USB BANK PLC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

usbbank

Contents

Board of Directors
Maurice Sehnaoui, Non Executive Chairman
Fransabank SAL represented by Mr. Adel Kassar
Nadim Kassar
Nabil Kassar
Walid Daouk
Fransa Invest Bank SAL represented by Mr. Mansour Bteish
Raoul Nehme
BLC Bank SAL represented by Mr.Youssef Eid
Tania Moussallem
Agis Taramides
George Galatariotis
George Stylianou
Philippos Philis
Andreas Theodorides
Despo Polykarpou

Secretary
Andreas Theodorides

Chief Executive Officer
Andreas Theodorides

Finance Manager
Paola Ioannou

Registered Office
83 Digenis Akritas Avenue
5th floor
1070 Nicosia

Legal Advisors
Dr. Kypros Chrysostomides & Co LLC
L.Papafilippou & Co LLC

Independent Auditors
Deloitte Limited
Certified Public Accountants and Registered Auditors

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

in accordance with the provisions of the Transparency Requirements (Securities Admitted to Trading on a Regulated Market) Laws of 2007 to 2013

In accordance with Article 9, subparagraph (3)(c) and (7) of the Transparency Requirements (Securities Admitted to Trading on a Regulated Market) Laws of 2007 to 2013, we, the members of the Board of Directors and the officials responsible for the drafting of the financial statements of USB Bank Plc (the "Bank") for the year ended 31 December 2014, declare that, to the best of our knowledge:

a) the financial statements which are presented in pages 9 to 54:
   a) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Article 9, subparagraph (4) of the abovementioned law, and
   b) give a true and fair view of the assets and liabilities, financial position and profit or loss of the Bank and the undertakings included in the financial statements taken as a whole and

b) the Directors' report provides a fair review of the development and performance of the Bank, its financial position and the undertakings included in the financial statements as a whole, together with a description of the principal risks and uncertainties that they face.

MEMBERS OF THE BOARD OF DIRECTORS

Maurice Sehnaoui
Non Executive Chairman ....

Fransabank SAL represented by Mr.Adel Kassar
Non Executive Director ....

Nadim Kassar
Non Executive Director ....

Nabil Kassar
Non Executive Director ....

Walid Daouk
Non Executive Director ....

Fransa Invest Bank SAL represented by Mr.Mansour Bteish
Non Executive Director ....

Raoul Nehme
Non Executive Director ....

BLC Bank SAL represented by Mr.Youssef Eid
Non Executive Director ....

Tania Moussallem
Non Executive Director ....

Agis Taramides
Independent, Non Executive Director ....

George Galatariotis
Independent, Non Executive Director ....

George Stylianou
Independent, Non Executive Director ....

Philippos Philis
Independent, Non Executive Director ....

Andreas Theodorides
Executive Director ....

Despo Polykarpou
Executive Director ....

Official responsible for the drafting of the financial statements:

Paola Ioannou
Finance Manager ....

The Board of Directors of USB Bank Plc (the 'Bank') submit to the shareholders their Report and the audited financial statements for the year ended 31 December 2014.

Activities

The Bank's main activities during the year continued to be the provision of banking and financial services in Cyprus through 14 fully operated branches and 3 branches with ATM operations only.

Operating environment of the Bank and Future developments

The Bank continuous to operate within a challenging environment with the economic adjustment programme of the Cyprus economy still in progress in order to address short and medium term financial, fiscal and structural challenges. The uncertain economic conditions in Cyprus and the intense economic recession are the key factors that affect the banking sector in Cyprus including the Bank.

The Cyprus economy is expected to return back to moderate growth in 2015. Domestic challenges relate mostly to the high level of non performing loans and the delays in the implementation of the relevant legal framework as well as delays in the implementation of structural reforms agreed in the economic adjustment programme.

Key objectives of the Bank are the effective management of credit risk and more specifically non-performing loans and the maintenance of adequate levels of capital and liquidity in order to be able to manage the potential adverse effects that could result from the present business and economic environment. To that effect, the Bank's parent company BLC Bank SAL, before the end of 2014, based on its continuous support to the Bank placed in an escrow account €10,2 million as an irrevocable commitment for the capital strengthening of the Bank. As a consequence, the Core Tier 1 ratio of the Bank stands at 9,63% and the Total Capital Ratio at 10,19% allowing for further growth of the Bank and managing any future challenges.

Detailed information about the operating environment is set out in Note 33 to the Financial Statements.

Financial Results

Despite this operational environment the Bank maintained healthy liquidity levels, with:
- A gross loans to deposits ratio that stands at 76%,
- A liquidity ratio in Euro that stands at 33% with the minimum regulatory ratio being 20%,
- A foreign currencies liquidity ratio that stands at 73% with the minimum regulatory ratio being 70% and
- No financing from the European Central Bank or from any other external party.

Regardless of this economic environment and the recessionary conditions the Bank maintained its turnover at approximate the same levels as the previous year while the operational profit has substantially increased by 63% for the year 2014 and amounted to €12,6 million in relation to €7,7 million for the corresponding last year.

Interest income marginally increased in relation to year 2013 and amounted to €41,4 million while the interest expense amounted to €13,9 million in year 2014 in relation to €18,4 million in year 2013 presenting a reduction of 25%.
As a result of the above the net interest income amounted to €27,5 million in relation to €22,5 million for the corresponding last year.

Net fee and commission income decreased by 22% due to the recessionary conditions that prevail in the market and amounted to €2,6 million in relation to €3,3 million for last year.

Financial Results (continued)

The staff cost which represents 63% of total expenses of the Bank presents a decrease of 8% in relation to last year due to the application of the new collective agreement between the Cyprus Union of Bank Employees and the Cyprus Employers' Association which implemented reductions in salaries applicable from 1 March 2014 and also reductions for the employers contributions to the employees provident fund applicable from 1 January 2014. The other administration expenses present an increase of 5% in relation to last year mainly because of the increased expenses incurred for the support of the Bank's operations in a more than difficult operational environment.

An amount of €1,6 million was recognized as a loss on revaluation of investment properties which were acquired by the Bank in settlement of customer debts and are accounted for at their estimated fair value at the reporting date in relation to €2,2 million for last year.

Due to the continuing economic recession, the continuing reduction in real estate prices, and based on the resulting repayment difficulties faced by clients, the provisions for impairment of loans and advances present an increase in the current year and amounted to €24,2 million in relation to €19,7 million for the corresponding last year.

Despite the operational profit amounting to €12,6 million and as result of the provisions booked for impairment of loans and advances, the loss for the year 2014 amounted to €13,1 million in relation to losses of €15,9 million for last year.

The main financial highlights of the Bank for years 2014 and 2013 are as follows:

	2014 **€000**	**2013** **€000**
Turnover	**44.487**	44.807
Profit from operations	**12.564**	7.722
Loss from sale and revaluation of investments and properties	**(1.574)**	(3.760)
Profit before provisions for impairment of loans and advances	**10.990**	3.962
Provision for impairment of loans and advances	**(24.210)**	(19.664)
Loss for the year after tax	**(13.140)**	(15.920)
Loss per share (cent)	**(9,4)**	(16,0)
Customer deposits	**606.307**	589.677
Loans and advances to customers (gross)	**463.692**	497.338

In 2014 and 2013 no dividends were paid or declared by the Bank since the Bank had accumulated losses.

Board of Directors

The Board of Directors at the date of this report is listed on page 2.

For the year ended 31 December 2014 and according to the Bank's Articles of Association, at the next Annual General Meeting of the Bank's shareholders, Fransabank SAL represented by Mr. Adel Kassar, Mr. Nadim Kassar, Mr. Nabil Kassar, Mr. Walid Daouk and Mr. George Galatariotis will retire but are offered for re-election.

Information relating to share capital

As at 31 December 2014 the issued share capital of the Bank amounted to 165.937.330 ordinary shares with a nominal value of €0,10 each while 99.270.663 of those ordinary shares are listed in the Cyprus Stock Exchange (CSE).

In a meeting held on the 24th February 2014 the Board of Directors of the Bank decided to proceed to an increase of the issued share capital of the Bank by €20 million (the "Issue") to strengthen the capital base. The proposed Issue concerned the issue and allotment of 66.666.667 new ordinary shares at an issue price of €0,30 per new share.

In order to facilitate the issue and allotment of new ordinary shares in view of the prevailing current financial conditions and the fact that pursuant to the Cyprus Companies Law Cap. 113 (as amended), new shares cannot be issued and allotted at a price lower than the current nominal value of €0,57 which was higher than the current net asset value per share, the Board of Directors of the Bank convened an Extraordinary General Meeting (EGM) on the 27th March 2014 and approved a resolution for the reduction of the nominal value of the ordinary shares of the Bank from €0,57 to €0,10 per share. The reduction of the nominal value of the Bank's shares was approved in order to facilitate and provide greater flexibility to the Bank, for the issuance of 66.666.667 new ordinary shares. The total amount from the reduction of the nominal value of the issued ordinary shares amounting to €46.657.212 was utilised for the reduction of the Bank's accumulated losses.

With the approval of the above resolution and based on the subsequent ratification by the District Court of Nicosia, the authorised share capital of the Bank was reduced to €15.000.000 divided into 150.000.000 ordinary shares of nominal value of €0,10 each and the issued share capital was reduced to €9.927.066,30 divided into 99.270.663 ordinary shares of nominal value of €0,10 each. Within the same resolution the authorised share capital of the Bank re-increased to the amount of €85.500.000 which was divided into 855.000.000 ordinary shares of a nominal value of €0,10 each.

In a meeting held on the 27th May 2014 the Board of Directors of the Bank decided to issue and allot 66.666.667 new ordinary shares of nominal value €0,10 each at the total issue price of €0,30 each, exclusively to BLC Bank SAL. The 66.666.667 new ordinary shares rank pari passu with the existing fully paid shares of the Bank.

As a result of the above, the issued share capital of the Bank amounts to €16.593.733 divided into 165.937.330 ordinary shares of nominal value of €0,10 each and the authorised share capital amounts to €85.500.000 divided into 855.000.000 ordinary shares of nominal value of €0,10 each.

In December 2014 the Parent company, BLC Bank SAL, made an irrevocable commitment to fully cover any required increase of capital of the Bank, in an effort for the Bank to enhance its capital base, by blocking €10,2 million in an escrow account demonstrating its continuous support to the Bank. As a result the Bank`s equity is increased by €10,2 million through the Special Reserve account.

There are no restrictions on the transfer of the Bank's ordinary shares other than the provisions of the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to the acquiring of shares of the Bank in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Agreements with the members of the Board of Directors or the Bank's staff members

For contracts involving probationary hiring of personnel who are governed by the agreement with the Cyprus Union of Bank Employees ("ETYK"), the Bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason an employee wishes to terminate his employment with the Bank, one month's notice must be given. The employment contracts of staff members, whose employment terms are not governed by the agreement with ETYK, include provisions for a notice period in case of non-justified pre-mature termination of contract.

Compliance with the CSE regulations on dispersion

Following the successful Public Offer by BLC Bank SAL in 2011 to the shareholders of the Bank to acquire up to 100% of the issued share capital, the Bank's minority interest decreased below 10% and as a consequence of failure to comply with the requirements for minimum dispersion to the public for companies traded in the Parallel Market, the Board of the CSE has decided to transfer the shares of the Bank in the Special Characteristics Market. During February 2015, the Cyprus Securities and Exchange Commission has decided not to approve the application of BLC Bank SAL for a time extension in order to comply with the minimum dispersion regulations of the CSE. As a result BLC Bank SAL has publicly announced on 3 March 2015 its submission of a compulsory public offer to the Banks' shareholders for the acquisition of up to 100% of the issued share capital of the Bank in accordance with article 13 of the Takeover Bids Law of 2007 (as amended). The intended consideration for the acquisition of the Banks' shares is €0,30 per share, payable in cash to all the shareholders that will accept the Public Offer.

Statement of Corporate Governance

The Bank implements a sound internal control system which is supervised and evaluated annually for its effectiveness, both by the Directors and the Audit Committee of the Board of Directors. Therefore, verification procedures are controlled and proper and accurate information is provided to the Bank's shareholders.

The Bank aims to provide full transparency in its overall management and seeks to serve its own corporate and investors' interest. The Board of Directors considers proper and responsible corporate governance as a prerequisite for creating value for its shareholders and the wider community.

The Bank which is currently quoted on the Special Characteristics Market of the CSE has voluntarily decided to fully adopt and apply the Corporate Governance Code (the "Code"). The Code is available on the CSE website, www.cse.com.cy. On 9 May 2014 the CSE published the 4th Edition of the Corporate Governance Code which has replaced the 3rd Revised Edition of the Code that had been applicable up to that date. During 2014 the Bank complied with the relevant provisions of the Code. In accordance with an announcement of CSE in relation to the revision of its Markets, from 20 April 2015 the Bank will be quoted on the Alternative Market of the CSE.

The Annual Report on Corporate Governance for 2014 is available on the Bank's website, www.usbbank.com.cy.

The operating regulations of the Board of Directors as well as the powers of the executive and supervisory bodies of the Bank are presented in the Report on Corporate Governance. According to the Bank's Memorandum and Articles of Association, the number of Board members shall not be less than 5 or more than 15. At each Annual General Meeting of the shareholders, one third (1/3) of the Board members who are appointed, or if their number is not a multiple of three (3), then the number nearest to one third (1/3) will resign from the Board of Directors, having however the right for re-election. Any changes or additions to the Bank's Memorandum and Articles of Association are considered valid only by a special resolution at a shareholders' meeting.

The Board of Directors has the power to distribute and place any of the Bank's unissued shares as it considers appropriate, provided the new shares to be issued are offered first to the existing shareholders, pro-rata to their existing shareholding. Otherwise, the shareholders' approval at a General Meeting is required.

In addition, in the event that an increase in the authorised share capital is required, the approval of the shareholders at a General Meeting must be obtained. Any share repurchase plan also requires shareholder approval at General Meeting. The existing Bank's shares are ordinary shares and are not divided into classes. Voting rights attributable to 120.431.702 new shares that were acquired by BLC Bank SAL from years 2011 to 2014 have been temporarily suspended, so that the Bank complies with the required dispersion criteria of at least one of the regulated markets of the Cyprus Stock Exchange.

Shareholders holding more than 5% of the share capital of the Bank

As at 15 April 2015 and 31 December 2014, the following shareholders held directly or indirectly more than 5% of the share capital of the Bank:

	15/04/2015	31/12/2014
	%	%
BLC Bank SAL	98,39	98,39

Directors' interest in the share capital of the Bank

At the date of this report, Messrs Adel Kassar, Nadim Kassar and Nabil Kassar indirectly control 98,39% of the share capital of the Bank, through their participation in Fransabank SAL, which owns 68,58% of BLC Bank SAL.

Risk management

The Bank considers risk management to be a major process and a significant factor contributing towards the safeguarding of a stable return to its shareholders. The financial risks that the Bank is exposed to are mainly credit risk, operational risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 29 to the financial statements.

Events after the reporting date

Any significant events that occurred after the reporting date are described in Note 34 to the Financial Statements.

Independent auditors

The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

On behalf of the Board of Directors,

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Maurice Sehnaoui
Chairman

Income Statement
for the year ended 31 December 2014

	Note	2014 €	2013 €
Turnover		**44.487.232**	44.806.616
Interest income	4	**41.399.561**	40.912.044
Interest expense	5	**(13.898.043)**	(18.412.018)
Net interest income		**27.501.518**	22.500.026
Fee and commission income		**2.645.506**	3.436.851
Fee and commission expense		**(490.182)**	(582.130)
Foreign exchange income		**305.505**	357.176
Other income		**136.660**	100.545
Total net income		**30.099.007**	25.812.468
Staff costs	6	**(11.017.996)**	(11.912.123)
Depreciation of property, equipment and intangible assets	15,16	**(786.039)**	(767.880)
Other operating expenses		**(5.730.821)**	(5.409.998)
Total operating expenses before provisions		**(17.534.856)**	(18.090.001)
Profit from operations		**12.564.151**	7.722.467
Loss from the sale of investments		**-**	(1.551.510)
Loss on revaluation of investment properties	14	**(1.574.000)**	(2.208.463)
Profit before provisions for impairment of loans and advances		**10.990.151**	3.962.494
Provision for impairment of loans and advances	12	**(24.209.839)**	(19.663.694)
Loss before impairment of investments		**(13.219.688)**	(15.701.200)
Provision for impairment of investments available for sale		**-**	(171.200)
Loss before tax	7	**(13.219.688)**	(15.872.400)
Deferred tax	8	**79.300**	(47.720)
Loss for the year		**(13.140.388)**	(15.920.120)
Loss per share (cent)	9	**(9,4)**	(16,0)

See accompanying notes to the financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2014

	Note	**2014** €	2013 €
Loss for the year		**(13.140.388)**	(15.920.120)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available for sale investments			
Loss on revaluation of investments available for sale	22	-	(290.859)
Transfer to the income statement due to impairment of available for sale investments	22	-	171.200
Transfer to the income statement due to disposal of available for sale investments	22	-	1.551.510
		-	1.431.851
Items that will not be reclassified subsequently to profit or loss			
Property revaluation			
Loss on revaluation of properties	22	**(32.775)**	-
Taxation on revaluation of properties	22	**6.417**	-
		(26.358)	-
Other comprehensive income for the year after taxation		**(26.358)**	1.431.851
Total comprehensive income for the year		**(13.166.746)**	(14.488.269)

See accompanying notes to the financial statements.

Statement of Financial Position
as at 31 December 2014

	Note	2014 €	2013 €
ASSETS			
Cash and balances with the Central Bank	10	**69.584.511**	44.931.789
Placements with banks	11	**87.153.762**	49.365.884
Loans and advances to customers	12	**379.837.587**	411.644.053
Investments held-to-maturity	13	**100.563.138**	114.598.264
Investment properties	14	**30.756.000**	27.950.000
Property and equipment	15	**5.270.986**	5.705.928
Intangible assets	16	**578.905**	627.743
Other assets	17	**2.839.403**	1.754.614
Total assets		**676.584.292**	656.578.275
LIABILITIES			
Customer deposits	18	**606.306.788**	589.677.203
Other liabilities	19	**10.593.900**	4.250.722
Loan capital	20	**10.182.963**	10.182.963
Total liabilities		**627.083.651**	604.110.888
EQUITY			
Share capital	21	**16.593.733**	56.584.278
Share premium	21	**38.000.065**	24.666.732
Special reserve	21	**10.200.000**	20.000.000
Revaluation reserves	22	**3.303.899**	3.330.257
Accumulated losses	23	**(18.597.056)**	(52.113.880)
Total equity		**49.500.641**	52.467.387
Total liabilities and equity		**676.584.292**	656.578.275

Maurice Sehnaoui
Chairman
....

Andreas Theodorides
Chief Executive Officer
....

Paola Ioannou
Finance Manager
....

See accompanying notes to the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2014

	Share capital (Note 21)	Share premium (Note 21)	Special reserve (Note 21)	Revaluation reserves (Note 22)	Accumulated losses (Note 23)	Total
	€	€	€	€	€	€
YEAR 2014						
1 January	56.584.278	24.666.732	20.000.000	3.330.257	(52.113.880)	52.467.387
Reduction of capital	(46.657.212)	-	-	-	46.657.212	-
Issue of share capital	6.666.667	13.333.333	(20.000.000)	-	-	-
Contribution by parent company	-	-	10.200.000	-	-	10.200.000
Loss after tax	-	-	-	-	(13.140.388)	(13.140.388)
Other comprehensive income for the year after taxation	-	-	-	(26.358)	-	(26.358)
Total comprehensive income for the year	-	-	-	(26.358)	(13.140.388)	(13.166.746)
31 December	16.593.733	38.000.065	10.200.000	3.303.899	(18.597.056)	49.500.641
YEAR 2013						
1 January	56.584.278	24.666.732	-	1.898.406	(36.191.715)	46.957.701
Contribution by parent company	-	-	20.000.000	-	-	20.000.000
Loss after tax	-	-	-	-	(15.920.120)	(15.920.120)
Other comprehensive income for the year after taxation	-	-	-	1.431.851	-	1.431.851
Total comprehensive income for the year	-	-	-	1.431.851	(15.920.120)	(14.488.269)
Deemed dividend distribution (Note 23)	-	-	-	-	(2.045)	(2.045)
31 December	56.584.278	24.666.732	20.000.000	3.330.257	(52.113.880)	52.467.387

See accompanying notes to the financial statements.

Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014 €	2013 €
Net cash flow from/(used in) operating activities	27	**31.187.326**	(114.369.499)
Cash flow from investing activities			
Purchase of property, equipment and software		**(338.091)**	(682.869)
Proceeds from the disposal of property and equipment		**1.063**	500
Purchase of bonds		**(62.184.941)**	(9.873.634)
Proceeds from the disposal and redemption of bonds		**78.911.859**	42.899.987
Interest from bonds		**5.399.649**	7.330.955
Net cash flows from investing activities		**21.789.539**	39.674.939
Cash flow from financing activities			
Proceeds from contribution of the parent company		**10.200.000**	20.000.000
Interest on loan capital		**(764.082)**	(764.009)
Net cash flow from financing activities		**9.435.918**	19.235.991
Net increase/(decrease) in cash and cash equivalents for the year		**62.412.783**	(55.458.569)
Cash and cash equivalents			
At 1 January		**88.535.567**	143.994.136
Net increase/(decrease) in cash and cash equivalents		**62.412.783**	(55.458.569)
At 31 December	28	**150.948.350**	88.535.567

See accompanying notes to the financial statements.

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 20 April 2015.

The Bank's main activity during the year continued to be the provision of banking and financial services in Cyprus.

The Bank was incorporated in Cyprus as a limited liability company with registration number 10 in 1925 under the Cyprus Companies Law and is considered a public company under the Company Law and Cyprus Stock Exchange Laws and Regulations and under the Cyprus Income Tax Law. The registered office of the Bank is at 83, Digenis Akritas Avenue, 1070 Nicosia.

2. Significant accounting policies

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

2.1. Basis of preparation

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

The financial statements are presented in Euro (€) and have been prepared on a historical cost basis, except for freehold properties and investment properties which are measured at fair value.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 25.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2.2. Adoption of new and revised IFRSs

In the current year, the Bank has adopted all the new and revised standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2014. The adoption of these Standards did not have a material effect on the financial statements of the Bank.

2.3. Standards, Interpretations and Amendments that are issued but not yet effective

Up to the date of approval of the financial statements, the International Accounting Standards Board has published certain new standards, interpretations and amendments to existing standards, the adoption of which is not mandatory for the current reporting period and which the Bank has not adopted early, as follows:

a) Standards and interpretations issued by the IASB and adopted by the EU

Standard/ Interpretation	Effective for annual periods beginning on or after:
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Improvements to IFRSs 2011-2013 Cycle	1 July 2014

These notes form an integral part of the financial statements.

2. Significant accounting policies (continued)
2.3. Standards, Interpretations and Amendments that are issued but not yet effective (continued)

b) Standards and interpretations issued by the IASB not yet adopted by the EU

Standard/ Interpretation	Effective for annual periods beginning on or after:
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016 (To be amended)
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016

The Bank is in the process of evaluating the effect that the adoption of the above standards will have on the consolidated financial statements of the Bank, and it does not intend to early adopt any of them. The Bank expects that the most significant impact will result from the below new standards that have been issued but are not yet effective:

- **IFRS 9 "Financial Instruments":**
  IFRS 9 (as revised in 2014) will supersede IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety. The completed IFRS 9 contains the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

- **IFRS 15 "Revenue from Contracts with Customers":**
  IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 includes far more prescriptive guidance to deal with for specific scenarios and requires extensive disclosures in the financial statements.

2. Significant accounting policies (continued)

2.4. Foreign currency translation

The financial statements are presented in Euro (€), which is the functional and presentation currency of the Bank.

Transactions in foreign currencies are initially recognised by applying the amount of foreign currency at the current exchange rate between the functional currency and the foreign currency at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are shown in 'Foreign exchange income' in the income statement. Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

2.5. Turnover

Turnover consists of interest income, fee and commission income, foreign exchange income and other income.

2.6. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Bank and the amount of revenue can be reliably measured.

2.7. Interest income and expense

For all financial assets and financial liabilities measured at amortised cost, interest income and expenses are recognised using the effective interest rate method. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.8. Fee and commission income and expense

Fee and commission income and expense is recognised on the basis of work done so as to associate the cost of providing the service.

2.9. Dividend income

Dividend income is recognised in income statement when the Bank's right to receive payment is established.

2.10. Income from the disposal of investment properties

Income from the disposal of these properties is recognised in the income statement under 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.11. Operating leases

Leases that do not substantially transfer to the Bank all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term in 'Other operating expenses'.

2.12. Retirement benefits

The Bank operates a defined contribution scheme which provides for employer contributions of 9% of the employee salary and employee contributions of 3%-10% of their salary. The Company's contributions are expensed incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

2. Significant accounting policies (continued)

2.13. Financial Instruments

2.13.1. Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. 'Deposits with Central Bank', 'Amounts due to Bank's, 'Customer deposits and other accounts', 'Placements with Bank's, and 'Loans and advances to customers' are recognised when cash is received by the Bank or advanced to counterparties.

2.13.2. Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

2.13.3. Loans and advances to customers

Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortised cost is calculated taking into consideration the difference between the initial amount and the payable amount at maturity and all emoluments that comprise integral part of the effective interest. Amortisation is included in 'Interest Income' in Income Statement. The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances'.

Renegotiated loans

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

2.13.4. Investments

Management determines the appropriate classification of investments at the time of purchase.

2.13.4.1. Investments held-to-maturity

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into consideration the difference between the original amount and the amount payable on maturity, and all fees that are an integral part of the effective interest rate. Amortisation is included in 'Interest income' in the income statement. Losses arising from impairment of such investments are recognised in 'Losses from revaluation, sale and impairment of financial instruments' in the income statement.

2.13.4.2. Impairment of investments held-to-maturity

For investments classified as held-to-maturity or loans and receivables, the Bank assesses at each reporting date whether there is objective evidence that they have suffered an impairment loss. If there is objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the book value of the asset and the present value of estimated future cash flows (excluding future credit losses that have occurred). The book value of the asset is reduced and the amount of loss is recognised in the income statement.

If at a later period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the recognition of impairment, the impairment loss previously recognised is reversed, and the amount of the reversal is credited to 'Loss from revaluation, disposal and impairment of financial instruments', in the income statement.

2. Significant accounting policies (continued)
2.13. Financial Instruments (continued)

2.13.5. Deposits and loan capital
Deposits and subordinate loan capital are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective yield method.

Loan capital and convertible bonds are classified as financial liabilities when the Bank is obliged to pay its contractual obligations with cash or other assets other than the exchange of a fixed amount of cash to a specific number of treasure shares. Loan capital and convertible bonds are measured at fair value of consideration received, net of issuance costs. Subsequently, they are measured at amortised cost using the effective interest method. The value of embedded derivative financial instruments is included in the amount of the liabilities in the statement of financial position. Interest on deposits, loan capital and convertible bonds is included in 'Interest Income'.

2.14. Derecognition of financial assets and financial liabilities
2.14.1. Financial assets
A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party and has either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.14.2. Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.15. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a current legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16. Share capital
Any difference between the nominal value and the issue price of the share capital is recognised as share premium. Issue costs incurred in the process of share capital increase are deducted from equity.

2.17. Property, equipment and computer software

Property used in the Bank's operations is stated at its revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be using the fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extend that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extend of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extend that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures, equipment and computer software are stated as historic cost less accumulated depreciation.

2. Significant accounting policies (continued)
2.17. Property, equipment and computer software (continued)

Depreciation on leashold improvements, furniture and fittings, equipment, computer software and hardware and motor vehicles is calculated on the basis of cost less estimated residual value on a straight-line basis over the expected useful economic lives of the assets, commencing from the month of acquisition.

The annual depreciation rates for the year were as follows:

	%
Buildings	4
Leasehold improvements	10
Furniture and fittings	10
Office equipment	20
Computer hardware	20-33
Computer software	25
Motor Vehicles	20

Land is not depreciated. Improvement to leasehold property is stated at cost less accumulated depreciation.

Leasehold improvements are amortised over a period of 10 years or over the lease period if this period is less than 10 years.

Any profits or losses arising from the disposal of property, plant and equipment are transferred to the income statement in the year of disposal.

The carrying values of property, equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If there is such an indication and the carrying value exceeds the recoverable amount, the assets are written down to their recoverable amount through the income statement.

2.18. Investment properties
Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The Bank in its normal course of business, acquires properties in debt satisfaction, which are held directly by the Bank or by special purpose entities for the sole purpose of managing these properties. To reflect the substance of transactions, these are classified as investment properties and are consolidated without the entities being explicitly disclosed as subsidiaries.

2.19. Provisions for pending litigation or claims
Provisions for pending litigation or claims against the Bank are made when: (a) the Bank has a present obligation (legal or constructive) arising from past events, (b) it is probable that the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

2.20. Taxation
Taxation on income is provided in accordance with the provisions of the Income Tax Law and is recognised as an expense in the period in which the income arises. Deferred tax is calculated using the liability method.

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

2. Significant accounting policies (continued)
2.20. Taxation (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the amount expected to be paid to the tax authorities (or recovered from them), using tax rates expected to apply in the period in which the requirement will be realised or the liability will be settled. Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

2.21. Cash and cash equivalents
Cash and cash equivalents for the purpose of the Statement of Cash Flows represents cash, non-obligatory deposits with the Central Bank of Cyprus and placements with banks.

2.22. Financial guarantees
The Bank issues financial guarantees to its customers, consisting mainly of letters of credit for imports/ exports and other letters of guarantee. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities' in the statement of financial position. Subsequently, the Bank's liabilities under each financial guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

2.23. Segmental analysis
According to IFRS 8, the analysis per segment is based on the information used for internal reporting to management. The Bank operates in a single segment as it only provides banking services, its activities are provided in Cyprus and information is provided to management on this basis. Therefore, the information provided in the financial statements relates to the overall operations of the Bank.

2.24. Comparatives
Comparatives presented in the financial statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

3. Significant accounting estimates and judgments

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Going concern
Despite recent developments in the economic environment of the Cyprus economy as mentioned in Note 33 to the Financial Statements, the Bank's management has assessed the Bank's ability to continue as a going concern and is satisfied that the Bank has the financial resources to continue its business operations in the foreseeable future. Accordingly, the financial statements continue to be prepared on the going concern basis.

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

3. Significant accounting estimates and judgments (continued)
3.2. Provision for impairment of loans and advances(continued)

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

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

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the present value of future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgments are made in the calculation of future cash flows.

Furthermore, judgments change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

In addition to provisions for impairment on an individual basis, the Bank also makes collective impairment provisions. The Bank adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because it is not practical to identify losses on an individual loan basis because of the large number of loans in each portfolio.

The total amount of the Bank's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions which are influenced by many factors. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

3.3. Tax

The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the reporting date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will affect the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

The Bank recognises a deferred tax asset in relation to tax losses, to the extent there may be future taxable profits against which the losses may be utilised. The determination of the amount of deferred tax assets that can be recognised is based on the timing and level of future taxable profits, in combination with future tax planning strategies. These variables are determined based on significant estimates and assumptions, and are by definition uncertain. It is possible that the actual conditions in the future will be different from the assumptions used, resulting in material adjustments to the carrying value of deferred tax assets.

4. Interest income

	2014	2013
	€	€
Loans and advances to customers	**35.559.226**	32.915.607
Placements with banks and with the Central Bank	**440.686**	665.482
Investments	**5.399.649**	7.330.955
	41.399.561	40.912.044

Interest income from loans and advances to customers includes interest on the recoverable amount of the impaired loans and advances amounting to €7.547.305 (2013: €2.790.738).

5. Interest expense

	2014	2013
	€	€
Customer deposits	**13.133.808**	17.528.440
Placements by banks	**153**	119.569
Loan capital	**764.082**	764.009
	13.898.043	18.412.018

6. Staff costs

	2014	2013
	€	€
Staff salaries and other remuneration	**8.871.440**	9.443.117
Social insurance and other contributions	**1.389.812**	1.171.109
Retirement benefit costs	**756.744**	1.297.897
	11.017.996	11.912.123

The number of persons employed by the Bank as at 31 December 2014 was 231 (2013: 230).

The new 3 year collective agreement signed between the Cyprus Union of Bank Employees and the Cyprus Employers' Association for years 2014 to 2016 implemented reductions in salaries applicable from 1 March 2014 and also reductions for the employers contributions to the employees provident fund applicable from 1 January 2014.

The Bank operates a defined contribution scheme which provides for employer contributions of 9% on the employee gross salary and employee contributions of 3%-10% of their gross salary. The Company's contributions are expensed incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The current collective agreement for the 3 year period from 1 January 2014 to 31 December 2016 amends the employer contributions to the provident fund as follows:

- For period 1 January 2015 to 31 December 2015 the employer contribution will remain at 9%
- For period 1 January 2016 to 31 December 2016 the employer contribution will be 9,5%
- For period 1 January 2017 onwards the employer contribution will be 11,5%

Contracts with employees

For contracts involving probationary hiring of personnel which are governed by the agreement with the Cyprus Union of Bank Employees ("ETYK"), the Bank has the right to terminate the services of the employee at any time during his probationary service, without any notice. If for any reason an employee wishes to terminate his employment with the Bank, one months' notice must be given. The employment contracts of staff members whose employment terms are not governed by the agreement with ETYK include a provision for a notice period in case of non-justified pre-mature termination of contract.

7. Loss before tax

Loss before tax is stated after charging the following items:

	2014	2013
	€	€
Special tax levy on credit institutions	**876.030**	926.762
Directors' emoluments (Note 31)	**450.821**	460.847
Loss on sale and write-off of fixed assets	**1.994**	220
Operating lease rentals for buildings	**658.987**	682.598
Independent auditors' remuneration for audit and other professional services provided to the Bank:		
- Statutory audit of the financial statements of the Bank and its special purpose entities	**99.246**	109.731
- Other assurance services	**16.660**	17.155
- Tax services	**3.570**	3.570
- Other non-audit services	**21.615**	33.753

The above amounts are included in the category "Other operating expenses", except for Directors' emoluments, which is presented in the category "Staff costs".

Special Tax Levy on Credit Institutions

According to the "Special Levy on Credit Institutions Law of 2011", passed on 14 April 2011, a special levy on credit institutions, for years 2011 and 2012, was imposed on qualifying deposits held by each credit institution at 31 December of the year preceding the year of taxation at the rate of 0,095%.The amendments passed on 21st December 2012, provided, among other, for the elimination of the restriction on the two year force of the relevant law and for the increase of the special levy tax to 0,11%. With an amendment of the Law, published in the official Gazette on 29th April 2013, the special levy tax rate increased to 0,15%. Based on a new amendment of the Law punlished in the official Gazette on the 26th July 2013, the special levy was calculated for the year 2013, on a quarterly basis at the rate of 0,0375% on the deposits of financial institutions at 31st December 2012, 31st March, 30th June and 30th September of the year. As from 1st January 2014 the special levy tax is charged on the deposits at 31st December of the previous year at the rate of 0,15%.

8. Tax

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2014	2013
	€	€
Loss before tax	**(12.343.658)**	(14.945.638)
Corporation tax based on the applicable rates	**(1.542.957)**	(1.868.205)
Tax effect of:		
- Not deductible expenses	**469.453**	876.467
- Income not subject to tax	**(97.806)**	(89.435)
- Tax losses for the year	**1.171.310**	1.081.173
Tax per the income statement	**-**	-

Corporation tax is calculated at the rate of 12,5% on taxable income.

These notes form an integral part of the financial statements.

8. Tax (continued)

On 21 December 2012, the House of Representatives enacted amendments to the Income Tax law, according to which the loss of any tax year shall not be carried forward and shall not be offset against any income of any tax year further than five years from the end of the tax year in which the loss arose. As at 31 December 2014 the Bank's tax losses to be carried forward amounted to €24,8 million (2013: €15,3 million) in connection with which the Bank recognised a deferred tax asset in the statement of financial position corresponding to the future utilisation of €4,1 million (2013: €3,8 million) of tax losses.

The movement of the deferred tax liability is as follows:

	2014	2013
	€	€
Balance at 1 January	**119.245**	71.525
(Reversal)/charge to the Income Statement	**(79.300)**	47.720
Reversal of charge to the Statement of Comprehensive Income	**(6.417)**	-
Balance at 31 December	**33.528**	119.245

The balance of net deferred tax liability (Note 19) represents:	**2014**	2013
	€	€
Difference between tax allowances and accounting depreciation	**176.979**	143.548
Revaluation of property	**374.063**	453.392
Tax losses utilised	**(517.514)**	(477.695)
	33.528	119.245

9. Loss per share

	2014	2013
	€	€
Loss attributable to shareholders	**(13.140.388)**	(15.920.120)
Weighted average number of shares in issue during the year	**139.088.015**	99.270.663
Loss per share (cent)	**(9,4)**	(16,0)

At 31 December 2014, there were no titles convertible to ordinary shares and consequently diluted losses per share are not presented.

Notes to the Financial Statements
for the year ended 31 December 2014

10. Cash and balances with the Central Bank

	2014	2013
	€	€
Cash	**5.932.684**	5.672.867
Balances with the Central Bank of Cyprus	**63.651.827**	39.258.922
	69.584.511	44.931.789

Deposits with the Central Bank of Cyprus include obligatory deposits for liquidity purposes which amount to €5.789.923 (2013: €5.762.106).

The analysis of credit ratings for deposits with the Central Bank of Cyprus by independent rating agencies is presented in Note 29.

11. Placements with banks

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 29. Placements with banks earn interest which is based on the interbank rate of the relevant term and currency.

12. Loans and advances to customers

	2014	2013
	€	€
Loans and other advances	**463.691.534**	497.338.135
Provision for impairment of loans and advances	**(83.853.947)**	(85.694.082)
	379.837.587	411.644.053

Provision for impairment of loans and advances:	2014	2013
	€	€
1 January	**85.694.082**	57.099.638
Collections/reversals	**(1.329.534)**	(1.620.132)
Charge for the year	**25.539.373**	21.283.826
Net charge for the year	**24.209.839**	19.663.694
Restriction of interest on impaired loans	**5.024.004**	9.922.060
Write offs	**(31.073.978)**	(991.310)
	(1.840.135)	28.594.444
31 December	**83.853.947**	85.694.082

Based on a decision of the Board of Directors of the Bank in June 2014, loan balances amounting to €28.390.032 which were fully impaired, and for which all legal measures have been exhausted were fully written off. The respective amount of provision was also written off.

Non-performing loans and advances

On 31 December 2014, the gross non-performing loans and advances in accordance with the Directive of the Central Bank of Cyprus, which was applied as of 1st July 2013, amounted to €259.885.232 (2013: €235.243.280).

12. Loans and advances to customers (continued)
Non-performing loans and advances (continued)

According to the Directive, customer loans and advances are considered non-performing when:
- they present past due balances or are in excess for a period of more than ninety (90) days,
- they have been restructured and at the time of restructuring were classified as non-performing or presented arrears for a period of more than 60 days (with the exception of loans and advances which on 15th March 2013 were performing, were restructured between 18th March 2013 and 30th September 2013 and the restructuring did not provide for a lump sum payment of 20% or higher of the loan or for a grace period over 12 months for interest and over 24 months for capital),
- they have been restructured twice or more times in an 18 month period (with the exception of loans and advances fully secured with cash).

The Bank is in the process of implementation of the reporting standards on forbearance and non-performing exposures which was issued by the European Banking Authority and was ratified as a law by the European Parliament and published in the official journal of the European Union on 20 February 2015. The Bank is expected to be in full compliance with the reporting standards within the first half of 2015.

Loans with conditions that were renegotiated
Loans with conditions that were renegotiated represent clients' facilities that have been restructured in accordance with the Directive of the Central Bank of Cyprus which applied as of 1st July 2013. Under the Directive, restructuring of a client's facilities covers any action that changes the terms and/or conditions of the client's facilities in order to deal with existing or expected difficulties of the client to service the facilities.

According to the said Directive, a restructured non-performing facility remains classified as non-performing as follows:
- For six months following the commencement of the new amortisation repayment schedule of capital instalments in relation to credit facilities with modifications in their amortisation repayment schedule, while for credit facilities with gradual increase of the instalment amount, the facility remains non-performing for six months following the first month at which the highest instalment is due. Exceptions to the above rules are cases where the modified repayment schedule provides for a lump sum payment on maturity of 20% or higher of the outstanding balance (as at the date of restructuring). For these cases, the facility remains non-performing until its maturity.
- For six months following the restructuring in relation to overdrafts. After the six months, overdraft accounts will be classified as performing only if their credit turnover (excluding credits relating to cheques returned unpaid and credits relating to disbursement of loans) is equal to or higher than the interest charged for the above-mentioned period.

After the lapse of the above-mentioned period for the classification of restructured facilities as non-performing, the facility will be classified as non-performing only if it fulfils the criteria for the classification of non-performing facilities according to the said Directive.

Bank's policy for specific and collective provisions
The Bank reviews the collectability of its loans and advances to customers and assesses whether a provision for impairment should be recorded in the income statement. The procedure followed by the Bank for the provisioning exercise comprises of an individual assessment of the exposures for specific provision and assessment for collective impairment as per the Bank's provisioning policy.

Specific provision
The selection criteria for clients which are individually assessed for specific provision and based on the Bank's policy are as follows:
- All exposures to a borrower and his connected parties that are considered significant. A materiality threshold was determined by the Bank.
- All exposures to related parties of the Bank as defined in the Fit and Proper Criteria of the Members of the Management Body Directive of 2006-2007 and their connected parties.
- Any exposure to a borrower which is classified as high risk because of its total banking exposure or industry.

12. Loans and advances to customers (continued)
Bank's policy for specific and collective provisions (continued)

Exposures which are identified from the above selection criteria are assessed for impairment if a "trigger event" existed. The following trigger events are set by the Bank:
- Exposures that are classified as Non Performing
- Exposures that are Performing but Restructured

For the exposures that are individually assessed for impairment, discounted cash flow (DCF) calculations are performed. The amount of impairment is the difference between the exposure's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flows include any expected cash flows from the borrowers operations, any other sources of funds and the proceeds from liquidation of collateral where applicable.

Assumption regarding the realisable value of real estate collateral
A model is used to predict the realisable value of the collateralised properties at the time of disposal using as a benchmark the latest independent valuation in hand. Some other considerations taken into account for assessing the realisable value of the collateral include projections of the Cyprus economy and Management best estimates.

The realisable value is determined as the lower of the expected value at the point of sale given the above assumptions and the property's mortgaged value. The time of disposal is assessed on a case by case basis, bearing in mind the particular characteristics of each case, the customer's classification, customer intentions and market expectations.

Collective provision
All exposures which are assessed on an individual basis but for which no impairment is recognised and also all exposures not individually assessed are included in a pool of exposures with similar characteristics and are assessed for collective impairment using the applicable Probability of Default (PD) and Loss Given Default (LGD) rates that are set in the Bank's provision policy. The PDs and LGDs assigned to each category in the provision methodology are assigned based on Management judgment.

13. Investments held-to-maturity

	2014	2013
	€	€
Issuers:		
Cyprus Government	**82.227.204**	82.377.190
Foreign banks	**18.335.934**	32.221.074
	100.563.138	114.598.264

	2014	2013
	€	€
Listed in:		
Cyprus stock exchange	**3.609.198**	15.150.847
European stock exchanges	**96.125.635**	97.263.027
Other stock exchanges	**828.305**	2.184.390
	100.563.138	114.598.264

13. Investments held-to-maturity (continued)

The movement of investments held-to-maturity for the year analysed as follows:

	2014	2013
	€	€
1 January	**114.598.264**	142.508.707
Purchase of bonds	**62.184.941**	9.873.634
Sale/maturity of bonds	**(78.911.859)**	(40.899.639)
Effect of changes in exchange rates	**729.862**	(264.086)
Amortisation	**1.961.930**	3.379.648
31 December	**100.563.138**	114.598.264

The fair value of held-to-maturity investments as at 31 December 2014 was €100.161.022 (2013: €107.901.993).

14. Investment properties

Investment properties consist of properties acquired in settlement of customer debts and are presented at the reporting date at their estimated fair value.

	2014	2013
	€	€
1 January	**27.950.000**	26.876.000
Additions for the year	**4.380.000**	3.396.213
Disposals for the year	**-**	(113.750)
Change in fair value	**(1.574.000)**	(2.208.463)
31 December	**30.756.000**	27.950.000

The Bank as part of its normal operations acquires property from customers in settlement of their obligations, which are held directly or through companies controlled by the Bank whose sole business activity is the management of these properties. The properties are recognised in the financial statements of the Bank as investment property and are included without presenting the subsidiary companies separately, reflecting the substance of these transactions.

The fair value of investment properties as at 31 December 2014 has been estimated based on valuations carried out by independent qualified surveyors. The valuation technique mainly applied is the market comparable approach, adjusted for market and property specific conditions. The fair value of investment properties is as at the reporting date and does not represent any expectations about their future value.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

14. Investment properties (continued)

The table below analyses the investment properties measured at fair value based on hierarchy level:

	2014	2013
	Level 3	Level 3
	€	€
Investment Properties	**30.756.000**	27.950.000
	30.756.000	27.950.000

There have been no transfers between different levels during the year.

Reconciliation of Level 3 fair value measurements:

	2014	2013
	€	€
Opening balance	**27.950.000**	26.876.000
Total gains or losses:		
-in income statement	**(1.574.000)**	(2.208.463)
-in other comprehensive income	**-**	-
Additions for the year	**4.380.000**	3.396.213
Disposals for the year	**-**	(113.750)
Closing balance	**30.756.000**	27.950.000

The fair value measurements of investment properties which were classified as Level 3 are affected by the adverse economic environment in Cyprus. The liquidation of properties is considered to be problematic and the number of transactions that the valuators can use has been dramatically restricted. The valuations were determined by using transaction prices from similar properties adjusted to reflect the differences between these transactions and the properties under study.

14. Investment properties (continued)

The special purpose entities which are included in the individual accounts of the Bank as at 31 December 2014 are as follows:

Name	Country of incorporation	Participation	Nature of operations
Imagetech Limited	Cyprus	100%	Note (i)
Averrhoa Limited	Cyprus	100%	Note (ii)
Rowington Ventures Limited	Cyprus	100%	Note (ii)
Lardonia Limited	Cyprus	100%	Note (ii)
Sabatia Limited	Cyprus	100%	Note (ii)
Serenoa Limited	Cyprus	100%	Note (ii)
Shortia Limited	Cyprus	100%	Note (ii)
Delaway Limited	Cyprus	100%	Note (i)
Cotidie Ventures Limited	Cyprus	100%	Note (ii)
Olcinia Holdings Limited	Cyprus	100%	Note (i)
Crantenia Ventures Limited	Cyprus	100%	Note (ii)
Osperus Holdings Limited	Cyprus	100%	Note (i)
Kantadia Ventures Limited	Cyprus	100%	Note (ii)
Dusanic Holdings Limited	Cyprus	100%	Note (i)
Macerio Limited	Cyprus	100%	Note (ii)
Perekin Holdings Limited	Cyprus	100%	Note (i)
Azulito Ventures Limited	Cyprus	100%	Note (ii)
Perequito Holdings Limited	Cyprus	100%	Note (i)
Bequelia Ventures Limited	Cyprus	100%	Note (ii)
Serissa Holdings Limited	Cyprus	100%	Note (i)
Tipuana Ventures Limited	Cyprus	100%	Note (ii)
Fantinaco Limited	Cyprus	100%	Note (ii)
Naila Holdings Limited	Cyprus	100%	Note (i)
Snaresbrook Ventures Limited	Cyprus	100%	Note (ii)
Lewisia Holdings Limited	Cyprus	100%	Note (i)
Scaevola Ventures Limited	Cyprus	100%	Note (ii)

i. Intermediate holding company
ii. Property ownership and management

15. Property and equipment

Year 2014	Freehold property €	Leashold improvements €	Equipment €	Total €
Cost or estimated fair value				
1 January	4.553.318	3.246.910	5.464.515	**13.264.743**
Additions	-	12.401	110.065	**122.466**
Disposals/write-offs	(9.570)	(1.831)	(74.714)	**(86.115)**
Revaluation	(32.775)	-	-	**(32.775)**
Reversal of depreciation due to revaluation	(199.225)	-	-	**(199.225)**
31 December	4.311.748	3.257.480	5.499.866	**13.069.094**
Depreciation				
1 January	539.415	2.259.482	4.759.918	**7.558.815**
Charge for the year	161.986	150.762	208.828	**521.576**
Disposals/write-offs	(8.054)	(290)	(74.714)	**(83.058)**
Reversal of depreciation due to revaluation	(199.225)	-	-	**(199.225)**
31 December	494.122	2.409.954	4.894.032	**7.798.108**
Net Book Value	3.817.626	847.526	605.834	**5.270.986**

Year 2013	Freehold property €	Leashold improvements €	Equipment €	Total €
Cost or estimated fair value				
1 January	4.553.318	3.002.453	5.878.692	13.434.463
Additions	-	297.020	98.843	395.863
Disposals/write-offs	-	(52.563)	(513.020)	(565.583)
31 December	4.553.318	3.246.910	5.464.515	13.264.743
Depreciation				
1 January	376.871	2.168.037	5.028.764	7.573.672
Charge for the year	162.544	144.008	243.454	550.006
Disposals/write-offs	-	(52.563)	(512.300)	(564.863)
31 December	539.415	2.259.482	4.759.918	7.558.815
Net Book Value	4.013.903	987.428	704.597	5.705.928

Properties are presented at fair value based on valuation carried out in December 2014 by independent qualified surveyors. The valuation technique mainly applied is the market comparable approach, adjusted for market and property specific conditions. The fair value of freehold properties is as at the reporting date and does not represent any expectations about their future value.

The net book value of own properties at 31 December 2014 based on cost less accumulated depreciation is €1.910.426 (2013: €2.155.911). Land is not depreciated and its book value at 31 December 2014 was €1.349.818 (2013: €1.433.695).

15. Property and equipment (continued)

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses the freehold properties measured at fair value based on hierarchy level:

	2014	2013
	Level 3	Level 3
	€	€
Properties	**4.311.748**	4.553.318
	4.311.748	4.553.318

There have been no transfers between different levels during the year.

Reconciliation of Level 3 fair value measurements:

	2014	2013
	€	€
Opening balance	**4.553.318**	4.553.318
Total gains on losses:		
-in income statement	**-**	-
-in other comprehensive income	**(232.000)**	-
Additions for the year	**-**	-
Disposals for the year	**(9.570)**	-
Closing balance	**4.311.748**	4.553.318

The fair value measurements of properties were classified as Level 3 due to the absence of an active market in Cyprus. The liquidation of properties is considered to be problematic and the number of transactions that the valuators can use has been dramatically restricted. The valuations were determined by using transaction prices from similar properties adjusted to reflect the differences between these transactions and the properties under study.

16. Intangible assets

Year 2014	Computer software €
Cost	
1 January	**5.395.068**
Additions	**215.625**
Disposals/Write-offs	**(69.687)**
31 December	**5.541.006**
Amortisation	
1 January	**4.767.325**
Charge for the year	**264.463**
Disposals	**(69.687)**
31 December	**4.962.101**
Net Book Value	**578.905**

Year 2013	Computer software €
Cost	
1 January	5.108.062
Additions	287.006
Disposals/Write-offs	-
31 December	5.395.068
Amortisation	
1 January	4.549.451
Charge for the year	217.874
Disposals	-
31 December	4.767.325
Net Book Value	627.743

17. Other assets

	2014 €	2013 €
Sundry debtors and other assets	**1.852.483**	884.965
Collateral amount with Visa International	**986.920**	869.649
	2.839.403	1.754.614

The collateral amount with Visa International represents a blocked deposit account of the Bank in US dollars which is placed as security for the purposes of its cooperation with the organisation. Other assets include prepaid interest on customer deposits outstanding at year end.

18. Customer deposits

	2014 €	2013 €
Demand deposits	**138.279.864**	151.118.703
Notice deposits	**75.452.986**	66.666.757
Term deposits	**392.573.938**	371.891.743
	606.306.788	589.677.203

19. Other liabilities

	2014	2013
	€	€
Sundry creditors	**348.455**	362.948
Deferred Income	**96.735**	89.308
Net deferred tax liability (Note 8)	**33.528**	119.245
Bills payable	**7.021.123**	724.246
Deemed dividend distribution (Note 23)	-	2.045
Other liabilities	**1.599.162**	1.437.930
Accrued expenses	**836.518**	664.185
Special defence contribution	**658.379**	850.815
	10.593.900	4.250.722

20. Loan capital

	2014	2013
	€	€
Tier 1 capital		
Capital securities	**973.903**	973.903
Tier 2 capital		
Non-convertible bonds	**8.000.000**	8.000.000
Convertible bonds	**1.209.060**	1.209.060
	9.209.060	9.209.060
	10.182.963	10.182.963

Capital Securities

The Capital Securities were issued on 1 January 2006 and were offered to professional investors and to a specific number of non-professional investors in Cyprus. The Capital Securities rank as Tier 1 capital and have no maturity date. However, they may be redeemed in whole at the option of the Bank subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter, and provided that they will be replaced with capital of equivalent or senior ranking unless the Central Bank of Cyprus concludes that the Bank's capital is at a satisfactory level.

The Capital Securities bear floating interest rate, which is revised at the beginning of each period interest is charged, and will be valid for that specific period. Interest rate is equal to the base rate of the Bank at the beginning of each period interest is charged plus 1,60% annually. Interest is payable every six (6) months, on 30 June and 31 December. According to the terms of issue, if the Bank does not proceed with the repurchase of Capital Securities within ten years from their issuance date (i.e. up to 31 December 2015), then from 1 January 2015, the Capital Securities will bear floating interest rate that will be revised at the beginning of each period in which interest will be charged and will be equal to the base rate ruling at the beginning of each period interest is charged plus 2,25% annually.

20. Loan capital (continued)

Non-convertible bonds

On 30 December 2009 the Bank issued bonds amounting to €8.000.000 with a maturity date of 31 December 2019. The bonds constitute direct, unsecured, subordinated securities of the Bank and bear a fixed interest rate of 7,50% on the nominal value for the period from the issue date to 30 December 2014. From 31 December 2014 to their maturity, the bonds will bear a fixed annual interest rate of 9% on the nominal value. Excluding the first interest rate period commencing on (and including) the 22 of December 2009 and maturing on 30 June 2010 (not included), all subsequent interest periods will cover six months.

The Bank has the right to redeem wholly the bonds on 30 June 2015 but not partially, in cash at their nominal value, along with any accrued interest relating to the current interest rate period, on 30 June 2015, or on any following interest payment date, upon approval from the Central Bank.

Convertible bonds

On 14 June 2010, the Bank issued €1.209.060 convertible bonds maturing on 30 June 2020. The convertible debentures are direct, unsecured and subordinated obligations of the Bank and carry a fixed rate of 7,25% on the nominal value for the period from the date of issue until 30 June 2015. From 30 June 2015 until their maturity the convertible bonds will carry fixed interest rate 8,75% on the nominal value. Except the first interest period commenced on 26 May 2010 (included) and matured on 30 June 2010 (not included), each interest period will be 6 months.

The last conversion period of the bonds was on 30 September 2014.

21. Share capital, share premium reserve and special reserve

	2014			2013		
	Number of shares	**Share capital €**	**Share premium €**	Number of shares	Share capital €	Share premium €
Authorised						
Ordinary shares of €0,10 each (2013: €0,57 each)	**855.000.000**	**85.500.000**	**-**	150.000.000	85.500.000	-
Issued and fully paid						
1 January	**99.270.663**	**56.584.278**	**24.666.732**	99.270.663	56.584.278	24.666.732
Reduction of Capital	**-**	**(46.657.212)**	**-**	-	-	-
Share issue	**66.666.667**	**6.666.667**	**13.333.333**	-	-	-
31 December	**165.937.330**	**16.593.733**	**38.000.065**	99.270.663	56.584.278	24.666.732

In a meeting held on the 24th February 2014 the Board of Directors of the Bank decided to proceed to an increase of the issued share capital of the Bank by €20 million (the "Issue") to strengthen the capital base. The proposed Issue concerned the issue and allotment of 66.666.667 new ordinary shares at an issue price of €0,30 per new share.

In order to facilitate the issue and allotment of new ordinary shares in view of the prevailing current financial conditions and the fact that pursuant to the Cyprus Companies Law Cap. 113 (as amended), new shares cannot be issued and allotted at a price lower than the current nominal value of €0,57 which was higher than the current net asset value per share, the Board of Directors of the Bank convened an Extraordinary General Meeting (EGM) on the 27th March 2014 and approved a resolution for the reduction of the nominal value of the ordinary shares of the Bank from €0,57 to €0,10 per share. The reduction of the nominal value of the Bank's shares was approved in order to facilitate and provide greater flexibility to the Bank, for the issuance of 66.666.667 new ordinary shares. The total amount from the reduction of the nominal value of the issued ordinary shares amounting to €46.657.212 was utilised for the reduction of the Bank's accumulated losses.

21. Share capital, share premium reserve and special reserve (continued)

With the approval of the above resolution and based on the subsequent ratification by the District Court of Nicosia, the authorised share capital of the Bank was reduced to €15.000.000 divided into 150.000.000 ordinary shares of nominal value of €0,10 each and the issued share capital was reduced to €9.927.066,30 divided into 99.270.663 ordinary shares of nominal value of €0,10 each. Within the same resolution the authorised share capital of the Bank re-increased to the amount of €85.500.000 which was divided into 855.000.000 ordinary shares of a nominal value of €0,10 each.

In a meeting held on the 27th May 2014 the Board of Directors of the Bank decided to issue and allot 66.666.667 new ordinary shares of nominal value €0,10 each at the total issue price of €0,30 each, exclusively to BLC Bank SAL. The 66.666.667 new ordinary shares rank pari passu with the existing fully paid shares of the Bank.

As a result of the above, the issued share capital of the Bank amounts to €16.593.733 divided into 165.937.330 ordinary shares of nominal value of €0,10 each and the authorised share capital amounts to €85.500.000 divided into 855.000.000 ordinary shares of nominal value of €0,10 each.

In December 2014 the Parent company, BLC Bank SAL, made an irrevocable commitment to fully cover any required increase of capital of the Bank, in an effort for the Bank to enhance its capital base, by blocking €10,2 million in an escrow account demonstrating its continuous support to the Bank. As a result the Bank`s equity is increased by €10,2 million through the Special Reserve account.

22. Revaluation reserves

	Investments revaluation reserve €	Property revaluation reserve €	Total €
Year 2014			
1 January	-	3.330.257	3.330.257
Revaluation of property	-	(32.775)	(32.775)
Deferred tax	-	6.417	6.417
31 December	-	3.303.899	3.303.899

	Investments revaluation reserve €	Property revaluation reserve €	Total €
Year 2013			
1 January	(1.431.851)	3.330.257	1.898.406
Revaluation of available for sale investments	(290.859)	-	(290.859)
Transfer to statement of comprehensive income due to disposal	1.551.510	-	1.551.510
Transfer to the statement of comprehensive income due to impairment	171.200	-	171.200
31 December	-	3.330.257	3.330.257

23. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2014 and 2013 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax year 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Bank for the account of the shareholders. The Bank incurred losses in year 2012 and as a result no special defence contribution in relation to deemed dividend distribution was payable in the year.

24. Contingent liabilities and commitments

	2014	2013
	€	€
Contingent liabilities		
Acceptances and endorsements	-	87.793
Guarantees	**21.025.437**	19.456.267
	21.025.437	19.544.060
Commitments		
Documentary credits and certified export credits	**835.486**	1.822.536
Unutilised limits	**35.462.804**	35.212.204
	36.298.290	37.034.740

Unutilised limits are commitments for the provision of facilities to customers. The limits are provided for a fixed period and are cancellable by the Bank after specific notice to the client.

Capital commitments
There were no commitments for contracted capital expenditure of the Bank as at 31 December 2014 and as at 31 December 2013.

Litigation
As at 31 December 2014, with the exception of the case mentioned below the Bank in the ordinary course of business is involved in lawsuits, which the Management of the Bank does not expect to have a significant effect on the financial position and operations of the Bank. At the same time, there are no other pending claims or/and assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

Commission for the Protection of Compensation Investigation
Following an investigation, which began in 2010, the Cypriot Commission for the Protection of Competition ("CPC") in April 2014 issued its statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Bank. The CPC has alleged that the market conduct of JCC Payment Systems Ltd ("JCC"), a card-processing business owned by its shareholder banks, together with the conduct of other banks, violates competition law in various aspects. Both the Bank and JCC are contesting the allegations and charges.

The above investigation is in progress and therefore it is not practical at this stage for the Bank to estimate reliably any possible liability that might arise.

25. Analysis of assets and liabilities by expected maturity

	2014			2013		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and deposits with the Central Bank	**58.832.398**	**10.752.113**	**69.584.511**	34.386.596	10.545.193	44.931.789
Placements with banks	**87.153.762**	**-**	**87.153.762**	49.365.884	-	49.365.884
Loans and advances to customers	**46.027.917**	**333.809.670**	**379.837.587**	33.630.663	378.013.390	411.644.053
Investments held-to-maturity	**51.446.034**	**49.117.104**	**100.563.138**	37.423.199	77.175.065	114.598.264
Investment properties	**-**	**30.756.000**	**30.756.000**	-	27.950.000	27.950.000
Property, equipment and intangible assets	**-**	**5.849.891**	**5.849.891**	-	6.333.671	6.333.671
Other assets	**1.852.483**	**986.920**	**2.839.403**	884.965	869.649	1.754.614
	245.312.594	**431.271.598**	**676.584.292**	155.691.307	500.886.968	656.578.275
Liabilities						
Customer deposits	**68.701.144**	**537.605.644**	**606.306.788**	62.417.530	527.259.673	589.677.203
Other liabilities	**10.558.141**	**35.759**	**10.593.900**	4.250.722	-	4.250.722
Loan capital	**10.182.963**	**-**	**10.182.963**	-	10.182.963	10.182.963
	89.442.248	**537.641.403**	**627.083.651**	66.668.252	537.442.636	604.110.888

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

- Loans and advances to customers are classified based on their expected repayment schedule and their expected collectability.
- Customer deposits and other accounts are classified based on historical behavioural data.
- Other assets and liabilities are classified based on their contractual maturity date.

26. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2014	2013
	€	€
Within one year	**315.661**	470.309
Between two and five years	**366.195**	879.435
Over five years	**-**	-
	681.856	1.349.744

The Bank's commitments for leases of buildings depend on the provisions of the relevant operating lease agreements. These agreements contain provisions for future adjustments on the lease payments, and allow the renewal of the agreements upon expiry by the Bank.

27. Net cash flow from/(used in) operating activities

	2014	2013
	€	€
Loss before tax	**(12.343.658)**	(14.945.638)
Adjustments:		
Provision for impairment of loans and advances	**24.209.839**	19.663.694
Charge for impairment of the value of financial assets	-	171.200
Depreciation of property and equipment and amortisation of intangible assets	**786.039**	767.880
Loss on disposal of property and equipment	**1.994**	220
Loss on revaluation of investment property	**1.574.000**	2.208.463
Interest on investments	**(5.399.649)**	(7.330.955)
Interest on loan capital	**764.082**	764.009
	9.592.647	1.298.873
(Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**(27.817)**	550.624
Investments in bonds	**(2.691.792)**	(3.115.562)
Loans and advances to customers	**7.596.627**	859.582
Investment properties	**(4.380.000)**	(3.282.463)
Other assets	**(1.084.789)**	234.177
	(587.771)	(4.753.642)
Increase/(decrease) in operating liabilities:		
Deposits by banks	-	(42.306.250)
Customer deposits	**16.629.585**	(67.444.038)
Other liabilities and other accounts	**6.428.895**	(237.680)
	23.058.480	(109.987.968)
Special levy tax paid	**(876.030)**	(926.762)
	22.182.450	(110.914.730)
Net cash flow from/(used in) operating activities	**31.187.326**	(114.369.499)

28. Cash and cash equivalents

	2014	2013
	€	€
Cash and balances with the Central Bank (Note 10)	**69.584.511**	44.931.789
Placements with banks (Note 11)	**87.153.762**	49.365.884
	156.738.273	94.297.673
Less obligatory deposits with the Central Bank (Note 10)	**(5.789.923)**	(5.762.106)
	150.948.350	88.535.567

29. Risk management

In the ordinary course of the business, the Bank is exposed to various risks, which are managed and monitored through a continuous process of identification, measurement, and monitoring to prevent undue risk concentrations. The Bank's management considers risk management to be a major process and a major factor in ensuring sustainable return to its shareholders. Each manager is responsible for the risks arising from their daily duties. A description of the nature of those risks and the way they are managed is provided below:

29. Risk management (continued)

Credit risk
Credit risk is the risk created primarily from credit facilities, trading and treasury management if one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Credit Risk Management Department has the responsibility to evaluate and assess the credit risk of the Bank and the responsibility to manage and control credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors. It recommends establishing and developing credit policies and procedures based on Central Bank of Cyprus directives and adjusts when appropriate, in consultation with the General Management, the lending delegation limits for the various Approval Authorities.

The Credit Risk Management Department evaluates the granting of credit facilities to customers of the Bank under the credit policy and procedures, limits and principles of financing and also assesses the new banking products and new banking activities of the Bank.

The approval process of credit facilities aims in minimising credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis.

Loan Origination and Renewal Processes
In September 2013, the Central Bank of Cyprus issued a Directive on Loan Origination and Processes of Reviewing Existing Loans. The provisions of this Directive are applicable to all Authorised Credit Institutions ("ACI") and credit institutions that operate in the Republic under Section 10A of the Business of Credit Institutions Laws of 1997 to (No 4) 2013.

The basic principle when assessing or reviewing a Loan is that the value of collateral is not a decisive factor in the ACI's assessment of a Loan application. Collateral could only serve as a secondary source of repayment, and as such it shall be assessed.

The decisive/overriding criterion for granting a Credit Facility is the Borrower's ability to repay the Credit Facility within the approved time limit. It is noted that when assessing the Borrower's repayment ability, any recourse to collateral or to Guarantors' income shall not be taken into account, except for specific cases that are evaluated on a case by case basis and mostly concerning cash collateral lending.

In this respect the Bank has proceeded with all necessary changes and improvements in the IT systems and staff training through circulars so as to facilitate the implementation of this Directive, as well as to re-train all personnel involved in Loan appraisal and reviewing of existing Loans, with special emphasis on how to assess repayment ability.

Monitoring of the lending portfolio
The Bank's portfolio is continuously monitored in order to avoid undertaking high risks when granting credit facilities and in their subsequent duration. When granting loans and advances to customers, the Bank uses an internal evaluation and grading system based on the clients' historical payment records and their overall relationship with the Bank and also a Rating System for corporate customers. In the case of governments and financial institutions, the evaluation is made based on the ratings of international credit rating agencies. The Bank uses Internal Rating Systems so as the customer's rating is representative of the credit risk involved. The evaluation process is supported by periodic audits by the Internal Audit Department.

The Bank's policy regarding the identification of impaired loans and advances and the methodology employed to determining the impairment provisions is set out in the notes 2.13.3, 3.2 and note 12.

29. Risk management (continued)

Credit risk (continued)

The Bank prepares all reports relating to the control of credit risk at fixed intervals, and sends them to the Board of Directors and the Regulatory & Banking Supervision Department of the Central Bank of Cyprus. On individual cases where there is a breach of the supervisory limits, the Central Bank of Cyprus is informed accordingly and the Bank takes all appropriate measures to eliminate them in compliance with the directives of the Central Bank of Cyprus.

Arrears Management Process

In September of 2013, the Central Bank of Cyprus issued the "Directive on Arrears Management" and the "Code of Conduct on the Handling of Borrowers in Financial Difficulties" which set out the framework that all Banks must use when dealing with customers in excesses/arrears or in pre-arrears. It requires Authorised Credit Institutions ("ACIs") to handle all such cases with the objective of helping people to meet their loan obligations, where possible. The Code is intended to support and facilitate a meaningful interaction between ACIs and borrowers, with the ultimate goal of achieving a fair and sustainable restructuring, where possible. The code of conduct applies to all borrowers, physical and legal persons, and for any kind of borrowing and the framework on arrears aims to support and find solution for the Bank's customers who are in arrears, or are at risk of going into arrears. To this effect, the Code clearly outlines, inter alia, the responsibilities of the ACIs in the arrears management process. It, also, makes a clear distinction between cooperative and non-cooperative borrowers with the focus on a consensual and voluntary restructuring.

According to the Directive, ACIs shall lay down effective processes and mechanisms in order to enable timely reaction in the event that the restructuring conditions and/or milestones are not being met and/or the financial situation of the borrower has materially changed. ACIs shall cascade the processes including legal and other measures to be undertaken for cases where sustainable viability cannot be achieved or the borrower is no longer cooperating.

In this respect the Bank has established two independent centralized units which are in distinct from the Debt Recovery Unit which typically deals with borrowers where legal actions have been initiated. The Arrears Management Unit which monitors arrears and excesses of customer facilities up to 90 days past dues and a Non Performing Monitoring Unit with in order to handle non-performing exposures which include defaulted and impaired exposures.

The Bank has developed and implemented suitable restructuring framework of credit facilities in order to provide viable borrowers with restructuring solutions that are robust and sustainable in the long term and thus enhance the safeguarding of the assets of the Bank.

A comprehensive set of Restructuring Options of Credit Facilities is essential to enable the Bank to provide relevant, appropriate and sustainable solutions to troubled borrowers. These options shall provide for an array of short-, medium- and long-term solutions as applicable to the specificities of each troubled borrower.

The facilities that are considered restructured as at the year end, are analysed below as per their facility sector:

	2014	2013
	€	€
Trade and manufacturing	**6.379.725**	12.623.604
Tourism	**16.847.947**	15.498.259
Property and construction	**40.501.299**	39.413.727
Personal and professional	**38.422.829**	38.354.268
Other sectors	**461.270**	763.679
	102.613.070	106.653.537

29. Risk management (continued)

Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held as well as other credit enhancements.

	2014	2013
	€	€
Balances with the Central Bank (Note 10)	**63.651.827**	39.258.922
Placements with banks (Note 11)	**87.153.762**	49.365.884
Loans and advances to customers (Note 12)	**379.837.587**	411.644.053
Investments held-to-maturity (Note 13)	**100.563.138**	114.598.264
Other assets (Note 17)	**2.839.403**	1.754.614
Total on balance sheet	**634.045.717**	616.621.737
Contingent liabilities (Note 24)	**21.025.437**	19.544.060
Commitments (Note 24)	**36.298.290**	37.034.740
Total off balance sheet	**57.623.727**	56.578.800
Total credit exposure	**691.669.444**	673.200.537

Credit risk concentration

There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group after taking into account the effect of credit risk reduction techniques as they are defined in the Directive of the Central Bank of Cyprus regarding the calculation of Capital Requirements and Large Exposures.

Also, the Banking law provides for limitations and prohibitions in relation to transactions involving members of the Board of Directors and main shareholders of the Bank.

The Bank is in total compliance with all the regulatory limits above with the exception of one client where the exposure represents 31,45% of the Bank's capital base instead of 25%. This excess in absolute terms is translated to €3,1 million. It should be noted that the exposure of the client is mainly covered with a mortgage over a property in a prime location and the Bank is working in cooperation with the customer in order to comply with the regulation.

The Bank's exposure to credit risk arising from customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2014, was €156,8 million (2013: €115,2 million), before any provision and credit risk reduction techniques.

The allocation of loans and advances relating to the clients' sector in the economy is as follows:

	2014	2013
	€	€
Trade and manufacturing	**87.750.471**	99.834.642
Tourism	**52.261.001**	48.104.113
Property and construction	**114.488.558**	126.524.487
Personal and professional	**182.975.858**	195.582.227
Other sectors	**26.215.646**	27.292.666
	463.691.534	497.338.135

29. Risk management (continued)

Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

The main types of collateral obtained by the Bank are mortgages of properties, cash collaterals, bank guarantees, pledges of equity securities, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Other financial instruments other than loans and advances to customers

Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury bills and other eligible bills are generally unsecured.

Credit quality of loans and advances to customers

	2014	2013
Performing	**€**	€
Neither past due nor impaired	**157.326.462**	234.460.856
Past due but not impaired:		
- Up to 30 days	**21.906.994**	11.559.459
- 31 to 60 days	**11.069.706**	13.380.238
- 61 to 90 days	**13.503.140**	2.694.302
	203.806.302	262.094.855
Non-Performing		
Neither past due nor impaired	**7.396.932**	18.341.949
Past due but not impaired:		
- Up to 30 days	**489.459**	374.945
- 31 to 60 days	**477.964**	79.000
- 61 to 90 days	**6.604.422**	288.721
- 91 to 180 days	**3.109.467**	6.722.673
- 181 to 365 days	**5.302.452**	10.812.106
- Over one year	**10.876.794**	24.046.085
Impaired	**225.627.742**	174.577.801
	259.885.232	235.243.280
Total Performing and non-performing		
Neither past due nor impaired	**164.723.394**	252.802.805
Past due but not impaired:		
- Up to 30 days	**22.396.453**	11.934.404
- 31 to 60 days	**11.547.670**	13.459.238
- 61 to 90 days	**20.107.562**	2.983.023
- 91 to 180 days	**3.109.467**	6.722.673
- 181 to 365 days	**5.302.452**	10.812.106
- Over one year	**10.876.794**	24.046.085
Impaired	**225.627.742**	174.577.801
	463.691.534	497.338.135

29. Risk management (continued)

Credit risk (continued)

Neither past due nor impaired performing loans and advances to customers

The credit quality of perfoming loans and advances to customers that were neither past due nor impaired is managed by the Bank using internal credit ratings.

The table below shows the credit quality of performing loans and advances to customers that were neither past due nor impaired based on this credit rating system.

	2014	2013
	€	€
Grade 1	**119.949.538**	175.183.276
Grade 2	**31.934.120**	41.326.273
Grade 3	**5.442.804**	17.951.307
	157.326.462	234.460.856

Grade 1:
This rating is applicable for loans and advances to customers that do not display any negative indications.

Grade 2:
This rating is applicable for loans and advances that even though are not yet problematic, are in need of monitoring to avoid possible future problems

Grade 3:
This rating is applicable for loans and advances that are problematic and for which there might be doubts as to their collection by the Bank. Moreover, there is a possibility for improvement and repayment of the debt after close handling and monitoring from the Bank through a successful restructuring of their facilities.

Collateral on past due but not impaired loans and advances

The fair value of collateral held by the Bank in respect of past due but not impaired loans and advances to customers as at 31 December 2014 amounted to €86,7 million (2013: €84,8 million).

Collateral on impaired loans and advances

The fair value of collateral held by the Bank in relation to impaired loans and advances as at 31 December 2014 amounted to €114,4 million (2013: €86,7 million).

Credit ratings from independent rating agencies

Balances with the Central Bank of Cyprus and placements with banks are analysed in accordance with their Moody's rating as follows:

	2014	2013
	€	€
Items in the course of collection	**7.974.919**	2.295.988
Aaa – Aa3	**21.348.247**	8.326.919
A1 – A3	**18.341.530**	5.429.880
Baa1 – Baa3	**456.539**	2.608.253
B1 - B3	**63.651.827**	5.000.556
Caa1 – Caa3	**13.187**	39.320.445
Unrated	**39.019.340**	25.642.765
	150.805.589	88.624.806

29. Risk management (continued)

Credit risk (continued)

Government and other bonds are analysed in accordance with their Moody's rating as follows:

	2014	2013
	€	€
Aaa – Aa3	**2.004.951**	4.383.814
A1 – A3	**6.323.096**	9.569.212
Baa1 – Baa3	**10.007.886**	18.268.048
B1 – B3	**82.227.205**	-
Caa1 – Caa3	**-**	82.377.190
	100.563.138	114.598.264
Issued by:		
Cyprus government	**82.227.205**	82.377.190
Foreign banks	**18.335.933**	32.221.074
	100.563.138	114.598.264
Classified as:		
Investments held to maturity	**100.563.138**	114.598.264
	100.563.138	114.598.264

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing interest rates of assets and liabilities.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced in each time band, separately for each currency. This difference is multiplied by the respective assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

Sensitivity analysis

The table below indicates the effect on the Bank's net interest income and profit before tax, for one-year period, from reasonably possible changes in the interest rate of the main currencies:

Change in interest rates **2014**	**Euro**	**US Dollars**	**Japanese Yen**	**Other currencies**	**Total**
	€	€	€	€	€
+0,5% for all currencies	571.310	68.836	568	44.459	685.173
-0,25% for US Dollars and -0,5% for all other currencies	(566.083)	(34.418)	(568)	(44.459)	(645.528)

2013	**Euro**	**US Dollars**	**Japanese Yen**	**Other currencies**	**Total**
	€	**€**	**€**	**€**	**€**
+0,5% for all currencies	421.364	35.011	456	37.510	494.341
-0,25% for US Dollars and -0,5% for all other currencies	(406.444)	(17.506)	(456)	(37.510)	(491.756)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

29. Risk management (continued)

Currency risk (continued)

The Assets and Liabilities Committee (ALCO) has approved open position limits for each currency and for total foreign exchange position limits. These limits are monitored by the Market Risk Management Unit. The Bank uses foreign exchange swaps for foreign exchange risk hedging, for which it does not apply hedge accounting.

As a result, there are no materially open positions in any currency, and consequently the impact on net loss and equity of reasonably possible changes in exchange rates is not expected to be significant.

Liquidity Risk

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

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

The Bank has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

The Bank`s Treasury department is responsible for managing liquidity and to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. The Assets and Liability Committee (ALCO) reviews the liquidity position on a weekly basis and takes the necessary actions to enhance the Bank's liquidity position.

Monitoring Process

Due to the economic crisis, it is also important to monitor cash flows and highly liquid assets in addition to the supervisory liquidity ratios to ensure the uninterrupted operation of the Bank's activities. The Bank`s Regulatory department submits a report to the Central Bank of Cyprus on a daily basis indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash (both banknote balances, nostro balances and any overnight money market balances). This information is also reviewed by the Bank`s Treasury department for appropriate actions to be taken. Moreover, the Regulatory department prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the Central Bank of Cyprus.

Analysis of financial liabilities by remaining contractual maturity:

2014	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
Customer deposits	273.808.965	178.245.788	133.452.105	24.130.579	597.946	610.235.383
Other liabilities	8.342.708	-	6.649	-	-	8.349.357
Loan capital	-	-	10.621.383	-	-	10.621.383
	282.151.673	178.245.788	144.080.137	24.130.579	597.946	629.206.123

2013	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€	€	€	€	€	€
Customer deposits	305.282.249	142.680.504	143.663.350	471.257	586.527	592.683.887
Other liabilities	2.185.057	-	-	-	-	2.185.057
Loan capital	-	-	1.738.011	9.612.888	-	11.350.899
	307.467.306	142.680.504	145.401.361	10.084.145	586.527	606.219.843

29. Risk management (continued)

Liquidity Risk (continued)
The table above presents the Bank's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice had been given on 31 December. The amounts in this table may not be equal to the amounts in the statement of financial position since the table above presents all cash flows (including interest) on an undiscounted basis.

The calculation of protective liquidity in euro and other currencies for supervisory purposes is submitted to the Central Bank of Cyprus every quarter, while additional information in relation to liquidity is submitted on a weekly basis. These statements are monitored by Management. The minimum percentage of liquid assets is 20% of total euro deposits while the respective percentage for foreign currencies is 70%.

The liquidity ratio in Euro was as follows:

	2014 **%**	2013 %
31 December	**32,93**	25,94
Average for the year	**28,45**	19,28
Maximum ratio for the year	**32,97**	25,94
Minimum ratio for the year	**25,21**	12,24

The liquidity ratio in Foreign Currencies was as follows:

	2014 **%**	2013 %
31 December	**72,68**	74,36
Average for the year	**72,08**	79,60
Maximum ratio for the year	**75,62**	95,15
Minimum ratio for the year	**70,00**	70,40

The foreign currency liquidity ratio is calculated using data denominated in foreign currencies other than the euro.

Operational risk
Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Bank manages operational risk through procedures and controls it implements and also through a dedicated system for recording loss events and findings of the Risk Control Self-Assessment by the various departments/branches of the Bank. Controls include segregation of duties, controllable access, reconciliation of accounts and balances. In addition, the Bank's Internal Audit department performs periodic reviews and evaluates the efficiency of these controls and procedures. Additionally, an insurance coverage exists in order to cover unanticipated operating losses.

Regulatory risk
The Bank's operations are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework, as well as the regulatory framework of Central Bank of Cyprus. Future changes in the legal or regulatory duties as a result of arrangements either by European Union or Central Bank of Cyprus, may impact the Bank's operations.

29. Risk management (continued)

Intensity of competition
The operational environment of the Bank is highly competitive. Competition arises from commercial banks, cooperative credit institutions, and international banking units. Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Bank, may create pressure on the Bank's profitability.

Litigation risk
The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Bank in the event that legal issues are not properly dealt with by the Bank, resulting in the cancellation of contracts with customers thus exposing the Bank to legal actions against it.

Political risk
External factors which are beyond the control of the Bank, such as political developments and government actions in Cyprus may adversely affect the operations of the Bank, its strategy and prospects. Political risk factors include social developments in Cyprus, political developments in the Eurozone which might lead to a Euro exit of a Eurozone member state, the ongoing unresolved political issue of the Turkish occupied areas, and political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas.

Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which may result in a negative impact on Bank's activities, operating results and position.

30. Capital management

The main regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus ("CBC").

As from 1 January 2014, the new Basel III Framework known as Capital Requirement Regulation ("CRR") No 575/2013 / Capital Requirement Directive IV ("CRD IV") dated 26 June 2013 became effective. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and on 29 May 2014 set the minimum Common Equity Tier 1 capital ratio at 8% (from 9% which applied until then). However, the CBC may also impose additional capital requirements for risks not recognised by Pillar 1 known also as Pillar 2 add-ons.

Basel III Framework comprises of three Pillars:
- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory review process
- Pillar 3 – Market discipline

Pillar 1 – Minimum capital requirements
Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

30. Capital management (continued)

The Bank has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to and their credit rating. According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Bank has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Bank's capital.

Regarding market risk, the Bank has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models.

The Bank uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage on the average sum of gross income on a three year basis.

Pillar 2 – Supervisory review process
Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies. The Bank applied the Minimum Capital Approach to determine the additional capital required to cover credit risks which are not sufficiently covered by Pillar 1 requirements, such as Residual Risk, as well as risks not recognised by Pillar 1, such as Credit Concentration Risk, Interest Rate Risk in the Banking Book and any external factors affecting the Bank.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process ("ICAAP"), while at the same time maintaining communication with supervisors on a continuous basis. This procedure is monitored and evaluated by the CBC.

Pillar 3 – Market discipline
Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on the Central Bank Directive, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders and all other stakeholders.

Capital position as per CRR / CRD IV
The information presented below represents the Bank's capital position under the CRR / CRD IV, including the application of the transitional arrangements as set by the CBC.

At 31 December 2014, the Bank fully meets the minimum capital requirements. Specifically, the Common Equity Tier 1 ratio was 9,63%, the Tier 1 ratio was 9,63% and the Total Capital ratio was 10,19%.

30. Capital management (continued)

Capital position as per CRR / CRD IV (continued):

	31 December 2014 €000
Regulatory Capital	
Common Equity Tier 1 capital (CET1)	**45.618**
Additional Tier 1 capital (AT1)	**-**
Tier 1 capital (T1)	**45.618**
Tier 2 capital (T2)	**2.643**
Total Regulatory Capital	**48.261**
Risk weighted assets - credit risk	**425.974**
Risk weighted assets - operational risk	**47.764**
Risk weighted assets - market risk	**-**
Total Risk Weighted Assets	**473.738**
Common Equity Tier 1 ratio	**9,63%**
Tier 1 ratio	**9,63%**
Total capital ratio	**10,19%**
Minimum Ratio as per the CBC Directive:	
Common Equity Tier 1 ratio	**8,00%**

Capital position on prevailing rules as at 31 December 2013:

	31 December 2013 €000
Regulatory capital	
Core original own funds (Core Tier 1)	48.509
Original own funds (Tier 1)	49.483
Additional own funds (Tier 2)	12.539
Total regulatory capital	62.022
Risk weighted assets - credit risk	434.308
Risk weighted assets - operational risk	41.236
Risk weighted assets - market risk	-
Total risk weighted assets	475.544
Core Tier 1 ratio	10,2%
Tier 1 ratio	10,4%
Total Capital Ratio	13,04%
Minimum ratios as per the CBC Directive:	
Core Tier 1 ratio	9,00%
Tier 1 ratio	n/a
Total capital ratio	n/a

31. Related party transactions

The Bank is a subsidiary of BLC Bank SAL through its 98,39% shareholding, which is incorporated in Lebanon. The ultimate controlling party of the Bank is Fransabank SAL through its 68,58% shareholding in BLC Bank SAL.

	2014	2013	2014	2013
	Number of Directors of the Bank		€	€
Loans and advances:				
To members of the Board of Directors and their related parties:				
Less than 1% of net assets per Director	15	15	375.978	380.613
	15	15	375.978	380.613
To key management personnel and their related parties			1.330.951	1.736.767
Total loans and other advances			1.706.929	2.117.380
Tangible securities			3.456.003	3.911.609
Interest income			126.143	76.588
Deposits:				
- members of the Board of Directors and their related parties			672.895	1.280.455
- key management personel and their related parties			1.239.245	1.815.781
			1.912.140	3.096.236
Interest expense			46.653	54.945
Loan capital issued to shareholder who owns more than 20% of the share capital			282.350	282.350
Interest expense on loan capital			20.470	20.470

31. Related party transactions (continued)

In addition, there were unutilised limits to the members of the Board of Directors, key management personel and their connected persons amounting to €328.238 (2013: €482.754), of which €97.510 (2013: €125.271) relate to Directors and their connected persons.

Connected persons include spouses, minor children and companies in which directors or key management personnel hold directly or indirectly at least 20% of the voting rights in a general meeting.

All transactions with non-executive members of the Board of Directors, the Bank's shareholders and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to key management personnel and their connected persons on the same terms as those applicable to the rest of the Bank's employees.

Furthermore, on 31 December 2014 there were interbank deposits amounting to €8.843.816 (2013: €25.642.765) to the parent company BLC Bank SAL and €15.006.000 (2013: €5.000.556) to a group company Fransabank France SAL, as part of the ordinary operations of the Bank while there was no interbank lending from BLC Bank SAL or any other group company.

Fees and emoluments of Directors and key management personnel

Directors' emoluments	2014 €	2013 €
Member Fees:		
Non executives	**156.790**	155.628
Executives	**-**	-
Total member fees	**156.790**	155.628
Executive directors' emoluments:		
Salaries and other short-term benefits	**243.155**	248.407
Employer's contributions	**29.429**	23.328
Retirement benefit plan costs	**21.447**	33.484
Total executive directors' emoluments	**294.031**	305.219
Total Board of Directors emoluments	**450.821**	460.847
Key management personnel emoluments:		
Salaries and other short-term benefits	**925.830**	907.154
Employer's contributions	**123.027**	89.660
Retirement benefit plan costs	**76.784**	115.315
Total key management personnel emoluments	**1.125.641**	1.112.129
Total emoluments	**1.576.462**	1.572.976

The salaries and other short term benefits of key management personnel as stated above include emoluments for 11 managers of the Bank for year 2014 whereas in year 2013 there were only 10 managers.

32. Agreements with a major shareholder

Except for the disclosures in Note 31, at the reporting date and at the approval date of the financial statements there were no other agreements between the Bank and its major shareholder who owns more than 20% of the share capital.

33. Operating environment

On 25 March 2013 Cyprus and the Eurogroup reached an agreement on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years. The stability support granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding ('MoU') has been agreed between Cyprus and the European Commission, the European Central Bank ('ECB') and the International Monetary Fund ('IMF') (collectively referred to as the 'Institutions') which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. The financial assistance that Cyprus will receive is up to €10 billion and is subject to a restructuring programme. The memorandum was approved on 12 April 2013 and so far an amount of €6,1 billion has been disbursed.

The package of measures aims to restore the soundness of the Cypriot banking sector, to correct the general government deficit, to increase the efficiency of public spending, to improve the functioning of the public sector, to support competiveness and to restore sustainable and balanced growth.

Although the economic situation in Cyprus remains challenging, the economic recession has been less severe than expected and the economy is proving relatively resilient. The fifth quarterly review mission of the Institutions has concluded that the Cyprus adjustment programme remains on track, with the macro-fiscal outturn better than expected. All fiscal targets have been met with considerable margins, reflecting the ambitious fiscal consolidation underway, prudent budget execution and a less severe deterioration of economic activity than originally projected. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Structural reforms are also advancing. However, agreement on the fifth review is still pending because the effective application of the foreclosure framework has not been achieved. A new foreclosure law was approved by the Cypriot Parliament in September 2014 aimed at ensuring that the foreclosure process is effective and that it provided adequate and balanced incentives for borrowers and lenders to restructure loans. The implementation of this law, however, has been suspended repeatedly on the basis that deliberations for the adoption of a modern insolovency framework has not been completed.

The successful outcome in the ECB Comprehensive Assessment for the Cypriot Banks was a significant milestone indicating that the banking sector has been significantly recapitalised and restructured and that is in a stronger position to support the economy.

In recognition of the progress achieved on the fiscal issues and the economic recovery, the international credit rating agencies have upgraded the credit ratings for the Cypriot sovereign, opening the way to the international capital markets in the near future.

The overall adverse conditions existing in the Bank's operating environment have had a significant impact on the Bank's customers and their ability to meet their loan repayment obligations as they fall due. The Bank's management has diverted significant resources in the pro-active monitoring of its portfolio and is actively working with the Bank's customers in order to restructure their facilities in a manner that would ensure their viable servicing under these new operating conditions.

Furthermore, as a result of the new prevailing economic realities of Cyprus' businesses and households, the Bank's management has assessed the level of impairment provisions deemed necessary in respect of its loan portfolio as further detailed in Note 12 to the financial statements.

33. Operating environment (continued)

Temporary restrictions on money transfers
Since March 2013 the Cypriot authorities have introduced temporary restrictive measures, with respect to banking and cash transactions as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures included restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provided for the compulsory partial renewal of maturing deposits. As of May 2014, all restrictive measures within Cyprus were abolished and as of 6th April 2015 all remaining capital restrictions have been lifted.

34. Events after the reporting date

Other than the share capital related issues stated in Note 21 of these financial statements, there were no other significant events after the end of the financial year which have a bearing on the understanding of the financial statements.

Independent auditor's report on pages 55 and 56.

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Deloitte Limited
Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O.Box 58466
CY-3734 Limassol, Cyprus

Tel.: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent auditor's report

To the Members of USB BANK PLC

Report on the financial statements

We have audited the accompanying financial statements of **USB BANK PLC** (the "Bank") on pages 9 to 54, which comprise the statement of financial position as at 31 December 2014, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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Independent auditor's report (continued)

To the Members of USB BANK PLC

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, 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.

Report on other legal requirements

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

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

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.

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 Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus

Limassol, 20 April 2015

Credit risk

In February 2014, the Central Bank of Cyprus issued to credit institutions the Directive on Loan Impairment and Provisioning Procedures of 2014, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. In addition to the disclosures presented in Notes 12 and 29 to the financial statements and as per the circular issued on 17 February 2015 by CBC, the following tables are also disclosed.

Credit Risk (continued)

TABLE A: Analysis of the loan portfolio according to performance status for balances as at 31 December 2014

	Gross carrying amount of loans and advances				Accumulated provision for impairment			
		Of which non-performing exposures	Of which exposures with forbearance measures			Of which non-performing exposures	Of which exposures with forbearance measures	
				Of which non performing exposures				Of which non performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	-	-	-	-	-	-	-	-
Other financial corporations	1.103	60	-	-	(64)	(40)	-	-
Non-financial corporations	317.763	185.337	80.732	62.583	(54.212)	(53.227)	(14.267)	(14.146)
Of which: Small and Medium-sized Enterprises	291.505	178.818	80.732	62.583	(53.668)	(52.978)	(14.267)	(14.146)
Of which: Commercial real estate	25.703	9.679	3.046	571	-	-	-	-
By sector								
Construction	112.707	69.815			(20.992)			
Wholesale and retail trade	64.324	33.200			(13.591)			
Real estate activities	45.878	34.390			(8.604)			
Accomodation and food service activities	33.864	16.413			(2.236)			
Transportation and storage	17.532	6.447			(2.115)			
Other sectors	43.458	25.072			(6.674)			
Households	144.826	74.488	21.881	15.343	(29.578)	(29.120)	(2.466)	(2.423)
Of which: Residential mortgage loans	43.181	12.179	5.310	3.094	(1.002)	(998)	(70)	(70)
Of which: Credit for consumption	43.363	24.829	7.845	5.633	(8.896)	(8.652)	(475)	(447)

Additional Risk Disclosures
for the year ended 31 December 2014

Credit Risk (continued)

TABLE B: Analysis of the loan portfolio on the basis of their origination date for balances as at 31 December 2014

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	59.715	23.507	(5.534)	46.455	16.338	(5.194)	-	-	-	13.260	7.168	(340)
1 - 2 years	54.331	29.506	(4.546)	34.822	23.981	(3.554)	-	-	-	19.509	5.525	(991)
2 - 3 years	82.510	48.572	(15.687)	56.269	35.963	(8.971)	36	-	-	26.205	12.609	(6.715)
3 - 5 years	111.629	61.454	(16.309)	80.640	49.360	(12.238)	6	-	-	30.983	12.094	(4.071)
5 - 7 years	68.829	50.536	(19.424)	50.238	37.565	(13.731)	8	3	(1)	18.582	12.967	(5.692)
7 - 10 years	36.941	16.655	(6.406)	22.856	8.298	(3.971)	1	-	-	14.084	8.358	(2.435)
More than 10 years	49.737	29.655	(14.481)	26.483	13.832	(5.567)	1.052	57	(39)	22.203	15.767	(8.876)
Total	**463.692**	**259.885**	**(82.387)**	**317.763**	**185.337**	**(53.227)**	**1.103**	**60**	**(40)**	**144.826**	**74.488**	**(29.120)**

*The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. contract date