.727
Other liabilities	88.851	103	1.728	381	2.885	598.482	692.430
Retirement benefit obligations	-	-	-	-	-	296.982	296.982
Total liabilities	22.103.371	4.580.145	4.410.074	1.014.733	157.633	895.464	33.161.420
Net on-balance sheet position	(2.628.566)	764.231	(2.173.938)	1.251.870	1.065.131		
Net notional position of derivative financial instruments	1.052.977	934.888	103.126	(1.067.455)	(1.023.536)		
Net interest sensitivity gap	(1.575.589)	1.699.119	(2.070.812)	184.415	41.595		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

Measurement (continued)

	Up to 1 month € '000	Over 1 month but less than 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 5 years € '000	Over 5 years € '000	Non-interest bearing € '000	Total € '000
2010							
Assets							
Cash and balances with Central Banks	512.659	-	-	-	-	200.920	713.579
Due from other banks	4.430.639	249.051	16.388	29	5	-	4.696.112
Financial assets at fair value through profit or loss	45.274	16.731	87	14.028	2.097	151.119	229.336
Advances to customers	17.824.760	4.260.142	2.226.442	1.564.467	541.522	-	26.417.333
Debt securities lending	174.722	1.851.079	138.863	669.222	1.126.902	-	3.960.788
Available-for-sale financial assets	145.270	275.072	115.021	649.128	788.551	305.369	2.278.411
Held-to-maturity financial assets	518.733	498.231	241.590	180.057	41.435	-	1.480.046
Other assets	61.374	717	-	-	-	634.932	697.023
Investments in associates	-	-	-	-	-	113.600	113.600
Intangible assets	-	-	-	-	-	1.634.734	1.634.734
Investment property	-	-	-	-	-	68.322	68.322
Property and equipment	-	-	-	-	-	291.202	291.202
Total assets	23.713.431	7.151.023	2.738.391	3.076.931	2.500.512	3.400.198	42.580.486
Liabilities							
Due to other banks	5.549.746	5.055.788	44.020	296	-	-	10.649.850
Customer deposits	14.474.951	5.580.589	4.772.665	619.392	60.764	-	25.508.361
Senior debt	6.518	20.420	50.933	399.766	-	-	477.637
Loan capital	-	1.152.663	-	8.960	106.308	-	1.267.931
Other liabilities	71.190	109	591	254	2.895	675.314	750.353
Retirement benefit obligations	-	-	-	-	-	284.980	284.980
Total liabilities	20.102.405	11.809.569	4.868.209	1.028.668	169.967	960.294	38.939.112
Net on-balance sheet position	3.611.026	(4.658.546)	(2.129.818)	2.048.263	2.330.545		
Net notional position of derivative financial instruments	1.437.759	1.532.643	1.171.495	(2.120.842)	(2.021.055)		
Net interest sensitivity gap	5.048.785	(3.125.903)	(958.323)	(72.579)	309.490		

A significant part of the interest rate exposure is hedged through interest rate swaps instruments, part of which are classified as hedge effective under IFRS 7.

45. FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK

It relates to the risk of fluctuations in the value of future cash flows of financial instruments and assets and liabilities due to changes in exchange rates. Currency risk arises from an open position, either overbought or oversold, in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or forward exchange derivative.

Foreign exchange risk is treated differently depending on whether the currency position is structural or operational. The Group's structural foreign exchange risk arises from long-term investments by the Group in assets denominated in foreign currencies with the Group's reference currency – being the Euro. Operational foreign currency risk arises mainly from revenues and expenses that derive from trading activities of all kinds that are denominated in currencies other than the Euro.

Roles and responsibilities

The Risk Management Division is responsible for setting prudent and appropriate policies, procedures and common risk methodologies for controlling, evaluating and measuring currency risk embedded in Group operations. The Risk Management Committee has the responsibility to approve the limit framework for currency risk and the relative policies and risk methodologies. The Group Asset and Liability Committee and Risk Management Committee review the foreign exchange risk profile.

Policies and procedures

Internal policies and procedures are set so as to take into consideration and adhere to the foreign exchange position limits prescribed by the Central Bank of Cyprus, overseas regulators as well as the risk apetite of the Group.

Measurement and control

The Group enters into foreign exchange transactions in order to accommodate customer needs for hedging its own exposure and for trading purposes in major currencies. The Group's Treasury and overseas Treasuries also enter into spot foreign exchange transactions within predefined and approved limits, as well as into derivative products in foreign exchange futures, forwards and options. The total position arises from the net on balance sheet position and net notional derivatives position.

The following exposure calculations and associated limit structures are used for monitoring:

- open position by currency – net long/short position of each currency,
- Value at Risk limits,
- total net short position, and
- maximum loss limits – maximum level of losses resulting from foreign exchange fluctuations on a daily/monthly/yearly basis.

The Group employs the Value at Risk methodology (VaR). Specifically for assessing the VaR for all portfolios, the Group uses the variance-covariance methodology at a confidence level of 99% and a holding period of one day.

The Group also performs stress testing on a regular basis for currency risk. Such stress testing scenarios aim to evaluate gain/loss that may occur under extreme market conditions at both Group and Bank levels.

Monitoring and reporting

The maximum potential loss is calculated from the open positions in different currencies by working on stress testing scenarios. These scenarios assume extreme fluctuations in all currencies in a way that could adversely affect the Group's profitability. The approved limits are monitored and controlled regularly and reviewed at least annually, but limits may be modified, if necessary, according to the strategy of the Group and the prevailing market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK (continued)

Monitoring and reporting (continued)

The table below represents the Group's currency risk which stems from open currency positions maintained in several currencies. The analysis below assumes possible scenarios of movements considered possible to take place for exchange rates against the Euro. The possibility of change for all scenarios below has been assessed based on historic exchange rate movements and empirical estimations.

	Change in exchange rate %	Impact on consolidated income statement € '000	Impact on equity € '000
2011			
Currency			
United States Dollar	**5**	**(3.041)**	**(15.655)**
Sterling Pound	**5**	**19**	**18.577**
Australian Dollar	**5**	**(308)**	**(218)**
Ukrainian Hryvnia	**10**	**5.741**	**8.923**
Romanian Lei	**10**	**2.929**	**8.184**
Russian Roubles	**10**	**38**	**4.581**
Serbian Dinar	**10**	**481**	**6.053**
Other	**10**	**174**	**16.300**
Currency			
United States Dollar	**(5)**	**3.041**	**15.655**
Sterling Pound	**(5)**	**(19)**	**(18.577)**
Australian Dollar	**(5)**	**308**	**218**
Ukrainian Hryvnia	**(10)**	**(5.741)**	**(8.923)**
Romanian Lei	**(10)**	**(2.929)**	**(8.184)**
Russian Roubles	**(10)**	**(38)**	**(4.581)**
Serbian Dinar	**(10)**	**(481)**	**(6.053)**
Other	**(10)**	**(174)**	**(16.300)**
2010			
Currency			
United States Dollar	5	(1.587)	(2.018)
Sterling Pound	5	128	111
Australian Dollar	5	(361)	550
Ukrainian Hryvnia	10	4.621	8.358
Romanian Lei	10	82	3.776
Russian Roubles	10	164	3.115
Serbian Dinar	10	1.504	8.468
Other	10	1.730	(192)
Currency			
United States Dollar	(5)	1.587	2.018
Sterling Pound	(5)	(128)	(111)
Australian Dollar	(5)	361	(550)
Ukrainian Hryvnia	(10)	(4.621)	(8.358)
Romanian Lei	(10)	(82)	(3.776)
Russian Roubles	(10)	(164)	(3.115)
Serbian Dinar	(10)	(1.504)	(8.468)
Other	(10)	(1.730)	192

The following table summarises the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The table also presents the notional amount of foreign exchange derivatives, which are used to reduce the Group's exposure to currency movements, categorised by currency.

45. FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK (continued)

Monitoring and reporting (continued)

2011	Euro € '000	United States Dollar € '000	Sterling Pound € '000	Australian Dollar € '000	Other currencies € '000	Total € '000
Assets						
Cash and balances with Central Banks	718.037	14.335	181.173	910	119.631	1.034.086
Due from other banks	478.038	76.261	32.382	24.161	78.727	689.569
Financial assets at fair value through profit or loss	136.043	94.926	2.293	243	1.000	234.505
Advances to customers	19.341.482	2.864.239	904.961	413	1.667.528	24.778.623
Debt securities lending	1.607.155	162.030	-	-	-	1.769.185
Available-for-sale financial assets	1.410.536	303.503	17.390	19.817	39.959	1.791.205
Held-to-maturity financial assets	801.724	19.994	-	-	67.737	889.455
Other assets	1.211.155	8.023	16.599	188	96.576	1.332.541
Investments in associates	113.731	2.010	-	-	-	115.741
Intangible assets	792.360	-	455	-	4.965	797.780
Investment property	26.031	-	-	-	12.025	38.056
Property and equipment	254.929	-	9.139	-	27.164	291.232
Total assets	26.891.221	3.545.321	1.164.392	45.732	2.115.312	33.761.978
Liabilities						
Due to other banks	10.091.280	138.783	8.247	23.317	39.743	10.301.370
Customer deposits	14.293.061	4.149.158	723.178	201.352	794.055	20.160.804
Senior debt	355.182	20.481	-	-	444	376.107
Loan capital	1.277.640	56.087	-	-	-	1.333.727
Other liabilities	621.690	32.403	8.058	526	29.753	692.430
Retirement benefit obligations	295.484	-	1.498	-	-	296.982
	26.934.337	4.396.912	740.981	225.195	863.995	33.161.420
Non-controlling interests	84.567	-	-	-	21.831	106.398
Equity	592.095	(268)	13.447	-	(111.114)	494.160
Total liabilities and equity	27.610.999	4.396.644	754.428	225.195	774.712	33.761.978
Net on-balance sheet position	(719.778)	(851.323)	409.964	(179.463)	1.340.600	
Net notional position of derivative financial instruments	225.297	538.217	(38.429)	175.105	(900.190)	
Net currency position	(494.481)	(313.106)	371.535	(4.358)	440.410	
Off-balance sheet items:						
Acceptances	143.979	171	-	-	678	144.828
Guarantees	1.160.854	42.876	8.631	1.032	25.512	1.238.905
Amount of unutilised credit facilities	80.239	819	23.794	-	36.190	141.042
Total off-balance sheet	1.385.072	43.866	32.425	1.032	62.380	1.524.775
2010						
Total assets	32.378.043	6.132.294	1.034.505	793.931	2.241.713	42.580.486
Total liabilities and equity	33.941.637	5.757.309	1.169.604	926.481	785.455	42.580.486
Net on-balance sheet position	(1.563.594)	374.985	(135.099)	(132.550)	1.456.258	
Net notional position of derivative financial instruments	1.355.415	(415.335)	137.327	143.548	(1.220.955)	
Net currency position	(208.179)	(40.350)	2.228	10.998	235.303	
Off-balance sheet items:						
Acceptances	380.915	890	4.397	-	886	387.088
Guarantees	1.221.415	49.899	11.672	10.651	19.445	1.313.082
Amount of unutilised credit facilities	83.114	650	45.120	47.946	28.751	205.581
Total off-balance sheet	1.685.444	51.439	61.189	58.597	49.082	1.905.751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

RISK FROM CHANGES IN THE PRICES OF EQUITY SECURITIES AND OTHER FINANCIAL ASSETS

Equity risk is the risk which relates to the potential loss which may occur from adverse changes in the prices of equity securities and other financial assets prices owned by the Group. Depending on the purpose of acquisition the investments are classified in the appropriate portfolio. The instruments most exposed to risk are equity securities and equity derivative instruments. The Group Risk Management Committee, the Group Market Risk Committee and the Group Asset and Liability Committee receive information for monitoring this risk. The Group uses VaR methodology and position limits to monitor this specific risk.

For the equity securities that are measured at fair value through profit or loss, a change in the price affects the profit of the Group, whereas for the equity securities classified as available-for-sale, a change in the price affects the equity of the Group. The Group periodically holds a portfolio of equity derivatives (i.e. equity options and futures) which primarily serves as a mechanism to hedge the equity risk. The table below indicates how the profit before tax and equity before tax of the Group will be affected from a change in the price of the equity securities held.

	Available-for-sale			Held-for-trading			Designated at fair value through profit or loss at inception		
	Position € '000	Change in index or underlying variables for unlisted securities	Impact on equity before tax € '000	Position € '000	Change in index or underlying variables for unlisted securities	Impact on profit before tax € '000	Position € '000	Change in index or underlying variables for unlisted securities	Impact on profit before tax € '000
2011									
Equity securities and funds									
Listed on the Cyprus Stock Exchange	**16.629**	**25%**	**4.157**	**160**	**25%**	**40**	**-**	**-**	**-**
Listed on Athens Exchange	**72.437**	**25%**	**18.109**	**7.617**	**25%**	**1.904**	**-**	**-**	**-**
Listed on other Stock Exchanges	**17.494**	**15%**	**2.624**	**3**	**15%**	**-**	**-**	**-**	**-**
Not listed	**142.425**	**30%**	**42.728**	**112**	**30%**	**34**	**79.913**	**30%**	**23.974**
Total	**248.985**		**67.618**	**7.892**		**1.978**	**79.913**		**23.974**
2010									
Equity securities and funds									
Listed on the Cyprus Stock Exchange	18.388	25%	4.597	380	25%	95	-	-	-
Listed on Athens Exchange	122.564	25%	30.641	12.477	25%	3.119	-	-	-
Listed on other Stock Exchanges	20.378	15%	3.057	-	-	-	-	-	-
Not listed	144.195	30%	43.258	1.224	30%	367	83.032	30%	24.910
Total	305.525		81.553	14.081		3.581	83.032		24.910

The Group is not exposed to commodities price risk.

45. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost. Such risk involves both the risk of unexpected increases in the cost of funding and the risk of being unable to liquidate a position in a timely manner on reasonable terms. Liquidity risk arises from potential mismatches in the timing of cash flows. Liquidity risk may materialise in the event of massive withdrawals of customer deposits, a crisis of confidence or a general shortage of liquidity in the market (e.g. limited access to inter-bank, money market and bond markets).

The difficulties entered by certain eurozone countries in refinancing their debt led to the emergence of new tensions on refinancing markets as from the second quarter of 2011. Credit markets across Europe experienced a severe reduction in liquidity and funding in the aftermath of events of the Greek sovereign crisis and the current market dislocation. During the aftermath period, the perception of counterparty risk between banks increased significantly, thus leading to further reductions in the interbank lending, and hence, the Group's access to traditional sources of liquidity has been restricted. Consequently, the Group, like any other institution, suffered the consequences of the net rise in long-term spreads on wholesale market issues.

As a result of the market turbulence, reliance on short-term funding increased with a consequent deterioration in the Group's liquidity profile. In response, Central Bank of Cyprus increased liquidity through a number of facilities to support the banking system. Also, governments in general offered guarantees and increased deposit insurance to reassure investors and depositors.

Like other banks, the Group's ability to access sources of liquidity during the recent period of liquidity stress has been constrained to the point where it had to rely on short-term and overnight funding with a consequent reduction in overall liquidity and to increase its recourse to liquidity schemes provided by Central Banks.

In general, a substantial portion of the Group's assets is funded by customer deposits and loan capitals, covered bonds and European Central Bank (ECB) repo agreements. Savings and sight deposits cover immediate cash needs while long-term investment needs are usually covered by the issue of loan capital, senior debt and time deposits, covered bonds and other securitised assets. The Group monitors on a regular basis the levels of short and long term deposits so that these are maintained at comfortable levels as they consist the main funding source of the Group. The Group aims to achieve good long-term relationships of trust with its customers through competitive and transparent pricing strategies. Although certain deposits may be withdrawn on demand with no notice in advance, the large diversification by number and type of depositors helps to protect against unexpected fluctuations and constitutes a stable deposit base.

The Group, through Group Treasury wholesale funding desk, has in place a funding program to diversify its financing sources and prolong the maturity profile of its liabilities. Based on the prevailing market conditions and most efficient pricing, the Group is assessing the possibility to further expand its deposit base across all major regions, issue covered bonds and other wholesale assets, whilst at the same time an ongoing effort of portfolio rebalancing away from non-core exposures is already under way. At the same time, one of the main funding instruments used by the Group is via the ECB's conduct of weekly repo auctions (Main Refinancing Operations – MRO), as well as monthly longer term refinancing operations (LTRO).

Roles and responsibilities

The Board of Directors, the Group Risk Management Committee and the Group Market Risk Committee are responsible for the following:

- approve the Group's Liquidity Policy Manual,
- allocate to the appropriate senior managers the authority and responsibility to manage liquidity risk,
- monitor the liquidity profile of the Group, as well as any material changes in current or future liquidity profile, and
- review the contingency plans of the Group.

The members of the GALCO and Senior Management ensure that liquidity is effectively managed and that the appropriate liquidity strategies are formulated. Day-to-day liquidity management is performed by the local Treasuries. Medium term and long term liquidity management strategies of the Group are determined by the Group's Treasury and the respective actions are approved by the GALCO and/or the Group Executive Committee.

Policies and procedures

The Group Liquidity Management Policy Manual documents the policies and principles for the management of liquidity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Measurement and control

The Group manages to control the risk through a developed liquidity management structure comprising a diverse range of controls, procedures and limits. In this way, the Group complies with liquidity ratios set by banking regulators, as well as with internal limits.

The main liquidity ratios calculated by the Bank and by each subsidiary of the Group are the following:

- maturity mismatches between maturing assets and liabilities for time periods of up to one month (usually 0 – 7 days and 0 – 1 month), and

- ratio of liquid assets over borrowed funds.

Other criteria used to assess the liquidity profile are the following:

- liquid assets to total assets,

- advances to retail deposits,

- concentration risk on largest retail and interbank depositors,

- ability to access wholesale and interbank markets,

- assessment of the liquidity of capital markets investments and other liquid financial assets,

- ECB and third party repo funding, and

- the level of off-balance sheet liabilities.

In addition to the above, the liquidity status of the Group is assessed, using several different stress testing scenarios, i.e. the case where large part of deposits are withdrawn, the case where interbank borrowings are not renewed and the unsuccessful attempt to liquidate financial assets.

Monitoring and reporting

The Group Executive Committee, the Group Risk Management Committee and the Group Assets and Liabilities Committee receive regular reporting as to the liquidity position of the Group by the Risk Management Division.

The Group performs stress test scenarios on liquidity risk, while there are appropriate contingency plans in place.

Non-derivative cash flows

The following liquidity tables analyse the financial assets and financial liabilities of the Group into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date with exemption in some cases where behaviouralisations have been taken into account (i.e. all eligible with European Central Bank pledged assets are considered liquid and placed at the "Within 1 month" maturity period). The amounts disclosed in the tables are the contractual undiscounted cash flows and hence differ from the carrying amounts disclosed on the consolidated balance sheet.

45. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Non-derivative cash flows (continued)

	Within 1 month € '000	Over 1 month but less than 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 5 years € '000	Over 5 years € '000	Total € '000
2011						
Financial assets						
Cash and balances with Central Banks	**1.027.750**	**-**	**-**	**-**	**7.510**	**1.035.260**
Due from other banks	**428.797**	**84.945**	**86.936**	**87.011**	**2.101**	**689.790**
Financial assets at fair value through profit or loss	**83.301**	**97.822**	**15.948**	**18.237**	**24.465**	**239.773**
Advances to customers	**5.685.156**	**709.332**	**2.268.913**	**7.528.776**	**16.375.762**	**32.567.939**
Debt securities lending	**1.216.844**	**57.083**	**174.360**	**709.188**	**201.825**	**2.359.300**
Available-for-sale financial assets	**1.310.737**	**31.470**	**87.756**	**305.191**	**409.107**	**2.144.261**
Held-to-maturity financial assets	**567.232**	**9.683**	**65.400**	**141.826**	**171.042**	**955.183**
	10.319.817	**990.335**	**2.699.313**	**8.790.229**	**17.191.812**	**39.991.506**
Financial liabilities						
Due to other banks	**7.934.174**	**1.804.561**	**50.157**	**532.305**	**12.221**	**10.333.418**
Customer deposits	**11.385.328**	**4.063.729**	**4.383.996**	**416.606**	**55.666**	**20.305.325**
Senior debt	**1.780**	**4.005**	**336.991**	**46.631**	**-**	**389.407**
Loan capital	**6.101**	**13.014**	**41.122**	**1.345.945**	**121.128**	**1.527.310**
	19.327.383	**5.885.309**	**4.812.266**	**2.341.487**	**189.015**	**32.555.460**
Off-balance sheet items:						
Acceptances	**144.828**	**-**	**-**	**-**	**-**	**144.828**
Guarantees	**1.238.905**	**-**	**-**	**-**	**-**	**1.238.905**
Amount of unutilised credit facilities	**141.042**	**-**	**-**	**-**	**-**	**141.042**
	1.524.775	**-**	**-**	**-**	**-**	**1.524.775**
2010						
Financial assets						
Cash and balances with Central Banks	705.973	-	-	-	8.639	714.612
Due from other banks	4.248.664	242.193	119.811	96.537	53	4.707.258
Financial assets at fair value through profit or loss	88.374	91.056	14.614	21.644	13.648	229.336
Advances to customers	5.848.958	882.244	2.059.672	8.608.536	16.252.694	33.652.104
Debt securities lending	1.459.638	1.233.945	142.878	1.166.252	809.438	4.812.151
Available-for-sale financial assets	654.863	179.484	110.755	658.561	949.584	2.553.247
Held-to-maturity financial assets	898.805	344.936	108.251	196.067	490.264	2.038.323
	13.905.275	2.973.858	2.555.981	10.747.597	18.524.320	48.707.031
Financial liabilities						
Due to other banks	5.512.629	4.992.108	82.793	6.653	110.886	10.705.069
Customer deposits	14.293.605	5.469.808	5.428.355	363.010	138.261	25.693.039
Senior debt	7.921	57.437	14.716	433.909	-	513.983
Loan capital	2.920	10.078	446.368	872.215	133.319	1.464.900
	19.817.075	10.529.431	5.972.232	1.675.787	382.466	38.376.991
Off-balance sheet items:						
Acceptances	387.088	-	-	-	-	387.088
Guarantees	1.313.082	-	-	-	-	1.313.082
Amount of unutilised credit facilities	205.581	-	-	-	-	205.581
	1.905.751	-	-	-	-	1.905.751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Non-derivative cash flows (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and balances with Central Banks, treasury and other eligible bills, due from other banks and advances to customers. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

Derivative cash flows

The following liquidity tables analyse the cash flows arising from the Group's derivative financial instruments into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are contractual undiscounted cash flows and hence differ from the carrying amounts included in the consolidated balance sheet.

(a) Derivatives settled on a net basis

	Within 1 month € '000	Over 1 month but less than 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 5 years € '000	Over 5 years € '000	Total € '000
2011						
Derivatives held-for-trading:						
Foreign exchange derivatives	**42**	**-**	**(8)**	**-**	**-**	**34**
Interest rate derivatives	**(75)**	**(4.741)**	**(1.946)**	**275**	**(21.774)**	**(28.261)**
Other	**(37)**	**-**	**(9.248)**	**-**	**-**	**(9.285)**
	(70)	**(4.741)**	**(11.202)**	**275**	**(21.774)**	**(37.512)**
Derivatives held for hedging:						
Interest rate derivatives	**4.255**	**(12.395)**	**(33.438)**	**(142.218)**	**(29.108)**	**(212.904)**
	4.185	**(17.136)**	**(44.640)**	**(141.943)**	**(50.882)**	**(250.416)**
2010						
Derivatives held-for-trading:						
Foreign exchange derivatives	(42)	(37)	74	-	-	(5)
Interest rate derivatives	45	(5.683)	1.886	(6.940)	(156)	(10.848)
	3	(5.720)	1.960	(6.940)	(156)	(10.853)
Derivatives held for hedging:						
Interest rate derivatives	180	(4.245)	(6.928)	(14.372)	1.519	(23.846)
	183	(9.965)	(4.968)	(21.312)	1.363	(34.699)

45. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Derivative cash flows (continued)

(b) Derivatives settled on a gross basis

	Within 1 month € '000	Over 1 month but less than 3 months € '000	Over 3 months but less than 1 year € '000	Over 1 year but less than 5 years € '000	Over 5 years € '000	Total € '000
2011						
Derivatives held-for-trading:						
Foreign exchange derivatives						
Outflow	**(1.048.011)**	**(662.493)**	**(53.088)**	**(3.874)**	**-**	**(1.767.466)**
Inflow	**1.031.468**	**634.792**	**49.525**	**3.574**	**-**	**1.719.359**
Interest rate derivatives						
Outflow	**-**	**(250)**	**(848)**	**(20.039)**	**-**	**(21.137)**
Inflow	**-**	**70**	**283**	**18.655**	**-**	**19.008**
Derivatives held for hedging:						
Foreign exchange derivatives						
Outflow	**(4.351)**	**-**	**-**	**-**	**-**	**(4.351)**
Inflow	**4.245**	**-**	**-**	**-**	**-**	**4.245**
Total outflow	**(1.052.362)**	**(662.743)**	**(53.936)**	**(23.913)**	**-**	**(1.792.954)**
Total inflow	**1.035.713**	**634.862**	**49.808**	**22.229**	**-**	**1.742.612**
2010						
Derivatives held-for-trading:						
Foreign exchange derivatives						
Outflow	(1.795.210)	(818.780)	(233.484)	(81.994)	-	(2.929.468)
Inflow	1.774.473	801.953	225.766	77.316	-	2.879.508
Interest rate derivatives						
Outflow	(907)	(8.463)	(4.206)	(53.852)	(125.560)	(192.988)
Inflow	140	6.641	1.366	73.099	210.632	291.878
Derivatives held for hedging:						
Foreign exchange derivatives						
Outflow	(9.866)	-	-	-	-	(9.866)
Inflow	9.821	-	-	-	-	9.821
Interest rate derivatives						
Outflow	(7.124)	(27.293)	(87.426)	(301.849)	(150.466)	(574.158)
Inflow	5.107	9.238	35.369	195.255	142.301	387.270
Total outflow	(1.813.107)	(854.536)	(325.116)	(437.695)	(276.026)	(3.706.480)
Total inflow	1.789.541	817.832	262.501	345.670	352.933	3.568.477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Differences can therefore arise between carrying values and fair values. The definition of fair value assumes that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted market prices or to prices prevailing for similar financial instruments.

With reference to the above, the carrying value of the Group's assets and liabilities is not materially different from their fair value with the exception of held-to-maturity financial assets and debt securities lending.

(a) Due from/to other banks
Due from/to other banks include inter-bank placements and items in the course of collection. The fair value of floating as well as fixed rate placements closely approximates their carrying value since their average maturity is approximately one month.

(b) Advances to customers
Advances to customers are presented net of provisions for impairment. The vast majority of advances earns interest at floating rates and hence their fair value approximates carrying value.

(c) Held-to-maturity financial assets
The fair value of held-to-maturity financial assets amounts to € 772.709.000 (2010: € 1.437.938.000). Fair value for held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(d) Debt securities lending
The fair value of debt securities lending amounts to € 1.483.705.000 (2010: € 3.195.073.000). Fair value for debt securities lending is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(e) Customer deposits
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed as well as floating interest-bearing deposits closely approximates their carrying value since their average maturity is less than one year.

(f) Senior debt
The fair value of senior debt is disclosed in Note 33.

(g) Loan capital
The fair value of loan capital is disclosed in Note 34.

45. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Fair value of financial instruments in Levels

The Group uses 3 Levels for determining and disclosing fair value: (a) Level 1, where valuation takes place using quoted prices in active markets, (b) Level 2, where valuation takes place using models for which all inputs which have a significant effect on fair value are market observable and (c) Level 3, where valuation takes place using models for which inputs with a significant effect on fair value are not based on observable market data.

The tables below present financial instruments recorded at fair value according to the above 3 Levels of valuation.

	Level 1 € '000	Level 2 € '000	Level 3 € '000	Total € '000
2011				
Financial assets				
Financial assets at fair value through profit or loss				
Held-for-trading				
Debt	11.506	6.012	-	17.518
Equities and funds	7.781	-	111	7.892
Derivative financial instruments	3.493	125.689	-	129.182
Designated at fair value through profit or loss at inception				
Equities and funds	-	79.913	-	79.913
Available-for-sale financial assets				
Debt	1.452.614	89.503	103	1.542.220
Equities and funds	40.803	114.507	93.675	248.985
Other assets				
Hedging derivative financial instruments	-	7.148	-	7.148
	1.516.197	422.772	93.889	2.032.858
Financial liabilities				
Other liabilities				
Trading derivative financial instruments	2.113	131.115	-	133.228
Hedging derivative financial instruments	-	179.460	-	179.460
	2.113	310.575	-	312.688

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Fair value of financial instruments in Levels (continued)

	Level 1 € '000	Level 2 € '000	Level 3 € '000	Total € '000
2010				
Financial assets				
Financial assets at fair value through profit or loss				
Held-for-trading				
Debt	33.886	3.718	-	37.604
Equities and funds	14.081	-	-	14.081
Derivative financial instruments	6.015	88.604	-	94.619
Designated at fair value through profit or loss at inception				
Equities and funds	-	83.032	-	83.032
Available-for-sale financial assets				
Debt	1.717.111	255.709	66	1.972.886
Equities and funds	86.437	148.818	70.270	305.525
Other assets				
Hedging derivative financial instruments	-	12.412	-	12.412
	1.857.530	592.293	70.336	2.520.159
Financial liabilities				
Other liabilities				
Trading derivative financial instruments	8.061	99.633	-	107.694
Hedging derivative financial instruments	-	172.817	-	172.817
	8.061	272.450	-	280.511

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

	Held-for-trading	Available-for-sale financial assets	
	Equities and funds € '000	Debt € '000	Equities and funds € '000
2011			
Balance 1 January	**-**	**66**	**70.270**
Total gain/(loss):			
Consolidated income statement	**11**	**-**	**(68.708)**
Other comprehensive income	**-**	**-**	**58.816**
Additions	**1.135**	**-**	**28.873**
Disposals	**(1.035)**	**-**	**(5.201)**
Transfer into Level 3	**-**	**37**	**9.625**
Balance 31 December	**111**	**103**	**93.675**
2010			
Balance 1 January	-	66	102.774
Total loss:			
Consolidated income statement	-	-	(1.580)
Other comprehensive income	-	-	(35.118)
Additions	-	-	7.032
Disposals	-	-	(2.838)
Balance 31 December	-	66	70.270

45. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Sensitivity analysis of Level 3 items

	Impact on consolidated income statement		Impact on equity	
	Favourable changes € '000	**Unfavourable changes € '000**	**Favourable changes € '000**	**Unfavourable changes € '000**
2011				
Available-for-sale financial assets	**-**	**3.165**	**-**	**19.906**
2010				
Available-for-sale financial assets	-	805	17.153	16.187

Favourable changes reflect the positive changes/impacts that relate to the security and that may take place and result in the increase of the value of the security. On the other hand, unfavourable changes reflect the negative changes/impacts that relate to the security and that may take place and result in the decrease of the value of the security.

In order to decide which elements/variables we need to change (i.e. share prices, NAVs, interest rates, exchange rates, etc) for arriving at the favourable and unfavourable scenarios will depend on the valuation method we use for valuing each instrument/security. Regarding the Group, all Level 3 items are equities and funds and therefore the variables that need to be changed are either share prices or net asset values (NAVs). The impact on impaired assets goes through the consolidated income statement, whilst the impact on any asset which was not impaired affect equity. The methodology applied to calculate the impact in both cases is simply the summation of each and every Level 3 asset multiplied by a pre-specified rate depending on whether it is listed or not listed.

CAPITAL MANAGEMENT

The capital adequacy of the Group is monitored based on the Directive for the Computation of Capital Requirements and Large Exposures ("Directive") issued by the Central Bank of Cyprus in December 2006. With this Directive, the Central Bank of Cyprus adopted the provisions of the European Union's Capital Requirements Directive. The Capital Requirements Directive brought into force the requirements of Basel II, issued by the Basel Committee on Banking Supervision, in the European Union. In December 2010, the Basel Committee on Banking Supervision published the Basel III framework, which presents the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. Basel III is in the process of being adopted by the EU and it will then be transposed into national legislation in Cyprus.

The Central Bank of Cyprus supervises the Group on a consolidated and solo basis. In addition, the overseas subsidiaries are supervised by the local regulators.

On 8 July 2011, the Central Bank of Cyprus amended its Directive, introducing a new ratio for Core Tier I capital. The minimum level of the new ratio was set at 8% plus an increment based on the ratio of the Group's assets to the gross domestic product of the Republic of Cyprus. The increment was set at zero until 30 December, 2012. The Directive provides for a transitional period up to 2014 for the steady increase of Core Tier I ratio. The minimum levels of the Tier I and total capital ratios were set at 9,5% and 11,5% respectively, plus the increment required for Core Tier I. The Central Bank of Cyprus may also impose additional capital requirements for risks not covered by Pillar I.

The Group's total regulatory capital is divided into Core Tier I, Tier I and Tier II:

- Core Tier I capital mostly comprises of share capital (net of the book value of any treasury shares), share premium, retained earnings net of foreseeable dividends and non-controlling interests. The book value of goodwill and other intangibles is deducted in arriving at Core Tier I capital.

- Tier I mostly comprises of the Core Tier I and any perpetual loan capital which cannot be included as part of Core Tier I capital.

- Tier II capital mostly comprises qualifying subordinated loan capital and unrealised gains arising on the fair valuation of property and available-for-sale financial assets.

Investments in companies in the financial sector that exceed 10% of their capital are equally deducted from Core Tier I and Tier II capital to arrive at the regulatory capital. Investments in insurance undertakings and investments in non-banking subsidiary companies are deducted from Tier I and Tier II capital to arrive at the regulatory capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FINANCIAL RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

Risk-weighted assets for credit and market risk are calculated using the standardised approach. For operational risk the capital requirements are calculated in accordance with the Basic Indicator approach.

The Group, within the framework of the Capital Exercise conducted by the European Banking Authority, has submitted a comprehensive capital plan to the Central Bank of Cyprus with which the Group aims to comply with a Core Tier I ratio of 9% after including the Greek Government Bond impairments and loan provisions. The capital plan submitted to the Central Bank of Cyprus has been agreed with the appropriate regulatory authorities which will monitor its implementation.

The Group's capital adequacy ratios at 31 December, 2011 were lower than the internal limits that the Group sets and the minimum limit that the CBC requires based on the relevant Directive. The Group aims that with the implementation of the capital plan that has been submitted to the CBC, the future profitability and the effective management of its risk weighted assets, it will be able to cover the minimum required ratios in a reasonable time.

The capital plan includes a diverse set of targeted initiatives including exchanging of existing capital securities, asset optimisation and active management of portfolio exposures and raising of new equity. At a very high level, the plan includes:

- The raising of up to € 1,8 bn via new ordinary equity from shareholders through a rights issue and/or private placement.
- Approximately € 600 m to be raised through exchanging into Core Tier I capital, of part of the Group's outstanding capital securities and subordinated debt (Tier II capital).
- Approximately € 400 m through the management of the Group's risk weighted assets including divestment of non-core positions.

In assessing the Group's ability to continue as a going concern and in view of the uncertainties that exist until the completion of the Group's recapitalisation process, the Board of Directors has in addition taken into consideration, the confirmed commitment of the Republic of Cyprus to support the Bank if the need arises. In accordance with a letter received by the Board of Directors from the Ministry of Finance dated 27 April, 2012, the Republic of Cyprus has affirmed its commitment to provide the necessary support to the Bank to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue in business.

The Directors, having considered the factors set out above, have a reasonable expectation that the recapitalisation of the Group will be successfully completed and hence are satisfied that the consolidated financial statements can be prepared on a going concern basis.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables € '000	Assets at fair value through profit or loss € '000	Derivatives used for hedging € '000	Available-for-sale assets € '000	Held-to-maturity assets € '000	Total € '000
2011						
Financial assets as per consolidated balance sheet						
Cash and balances with Central Banks	1.034.086	-	-	-	-	1.034.086
Due from other banks	689.569	-	-	-	-	689.569
Financial assets at fair value through profit or loss	-	234.505	-	-	-	234.505
Advances to customers	24.778.623	-	-	-	-	24.778.623
Debt securities lending	1.769.185	-	-	-	-	1.769.185
Available-for-sale financial assets	-	-	-	1.791.205	-	1.791.205
Held-to-maturity financial assets	-	-	-	-	889.455	889.455
Other assets	354.112	-	7.148	-	-	361.260
	28.625.575	234.505	7.148	1.791.205	889.455	31.547.888

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Derivative liabilities at fair value through profit or loss € '000	Derivatives used for hedging € '000	Other financial liabilities at amortised cost € '000	Total € '000
2011				
Financial liabilities as per consolidated balance sheet				
Due to other banks	-	-	10.301.370	10.301.370
Customer deposits	-	-	20.160.804	20.160.804
Senior debt	-	-	376.107	376.107
Loan capital	-	-	1.333.727	1.333.727
Other liabilities	133.228	179.460	-	312.688
	133.228	179.460	32.172.008	32.484.696

	Loans and receivables € '000	Assets at fair value through profit or loss € '000	Derivatives used for hedging € '000	Available-for-sale assets € '000	Held-to-maturity assets € '000	Total € '000
2010						
Financial assets as per consolidated balance sheet						
Cash and balances with Central Banks	713.579	-	-	-	-	713.579
Due from other banks	4.696.112	-	-	-	-	4.696.112
Financial assets at fair value through profit or loss	-	229.336	-	-	-	229.336
Advances to customers	26.417.333	-	-	-	-	26.417.333
Debt securities lending	3.960.788	-	-	-	-	3.960.788
Available-for-sale financial assets	-	-	-	2.278.411	-	2.278.411
Held-to-maturity financial assets	-	-	-	-	1.480.046	1.480.046
Other assets	116.644	-	12.412	-	-	129.056
	35.904.456	229.336	12.412	2.278.411	1.480.046	39.904.661

	Derivative liabilities at fair value through profit or loss € '000	Derivatives used for hedging € '000	Other financial liabilities at amortised cost € '000	Total € '000
2010				
Financial liabilities as per consolidated balance sheet				
Due to other banks	-	-	10.649.850	10.649.850
Customer deposits	-	-	25.508.361	25.508.361
Senior debt	-	-	477.637	477.637
Loan capital	-	-	1.267.931	1.267.931
Other liabilities	107.694	172.817	-	280.511
	107.694	172.817	37.903.779	38.184.290

47. DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE BANK

The beneficial interest in the Bank's share capital owned by members of the Board of Directors, directly or indirectly, is as follows:

	Beneficial interest at 31 December, 2011	Beneficial interest 25 April, 2012
Platon E. Lanitis	4,70%	4,70%
Vassilis Theocharakis	1,90%	1,90%
Panayiotis Kounnis	0,04%	0,04%
Constantinos Mylonas	0,03%	0,03%
Christos Stylianides	0,03%	0,03%
Neoclis Lysandrou	0,01%	0,01%

The percentages are based on the total issued share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. SHAREHOLDERS WITH MORE THAN 5% OF SHARE CAPITAL

	Shareholding at 31 December, 2011	Shareholding at 25 April, 2012
Dubai Financial Limited Liability Company	**18,69%**	**18,69%**
Marfin Investment Group Holdings S.A.	**9,49%**	**9,49%**

The percentages are based on the total issued share capital.

49. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

	2011 Number of Directors	2010 Number of Directors	**2011 € '000**	2010 € '000
Advances to Directors and their connected persons:				
More than 1% of the net assets of the Group	**3**	2	**395.169**	323.610
Less than 1% of the net assets of the Group	**10**	12	**5.201**	12.721
	13	14	**400.370**	336.331
Advances to other key management personnel and their connected persons			**18.238**	12.653
Total advances			**418.608**	348.984
Commitments for guarantees and letters of credit:				
Guarantees to Directors and their connected persons:				
More than 1% of the net assets of the Group			**32.169**	39.420
Less than 1% of the net assets of the Group			**2**	1
Total guarantees			**32.171**	39.421
Letters of credit to Directors and their connected persons:				
More than 1% of the net assets of the Group			**678**	2.898
Total letters of credit			**678**	2.898
Total advances and commitments			**451.457**	391.303
Tangible securities			**466.610**	426.975
Interest income			**18.248**	14.873
Deposits			**22.382**	33.559
Interest expense			**569**	993

There were no commitments relating to other key management personnel of the Group.

The amount of tangible securities is presented in aggregate in the preceeding table. Therefore, it is possible that some individual facilities are not fully covered with tangible securities. The total amount of facilities that are unsecured at 31 December, 2011, amounts to € 95.401.000 (2010: € 67.979.000).

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

Other transactions with key management personnel

During 2011, the Group received commissions on stock exchange transactions from key management personnel and their connected persons amounting to € 83.000 (2010: € 194.000), purchased goods and received services amounting to € 122.000 (2010: € 243.000) from companies connected to Lanitis group, provided services amounting to € 107.000 (2010: nil) to companies connected to Lanitis group, received services amounting to € 252.000 from a law firm connected to Mr. Andreas Vgenopoulos, and purchased goods and received services amounting to € 213.000 from companies connected to Mr. Vassilis Theocharakis.

The above transactions are carried out as part of the normal activities of the Group, on commercial terms.

49. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

	Fees	Salaries and other short-term benefits	Employer's social insurance contributions	Retirement benefits scheme expense	Share options scheme expense[9]	Total	Income tax withheld at source	Total after income tax withheld at source
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Year ended 31 December 2011								
Executive Directors								
Christos Stylianides	-	241	24	63	35	363	98	265
Panayiotis Kounnis	-	242	27	63	35	367	99	268
Efthimios Bouloutas[1]	-	1.083	13	-	70	1.166	461	705
Eleftherios Hiliadakis[2]	-	162	11	-	25	198	55	143
	-	1.728	75	126	165	2.094	713	1.381
Non Executive Directors								
Michalis Sarris[3]	2	-	-	-	-	2	-	2
Andreas Vgenopoulos[4]	-	-	-	-	120	120	-	120
Neoclis Lysandrou[5]	30	-	-	-	6	36	-	36
Vassilis Theocharakis	30	-	-	-	6	36	-	36
Platon E. Lanitis	30	-	-	-	6	36	-	36
Constantinos Mylonas	50	-	-	-	6	56	-	56
Stelios Stylianou	30	74	11	20	4	139	14	125
Markos Foros	30	-	-	-	10	40	-	40
Chris Pavlou[3]	2	-	-	-	-	2	-	2
Hesham Al Qassim	30	-	-	-	-	30	-	30
Fadel Al Ali	30	-	-	-	-	30	-	30
Abdulrazaq Al Jassim[6]	25	-	-	-	-	25	-	25
Peter Baltussen[7]	5	-	-	-	-	5	-	5
	294	74	11	20	158	557	14	543
Other key management personnel[8]	-	1.777	76	38	190	2.081	685	1.396
	294	3.579	162	184	513	4.732	1.412	3.320

1 Resigned on 5 December, 2011. Upon resignation he received an additional amount of € 1.543.000, which includes an amount of € 941.000 (€ 689.000 net of tax), paid in accordance with the provisions of Greek Labour Law.
2 Resigned on 31 December, 2011. Upon resignation he received an additional amount of € 12.000.
3 Appointed on 12 December, 2011.
4 Resigned on 4 November, 2011.
5 Received additional fees for consultancy services of € 200.000.
6 Resigned on 3 November, 2011.
7 Appointed on 3 November, 2011.
8 Includes the 4 members of the Group Executive Committee as at 31 December, 2011 that are not Directors and the Group Chief Financial Officer. One member of the Group Executive Committee who resigned in January, 2012 received, in accordance with the provisions of the Greek Labour Law, an additional amount of € 154.000 (€ 82.000 net of tax).
9 The share option scheme expense is the amount charged to the consolidated income statement per IFRS requirements, however, the expense does not represent value received since the Share Option Scheme has never been "in-the-money" since its inception in 2007 and therefore no share options have been exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

	Fees € '000	Salaries and other short-term benefits € '000	Employer's social insurance contributions € '000	Retirement benefits scheme expense € '000	Share options scheme expense[8] € '000	Total € '000	Income tax withheld at source € '000	Total after income tax withheld at source € '000
Year ended 31 December 2010								
Executive Directors								
Efthimios Bouloutas	-	767	13	-	126	906	320	586
Christos Stylianides	-	241	24	63	63	391	57	334
Panayiotis Kounnis	-	242	26	63	63	394	58	336
Eleftherios Hiliadakis	-	153	11	-	45	209	51	158
	-	1.403	74	126	297	1.900	486	1.414
Non Executive Directors								
Andreas Vgenopoulos[1]	-	-	-	-	215	215	-	215
Neoclis Lysandrou[2]	20	-	-	-	11	31	-	31
Vassilis Theocharakis	20	-	-	-	11	31	-	31
Platon E. Lanitis	20	-	-	-	11	31	-	31
Constantinos Mylonas	30	-	-	-	11	41	-	41
Stelios Stylianou	20	70	10	18	7	125	12	113
Markos Foros	20	-	-	-	18	38	-	38
Hesham Al Qassim[3]	9	-	-	-	-	9	-	9
Fadel Al Ali[4]	12	-	-	-	-	12	-	12
Abdulrazaq Al Jassim[4]	12	-	-	-	-	12	-	12
Joseph Kamal Eskander[5]	24	-	-	-	-	24	-	24
Soud Ba'alawy[6]	-	-	-	-	-	-	-	-
	187	70	10	18	284	569	12	557
Other key management personnel[7]	-	1.628	76	36	341	2.081	612	1.469
	187	3.101	160	180	922	4.550	1.110	3.440

1 Executive Director until 9 February, 2010.
2 Received additional fees for consultancy services of € 200.000.
3 Appointed on 27 July, 2010.
4 Appointed on 25 May, 2010.
5 Appointed on 19 May, 2009, and resigned on 27 July, 2010. The amount of fees paid is for the whole period of his appointment.
6 Resigned on 9 February, 2010.
7 Includes the 4 members of the Group Executive Committee that are not Directors and the Group Chief Financial Officer.
8 The share option scheme expense is the amount charged to the consolidated income statement per IFRS requirements, however, the expense does not represent value received since the Share Option Scheme has never been "in-the-money" since its inception in 2007 and therefore no share options have been exercised.

The Bank has introduced a Restricted Stock Scheme for management personnel. The Scheme provides for the purchase of Bank's shares in the name of the management personnel based on 2009 performance. These shares are released gradually between 2011 and 2013 based on performance. After release they should not be sold for one year.

Based on the Scheme, Christos Stylianides and Panayiotis Kounnis were allocated a total of 229.000 shares each at a cost for 2011 of € 99.000 and € 97.000 respectively. The number of shares that were allocated to the Directors who resigned and were "clawed back" were as follows: Efthimios Bouloutas 401.000, Eleftherios Hiliadakis 115.000 and Andreas Vgenopoulos 573.000. The total number of shares that other key management personnel were awarded and the related cost for 2011 were 86.000 shares and € 50.000 respectively.

The number of Share Options for each Director, none of which was exercised up to 31 December, 2011, was as follows: Christos Stylianides and Panayiotis Kounnis 1.750.000 each, Markos Foros 500.000, Neoclis Lysandrou, Vassilis Theocharakis, Platon E. Lanitis and Constantinos Mylonas 300.000 each and Stelios Stylianou 200.000. The number of Share Options that was allocated to the Directors who resigned and were "clawed back" were as follows: Andreas Vgenopoulos 6.000.000, Efthimios Bouloutas 3.500.000 and Eleftherios Hiliadakis 1.250.000. The number of Options for other key management personnel, none of which was exercised up to 31 December, 2011, was 7.000.000. The number of Share Options that was allocated to other key management personnel who resigned in 2011 were 2.500.000 and were "clawed back". Further information regarding the Share Options is presented in Note 38 of the consolidated financial statements.

49. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

Key management personnel as at 31 December, 2011, include the 13 members of the Board of Directors, 2 of which had executive duties, the members of the Group Executive Committee and the Group Chief Financial Officer. Key management personnel for 2010 included the 14 members of the Board of Directors, 4 of which had executive duties, the members of the Group Executive Committee and the Group Chief Financial Officer.

Transactions with other related parties

On 31 December, 2011, the balances with other related parties were as follows:

	2011		2010	
	Receivables	**Payables**	Receivables	Payables
	€ '000	**€ '000**	€ '000	€ '000
Consolidated balance sheet				
CNP Marfin Insurance Holdings Ltd group (associate)	**6.925**	**236.420**	7.412	227.922
JCC Payment Systems Ltd (associate)	**13.215**	**9.908**	60	9.117
Provident Funds of the employees of the Group in Cyprus	**5**	**21.353**	5	28.788
	20.145	**267.681**	7.477	265.827

Additionally, CNP Marfin Insurance Holdings Ltd group held at 31 December, 2011, senior debt and loan capital of the Group of nominal value of € 44,9 m (2010: € 39,9 m).

During the year ended 31 December, 2011, the following transactions were realised with other related parties:

	2011		2010	
	Income	**Expense**	Income	Expense
	€ '000	**€ '000**	€ '000	€ '000
Consolidated income statement				
CNP Marfin Insurance Holdings Ltd group (associate)	**2.945**	**12.871**	1.668	11.626
JCC Payment Systems Ltd (associate)	**38**	**289**	4	862
Provident Funds of the employees of the Group in Cyprus	**19**	**852**	41	694
	3.002	**14.012**	1.713	13.182

Additionally, during 2011 the Group received dividend of € 6.736.000 (2010: € 5.329.000) from CNP Marfin Insurance Holdings Ltd group and during 2010 € 7.500.000 from JCC Payment Systems Ltd.

50. DIVIDEND

In 2010, a dividend payment of € 67.390.000 was made, € 0,08 per share of nominal value € 0,85. Part of the dividend amounting to € 13.578.000 has been re-invested into shares of the Bank. In addition, a dividend payment of € 187.551.000 was made, € 0,22 per share of nominal value € 0,85, in the form of shares.

The Annual General Meeting of the shareholders of the Bank, held on 18 May, 2011, approved the payment of a dividend of € 0,10 per share in the form of shares issued by the Bank at an issue price of € 1 per share in accordance with the decision of the Board of Directors of 29 March, 2011. The dividend amounting to € 147.028.000 was paid on 17 June, 2011, and the trading of the new shares began on 27 June, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. INVESTMENTS IN SUBSIDIARY COMPANIES

The main subsidiary companies of the Group, as at 31 December, 2011 and as at 31 December, 2010, were as follows:

Company name	Effective shareholding[(1)]		Country of incorporation	Issued share capital	Activity sector
	2011	2010		€ '000	
Investment Bank of Greece S.A.	**96%**	96%	Greece	110.427	Investment banking
Marfin Global Asset Management Mutual Funds Management S.A.	**99%**	99%	Greece	4.572	Portfolio management, investment and brokerage services
Marfin CLR Public Co Ltd	**63%**	63%	Cyprus	78.028	Portfolio management, investment and brokerage services
Public Joint-Stock Company Marfin Bank (a)	**100%**	100%	Ukraine	44.873	Banking
Marfin Bank (Romania) S.A.	**99%**	99%	Romania	44.306	Banking
Marfin Bank JSC Belgrade	**99%**	99%	Serbia	53.025	Banking
Marfin Pank Eesti AS (b)	**71%**	63%	Estonia	7.049	Banking
Rossiysky Promyishlenny Bank Company Ltd (c)	**50%**	50%	Russia	26.141	Banking
Lombard Bank Malta Plc	**48,9%[(2)]**	48,9%[(2)]	Malta	9.023	Banking
Laiki Bank (Guernsey) Ltd	**100%**	100%	Guernsey	2.394	Banking
Marfin Leasing S.A.	**100%**	100%	Greece	83.440	Leasing
Marfin Factors & Forfaiters S.A.	**100%**	100%	Greece	10.870	Factoring, invoice discounting
Laiki Factors Ltd	**100%**	100%	Cyprus	855	Factoring, invoice discounting
Paneuropean Ltd (d)	**100%**	100%	Cyprus	14.025	Investment company
Philiki Ltd (e)	**100%**	100%	Cyprus	9.800	Investment company
Cyprialife Ltd	**100%**	100%	Cyprus	8.550	Investment company
Closed Joint-Stock Company RPB Holding (c)	**50%**	50%	Russia	23.997	Investment company
IBG Investments S.A.	**96%**	96%	British Virgin Islands	2.309	Investment services
Marfin Capital Partners Ltd	**70%**	70%	United Kingdom	810	Investment management
Synergatis Plc	**-**	-	United Kingdom	-	Special purpose entity

(1) The effective shareholding includes the direct holding of the Bank and the indirect holding through its subsidiary companies.
(2) The Bank exercises control over Lombard Bank Malta Plc because its significant shareholding allows the control of the decisions taken at the Annual General Meeting, including the decisions for the appointment of Directors, and therefore Lombard Bank Malta Plc is accounted for as a subsidiary company of the Group.

The Bank is registered in Cyprus and operates in Cyprus and through branches in the United Kingdom and Greece (Marfin Egnatia Bank). Following the decision of the Nicosia District Court in accordance to articles 201(xvii) and 201(xix) of the Cyprus Companies Law, 31 March, 2011, time 12:00 p.m. (i.e. 1 April, 2011) has been set as the date of conclusion of the cross-border merger. As of 1 April, 2011, Marfin Egnatia Bank S.A. ceased to exist and was deleted from the Registry of Societes Anonymes of the Ministry of Economy, Competitiveness and Mercantile Marine of Greece.

The full consolidation method is applied to all subsidiary companies of the Group.

(a) Increase of share capital of Public Joint-Stock Company Marfin Bank

In March 2011, an increase of the share capital of Public Joint-Stock Company Marfin Bank in the Ukraine was made for the amount of € 9,8 m, which was fully covered by the Bank. As a result the Bank's holding increased from 99,88% to 99,91%.

(b) Increase of share capital of Marfin Pank Eesti AS and agreement to sell the Bank's participation in Marfin Pank Eesti AS

In April 2011, an increase of the share capital of Marfin Pank Eesti AS in Estonia was made for the amount of € 1,6 m. An amount of € 1,5 m was paid by the Bank. As a result the Bank's holding increased from 63% to 70,54%.

On 28 December, 2011, the Bank announced the signing of a share purchase agreement with the Ukranian company Ukrselhosprom PCF LLC for the sale of its total participation (70,54%) in its subsidiary Marfin Pank Eesti AS, for the total amount of € 6,6 m. The sale was completed on 29 March, 2012, after obtaining the necessary approvals from the Central Bank of Cyprus and the relevant regulatory authorities in Ukraine and Estonia. The profit from sale reached € 2,8 m approximately.

51. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

(c) Agreement for the acquisition of the remaining shareholding in Closed Joint-Stock Company RPB Holding

On 31 March, 2011, the Bank announced that it has entered into an agreement for the acquisition of the remaining 49,96% in its Russian subsidiary Closed Joint-Stock Company RPB Holding, the parent company of Rossiysky Promyishlenny Bank Company Ltd ("Rosprombank"), for a consideration of € 51,6 m. The current transaction will increase the Bank's participation in Rosprombank to 99,93%. Completion of the transaction is subject to all regulatory approvals from relevant authorities in Cyprus and the Russian Federation.

(d) Change of name of Paneuropean Insurance Co Ltd

In November 2011, Paneuropean Insurance Co Ltd was renamed to Paneuropean Ltd.

(e) Change of name of Philiki Insurance Co Ltd

In November 2011, Philiki Insurance Co Ltd was renamed to Philiki Ltd.

(f) Incorporation of Axia Nova Property Holdings SRL

In June 2011, Axia Nova Property Holdings SRL was incorporated in Romania with principal activities buying and selling of real estate.

(g) Disposal of shareholding in Laiki Bank (Australia) Ltd

On 28 February, 2011, the Bank completed its agreement with the Bank of Beirut s.a.l. concerning the sale of 85% of its shareholding in Laiki Bank (Australia) Ltd. The Bank will remain as a minority shareholder in Laiki Bank (Australia) Ltd until at least February 2013. From that date onwards, the Bank will have the option to sell its remaining stake to the Bank of Beirut s.a.l. The total cash consideration of the transaction reached AU$ 142,9 m, while the profit from the sale reached € 53,4 m.

52. POST BALANCE SHEET EVENTS

On 3 January, 2012, the Bank announced that General Manager Mrs. Rodoula Hadjikyriacou, who until this day had the responsibility of Retail Banking and the Branch Network in Cyprus, takes over the responsibility of General Manager of the Group's operations in Greece. Deputy Group Chief Executive Officer Mr. Panayiotis Kounnis continues to be responsible for the operations of the Group in Cyprus and in addition takes over the supervisory responsibility at Group level of the Corporate, Commercial and Shipping Lending portfolios.

On 12 January, 2012, the collective agreement was signed between the Cyprus Union of Bank Employees and the Cyprus Bankers Employers' Association for the years 2011-2013. The main change of the agreement is the conversion of the defined benefit plan to a defined contribution plan, with monthly contributions of 14% by the Bank and from 3% to 10% by the employee based on monthly salaries. The conversion of the plan does not affect in any way the 2011 consolidated financial statements. Moreover, for 2012 and 2013 annual increases in salaries and Cost of Living Adjustment (COLA) increases will not be granted. On 1 July, 2012, the banks will contribute a total additional lump sum of € 1 m to the Welfare Fund of the Cyprus Union of Bank Employees. Management still assesses the effect of the conversion of the defined benefit plan to a defined contribution plan on 2012 consolidated financial results. However, they do not expect that this change will have a material impact on the equity and regulatory capital of the Group.

On 18 January, 2012, the Bank announced that the Board of Directors was constituted as follows: Michalis Sarris – Chairman, Independent Non Executive Member, Neoclis Lysandrou – Vice Chairman, Non Executive Member, Constantinos Mylonas – Vice Chairman, Independent Non Executive Member, Christos Stylianides – Group Chief Executive Officer, Executive Member, Panayiotis Kounnis – Deputy Group Chief Executive Officer, Executive Member, Vassilis Theocharakis – Non Executive Member, Platon E. Lanitis – Non Executive Member, Chris Pavlou – Independent Non Executive Member, Stelios Stylianou – Non Executive Member, Markos Foros – Non Executive Member, Fadel Al Ali – Non Executive Member, Hesham Al Qassim – Independent Non Executive Member, Peter Baltussen – Non Executive Member.

The Board of Directors after its constitution elected Mr. Constantinos Mylonas as Senior Independent Non Executive Director.

The Board of Directors has also appointed the Members of the following Committees as follows:

- Audit Committee: Chris Pavlou – Chairman, Neoclis Lysandrou and Constantinos Mylonas – Members.
- Compensation Committee: Constantinos Mylonas – Chairman, Platon E. Lanitis, Chris Pavlou and Hesham Al Qassim – Members.
- Nominations Committee: Michalis Sarris – Chairman, Platon E. Lanitis, Neoclis Lysandrou, Markos Foros and Fadel Al Ali – Members.
- Risk Management Committee: Chris Pavlou – Chairman, Neoclis Lysandrou, Christos Stylianides and Markos Foros – Members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. POST BALANCE SHEET EVENTS (continued)

The Board of Directors also appointed the Executive Committee of the Group as follows: Christos Stylianides – Chairman, Panayiotis Kounnis, Rodoula Hadjikyriacou, Samuel David and Annita Philippidou – Members.

On 20 January, 2012 the Bank announced that it has concluded the process of devising its capital enhancement plan as per related regulatory requirements of the Central Bank of Cyprus and the recent Directive from the European Banking Authority. The plan aims to address the Group's capital needs given the benchmark 9% Core Tier I Capital Ratio set by the European Banking Authority and was presented to the Bank's Board of Directors and was approved for submission to the Central Bank of Cyprus. J.P. Morgan Limited and Houlihan Lokey act as financial advisers to the Bank in relation to the capital plan.

On 7 March, 2012 the Bank announced its intention to participate in the voluntary exchange of the Greek Government Bonds it holds, in accordance with the terms of the Private Sector Involvement (PSI) offer of the Hellenic Republic.

On 23 March, 2012 the Bank announced that the Information Memorandum dated 19 March, 2012, which was issued based on Article 15 (1)(e) of the Takeover Bid Law 2007 (L.41(I)/2007) and includes the Independent Opinion of Deloitte Ltd, is available on the website of the Group (www.laiki.com), as well as on the websites of the Cyprus Stock Exchange (www.cse.com.cy) and the Athens Exchange S.A. (www.ase.gr).

On 29 March, 2012 the Bank announced that the sale of its total shareholding of 70,54% in Marfin Pank Eesti AS was completed. The total consideration of the transaction reached € 6,6 m, while the profit reached approximately € 2,8 m.

On 2 April, 2012 the Extraordinary General Meeting approved the following resolutions mainly relating to the capital enhancement plan:

- Reduction of the nominal value of the Bank's share from € 0,85 to € 0,10 for writing off losses resulting from the exposure of the Bank in the Greek market and mainly because of the impairment of the Greek Government Bonds. Decrease of the authorised share capital to € 290.000.000 divided into 2.900.000.000 ordinary shares of nominal value € 0,10 each and the issued share capital to € 161.111.000 divided into 1.611.111.000 fully paid ordinary shares of nominal value € 0,10 each. Immediately after the above decrease, re-increase of the authorised share capital to € 2.465.000.000 divided into 24.650.000.000 ordinary shares of nominal value € 0,10 each.

- Utilisation of the share premium up to € 1,9 bn for writing off losses of the Bank. The Nicosia District Court confirmed on 12 April, 2012 the utilisation of the amount, for writing off losses.

- Approval for authorisation of the Board of Directors for the issue of share capital up to € 1,8 bn as follows: (a) to investors of its choice as follows: (i) up to 50% of the amount of € 1,8 bn with an issue price not less than € 0,30 per share, without the shares being firstly offered to the shareholders of the Bank, or (ii) up to 50% of the amount of € 1,8 bn with the issue at par of Mandatory Convertible Bonds ("MCB") into shares, at a conversion price not less than € 0,30 and will be issued and converted into shares at their nominal value before 31 December, 2012, without the MCB and the shares that will result from the mandatory conversion to be offered to the existing shareholders of the Bank, or/and (b) through a rights issue up to € 1,8 bn to be offered pro-rata to existing shareholders with an exercise price less than € 0,30 per share.

- Issue of Enhanced Capital Securities ("ECS") of a total nominal value up to € 737.753.000 to the holders of capital securities issued in 2008 of nominal value € 200.000.000, 2009 of nominal value € 242.229.000 and 2010 of nominal value € 295.524.000 for voluntary exchange of their capital securities with ECS at their nominal value.

- Issue of new ordinary shares of total nominal value that will not exceed 50% of the total nominal value of € 737.753.000 to the holders of capital securities issued in 2008, 2009 and 2010 for the voluntary exchange of their capital securities at their nominal value with ordinary shares of the Bank at a conversion price to be determined during the rights issue, without being firstly offered to the shareholders of the Bank.

- Cancellation of the approval granted by the Extraordinary General Meeting dated 28 September, 2011, for the issue and allotment of new capital securities up to the amount of € 738 m, in replacement of the existing capital securities of the Bank issued in 2008, 2009 and 2010.

- Issue of share warrants to the acquirers of new shares to be issued by the Bank through the capital enhancement plan in the ratio of one share warrant for every five new shares to be acquired and with the exercise of one share warrant one new share will be alloted.

- Change of the registered name of the Bank to "Cyprus Popular Bank Public Co Ltd".

53. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 30 April, 2012.

Independent Auditors' Report on pages 56 and 57.

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The Annual Report and other information regarding Cyprus Popular Bank Public Co Ltd are available in the Group's website **www.laikibankgroup.com**. The Annual Economic Report is also available in this website as well as in those of the Cyprus Stock Exchange (www.cse.com.cy) and the Athens Stock Exchange (www.ase.gr).

Copies of the Annual Report and the Annual Economic Report are available at the Shares and Debentures Department of the Group, Strovolos Ave. 124, 4th floor, 2042, Strovolos, Nicosia. You can also request copies from the Telebank, tel: **8000 2000**. For calls from abroad: +357 22 887766.

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