

**NATIONAL BANK OF GREECE
(CYPRUS) LIMITED**

Report and Consolidated Financial Statements
Year ended 31 December 2014

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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NATIONAL BANK OF GREECE (CYPRUS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Board of Directors

Pavlos Mylonas, Non-Executive Member, Chairman
Marinos Stratopoulos, Non-Executive Member, Vice Chairman
(appointed on 19 February 2015)
Nicolaos Th. Beis, Chief Executive Officer
Ioannis Tzimos, Executive Member
(appointed on 27 April 2015)
Fotini Ioannou, Non-executive Member
Stavros Stavrou, Independent, Non executive Member
Mark Klerides, Independent, Non-Executive Member

The Board of Directors is formatted as follows by 31.12.2014:

Pavlos Mylonas, Non-Executive member, Chairman
Nicolaos Th. Beis, Chief Executive Officer
Ioannis X. Agathos, Executive Member
(resigned on 27 April 2015)
Fotini Ioannou, Non-executive Member
Panayiotis Karandreas, Non-executive Member
(resigned on 19 February 2015)
Stavros Stavrou, Independent, Non-Executive member
Mark Klerides, Independent, Non-Executive member

Secretary

Lucia Pagdati

Independent Auditors

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

Legal Advisers

Chrysses Demetriades & Co
Velaris & Velaris LLC

Registered Office

15 Arch. Makarios III, 1065 Nicosia

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT OF THE BOARD OF DIRECTORS YEAR ENDED 31 DECEMBER 2014

The Board of Directors presents its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITY

The main activity of the Group is the provision of a wide range of banking and financial services. The Company is a wholly owned subsidiary of National Bank of Greece S.A. Group. The Company owns 100% of the shares of National Securities Cyprus Limited and 10,91% of the shares of National Insurance (Cyprus) Ltd.

RESULTS

As presented on page 6 of the consolidated financial statements, the profit of the Group after taxation amounted to €6.503.047 (2013: loss of €3.331.620).

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period.

EXPECTED FUTURE DEVELOPMENTS OF THE GROUP

The Board of Directors does not expect any significant changes in the activities of the Group for the foreseeable future.

EXISTENCE OF ANY GROUP BRANCHES

The Bank operates in Cyprus through 16 Branches (9 Retail, 1 Exchange Unit, 2 IBUs, 3 Satellite branches and 1 Special Credit Unit). The Company has also established a Representative Office in Moscow, Russia.

Besides the above mentioned Network, National Bank of Greece S.A., maintains 1 Branch, in order to facilitate large Corporate Financing in the territory.

REVIEW OF THE DEVELOPMENT, FINANCIAL PERFORMANCE AND CURRENT POSITION OF THE GROUP AND DESCRIPTION OF ITS MAJOR RISKS AND UNCERTAINTIES

The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory. Like any other financial institution, the Group is exposed to risks. The Group monitors and manages these risks through various control mechanisms. Details relating to Group risk management are presented in Note 35 of the consolidated financial statements.

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2014.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

REPORT OF THE BOARD OF DIRECTORS (Cont'd) YEAR ENDED 31 DECEMBER 2014

SHARE CAPITAL

There were no changes in the share capital of the Company.

BOARD OF DIRECTORS

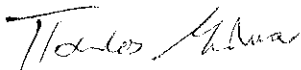
The members of the Board of Directors at 31 December 2014 and at the date of this report are shown on page 1. All the members of the Board of Directors will continue in office.

There were no significant changes in the assignment of responsibilities of the Board of Directors.

INDEPENDENT AUDITORS

The Board of Directors will place a resolution before the annual general meeting to reappoint Deloitte Limited as auditors for the ensuing year.

By order of the Board of Directors



Pavlos Mylonas
Chairman

Nicosia, 21 May 2015

Independent auditor's report

To the Members of National Bank of Greece (Cyprus) Limited

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Bank of Greece (Cyprus) Limited (the "Company") and its subsidiary (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

...5/

Board Members: Christis M. Christoforou (Chief Executive Officer), Eieltherios N. Philippou, Nicos S. Kyriakides, Nicos D. Papakyriacou, Athos Chrysanthou, Costas Georgiadis, Antonis Tziotis, Panos Papacopoulos, Peris M. Markou, Nicos Charalambous, Nicos Spanoudis, Maria Paschalis, Alexis Agathocleous, Alkis Christodoulides, Christakis Ioannou, Yiannis Ioannou, Panicos Papamichael, Christos Papamarkides, George Marides, Kerry Whyte, Andreas Georgiou, Christos Neocleous, Demetris Papapericleous, Andreas Andreou, Alecos Papalexandrou, George Panleides, Panayiota Vayancu, Ag's Agathocleous, Michael Christoforou (Chairman Emeritus)

Deloitte Limited is the Cyprus member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.com/cy/about for a detailed description of the legal structure of DTTL.

Deloitte Limited is a private company, registered in Cyprus (Reg. No. 162812). Offices: Nicosia, Limassol, Larnaca

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report (Cont'd)

To the Members of National Bank of Greece (Cyprus) Limited

Report on other legal requirements

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

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

Other Matter

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



.....

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, 21 May 2015

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

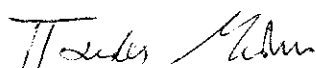
	Note	2014 €	2013 €
Interest income	5	76.228.272	81.405.034
Interest expense	6	(36.920.785)	(45.764.664)
Net interest income		<u>39.307.487</u>	<u>35.640.370</u>
Fee and commission income	7	5.407.054	5.392.889
Net foreign exchange loss	8	(308.747)	(331.736)
Other operating income	9	939.367	920.244
		<u>45.345.161</u>	<u>41.621.767</u>
Staff costs	10	(14.227.103)	(19.031.248)
Depreciation of property, plant and equipment		(729.165)	(791.783)
Amortisation of intangible assets		(397.398)	(310.825)
Other operating expenses	11	(4.371.224)	(4.515.086)
Impairment of available-for-sale investment		(66.977)	(2.948.192)
		<u>(19.791.867)</u>	<u>(27.597.134)</u>
Profit before impairment of loans and advances to customers		25.553.294	14.024.633
Provision for impairment of loans and advances to customers	17	(13.961.813)	(15.968.474)
Profit/(loss) before tax		<u>11.591.481</u>	<u>(1.943.841)</u>
Tax	12	(5.088.434)	(1.387.779)
PROFIT/(LOSS) FOR THE YEAR		<u>6.503.047</u>	<u>(3.331.620)</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Loss on revaluation of properties		(613.650)	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Gain on revaluation of available-for-sale investments		305.950	269.217
Other comprehensive (loss)/income for the year, net of tax		<u>(307.700)</u>	<u>269.217</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>6.195.347</u>	<u>(3.062.403)</u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

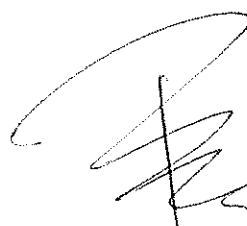
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Note	2014 €	2013 €
ASSETS			
Cash and balances with Central Bank of Cyprus	13	30.806.933	27.027.499
Deposits with other banks	14	89.771.375	9.896.683
Loans and other advances to customers	15	1.308.908.077	1.165.351.838
Deposits with related banks	16(a)	188.590.600	243.164.530
Available-for-sale investments	18(a)	3.631.273	3.392.213
Held-to-maturity investments	18(b)	99.400.041	109.610.541
Property, plant and equipment	19	10.913.051	16.426.943
Investment property	20	4.168.000	-
Intangible assets	21	4.769.212	4.709.954
Other assets	22	1.188.572	2.169.612
Total assets		<u>1.742.147.134</u>	<u>1.581.749.813</u>
LIABILITIES			
Deposits from other banks	23	1.890.972	1.088.612
Deposits and other customer accounts	24	789.133.820	802.372.070
Deposits from related banks	16(b)	761.153.935	598.253.431
Other liabilities	25	16.636.669	9.899.309
		<u>1.568.815.396</u>	<u>1.411.613.422</u>
Subordinated loan from holding company	26	-	3.000.000
Total liabilities		<u>1.568.815.396</u>	<u>1.414.613.422</u>
EQUITY			
Share capital	27	51.300.000	51.300.000
Retained earnings		111.726.811	105.223.764
Revaluation reserve	28	10.304.927	10.612.627
Total equity		<u>173.331.738</u>	<u>167.136.391</u>
Total liabilities and equity		<u>1.742.147.134</u>	<u>1.581.749.813</u>



Pavlos Mylonas
Chairman



Nicolaos Th. Beis
Chief Executive Officer

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Share capital €	Property revaluation reserve €	Revaluation reserve of available-for- sale investments €	Retained earnings €	Total €
Balance at 1 January 2013	51.300.000	8.331.378	2.012.032	108.555.384	170.198.794
Loss for the year	-	-	-	(3.331.620)	(3.331.620)
Other comprehensive income for the year	-	-	269.217	-	269.217
Total comprehensive (loss)/income for the year	-	-	269.217	(3.331.620)	(3.062.403)
Balance at 31 December 2013	51.300.000	8.331.378	2.281.249	105.223.764	167.136.391
Profit for the year	-	-	-	6.503.047	6.503.047
Other comprehensive (loss)/income for the year	-	(613.650)	305.950	-	(307.700)
Total comprehensive (loss)/income for the year	-	(613.650)	305.950	6.503.047	6.195.347
Balance at 31 December 2014	51.300.000	7.717.728	2.587.199	111.726.811	173.331.738

The notes on pages 10 to 57 form an integral part of the consolidated financial statements

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014	2013
		€	€
Net cash generated by/(used in) operating activities	30	<u>7.373.030</u>	<u>(62.573.102)</u>
Cash flows from investing activities			
Purchase of intangible assets		(456.656)	(998.264)
Purchase of property, plant and equipment		(42.772)	(19.940)
Net disposal/maturity of Greek and Cyprus government bonds and treasury bills		10.210.500	34.742.925
Proceeds from dividends		46.801	2.814
Interest on debt securities		4.443.499	6.478.171
Net cash generated by investing activities		<u>14.201.372</u>	<u>40.205.706</u>
Cash flows from financing activities			
Repayment of subordinated loan		(3.000.000)	(3.000.000)
Interest on subordinated loan		(25.723)	(50.504)
Net cash used in financing activities		<u>(3.025.723)</u>	<u>(3.050.504)</u>
Net increase/(decrease) in cash and cash equivalents		18.548.679	(25.417.900)
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(361.183)	(200.170)
Cash and cash equivalents at beginning of the year	31	<u>202.191.233</u>	<u>227.809.303</u>
Cash and cash equivalents at end of the year	31	<u><u>220.378.729</u></u>	<u><u>202.191.233</u></u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

1. GENERAL INFORMATION

National Bank of Greece (Cyprus) Limited (the “Company”) is a limited company incorporated in Cyprus. The principal activities of the Company and its subsidiary (the “Group”) are the provision of a wide range of banking and financial services.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2014. The adoption of these Standards did not have a material effect on the accounting policies of the Group.

Up to the date of approval of these financial statements the following standards have been published by the International Accounting Standards Board but were not yet effective:

i) Adopted by the European Union

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

ii) Not yet adopted by the European Union

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)

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

ii) Not yet adopted by the European Union (cont'd)

Standard/ Interpretation	Effective for annual periods beginning on or after:
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 Group is in the process of evaluating the effect that the adoption of the above standards will have on the consolidated financial statements of the Group, and it does not intend to early adopt any of them. The Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated 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.

Going concern principle

The consolidated financial statements have been prepared on a going concern basis. Despite recent developments in the economic environment in Cyprus as described in Note 34 to the consolidated financial statements, the management of the Group believes that the Group has the ability to continue its operations as a going concern.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for land and buildings, investments properties, available-for-sale investments and derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

The consolidated financial statements are presented in Euro (€), which is the functional and presentation currency of the Company and its subsidiary. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rate of exchange ruling at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. All differences arising on translation are recognized in the consolidated income statement.

Revenue

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

Interest income is recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. 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.

Income from leasing activities recognised in the statement of comprehensive income is calculated in a systematic manner on the basis of instalments falling due, in order to produce a constant periodic rate of return on the net investment outstanding.

Income from fees and commissions is recognised in the period of provision of the relevant services.

Dividend income is recognised when the Group's right to receive payment is established.

Interest payable

Interest payable on all interest bearing liabilities is recognised using the effective interest method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Financial assets at FVTPL (cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Held-to-maturity investments are those financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value. Fair value of listed shares is based on market prices whereas, the fair value of unlisted shares is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, condition and prospects. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

AFS financial assets (cont'd)

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of a provision account.

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

Provision for impairment of loans are determined using the "incurred loss" model as required by IFRS, which require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those events be.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (cont'd)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Group (cont'd)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

The Group issues financial guarantees to its customers, consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised in the consolidated financial statements at fair value, on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Group (cont'd)

Financial guarantee contracts (cont'd)

Subsequently, the Group's liability under each guarantee is measured at the higher of:

- (a) The amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies; and
- (b) The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

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

Subordinated loan

Subordinated loan is initially measured at cost, being the fair value of the consideration received net of any issue costs. It is subsequently measured at amortised cost using the effective interest method.

Interest on subordinated loan is recognized as interest expense in the consolidated income statement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Repurchase agreements

Investments sold under agreements to repurchase at a specific future date ("repos") are not derecognised from the consolidated statement of financial position and are measured according to their classification. The proceeds from the sale of the investments are reported as liabilities to banks. The difference between the sale price and repurchase price is recognised as interest expense during the repurchase agreement period using the effective interest rate method.

Property, plant and equipment

Land and buildings held for supply of services and administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties' revaluation reserve, except to the extent 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 extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The property revaluation reserve includes revaluation of property initially used by the Group for its operations and subsequently transferred to investment properties.

Depreciation on revalued buildings is charged to 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. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (cont'd)

Furniture and equipment and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation rates used are as follows:

	%
Buildings and installations	3 to 20
Furniture and equipment	10 to 20
Motor vehicles	20

No depreciation is charged on land.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (cont'd)

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets (cont'd)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee retirement benefits

The defined benefit plan operated by the Group until 31 December 2011 has been converted into a defined contribution plan in provident fund as per the agreement on 4 January 2012 between the Cyprus Bankers Employers' Association (KEST) and the Cyprus Union of Bank Employees (ETYK). Although the employees of National Bank of Greece (Cyprus) Ltd are not all members of ETYK, the same amendment was agreed between the Bank and the National Bank of Greece (Cyprus) Ltd's employees union (SYPETE) on 14 June 2012, with effective date remaining the same as the one applicable to ETYK members, i.e. 1 January 2012.

Under the agreement from 1 January 2012, the employer pays a monthly contribution to the provident fund of 14% on the gross salary. Moreover the Group paid to the provident fund for each eligible member of the staff, the accumulated rights to retirement gratuity based on retirement plan benefit which was agreed as at 31 December 2011. Under a new agreement signed in March 2014, the Bank with effect from 1 January 2014 proceeded with a reduction of the monthly contribution to the provident fund from 14% to 12%. For the defined contribution plan, the Group has no further obligations of payment once contributions are paid. The contributions are recognised as cost of staff benefits when benefits are due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (cont'd)

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Special levy

In accordance to the "Special Levy on Credit Institutions Law of 2011", credit institutions are subject to a special levy for the years 2011 and 2012, at the rate of 0,095% on qualifying deposits held by each credit institution at 31 December of the year preceding the year of taxation. On 21 December 2012 amendments passed with regards to the above law, provide for the extension of the validity of the relevant law, increase of the special levy tax to 0,11% and the deletion of provision under which the tax paid should not exceed 20% of the total taxable profits of the credit institution assessed by the Director of Inland Revenue.

Based on new amendments the special levy tax increased to 0,15% as of 1 January 2013, and in order to take into account the significant decrease in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% per quarter. As from 1 January 2014 the special levy tax is charged on the deposits at 31 December of the previous year at the rate of 0,15%.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts. These instruments are initially recognised at cost and are subsequently remeasured at their fair value. Derivative financial instruments are recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative assets and derivative liabilities are included in net profit or loss for the period.

Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported in the balance sheet when the Group has a 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.

Provisions for pending litigation or claims

Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) arising from past events, (b) it is probable that the obligation will result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, partly or fully, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement, consist balances with less than three months maturity, including cash, unrestricted balances with central bank and amounts due from other banks.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where applicable, comparative figures have been adjusted to conform with changes in presentation in the current year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In the preparation of the consolidated financial statements the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and may cause a material adjustment to the carrying amounts of assets and liabilities.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are presented below:

Provisions for impairment of loans and advances

The Group reviews its loans and advances in order to assess whether a provision for impairment should be recorded in the consolidated income statement. Management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. This methodology is based on historical loss experience for assets with similar credit risk characteristics. In addition, the use of historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

Accumulated impairment losses of the Group's loans and advances are inherently uncertain due to their sensitivity to economic and credit conditions of the environment in which the Group operates. It is possible that the actual conditions in the next financial year to differ significantly from the assumptions made during the current year, so that the carrying amount of loans and advances to be adjusted significantly.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined using valuation models. These models require management to make estimates and assumptions. Changes in these estimates and assumptions could affect the reported fair value of the relevant financial instruments.

Impairment of available for sale investments

Available for sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost in such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by management.

Available for sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The identification of impairment requires judgement by management. An individual assessment for impairment is performed on bonds whose fair value at the balance sheet date has significantly decreased as well as the issuer has been downgraded.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of properties held for own use and investment properties

The unprecedented economic conditions in Cyprus are also reflected in the real estate markets with a significant reduction in the volume of property transactions. Under these circumstances, the degree of uncertainty which exists is greater than in a more active market for determining the market values of property.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

Fair value of properties held for own use and investment properties (cont'd)

The properties held by the Group for own use as well as the investment properties, are measured at fair value less accumulated depreciation and impairment losses. Fair value is determined from valuations undertaken by professionally qualified valuers based on market signals for their existing use and is carried out at regular intervals so that the carrying amount does not differ materially from fair value.

Provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims or regulatory matters require a higher degree of judgements than other types of provisions.

5. INTEREST INCOME

	2014	2013
	€	€
Loans and other advances to customers	68.014.111	70.474.129
Deposits with banks and central bank	3.770.662	4.377.993
Investments held-to-maturity	4.443.499	6.552.912
	76.228.272	81.405.034

6. INTEREST EXPENSE

	2014	2013
	€	€
Deposits and other customer accounts	15.016.482	22.194.144
Deposits from banks	21.878.580	23.520.016
Subordinated loan	25.723	50.504
	36.920.785	45.764.664

7. FEE AND COMMISSION INCOME

	2014	2013
	€	€
Fees	1.480.414	1.621.478
Commissions	3.926.640	3.771.411
	5.407.054	5.392.889

8. NET FOREIGN EXCHANGE LOSS

Net foreign exchange loss comprises the translation of monetary assets in foreign currency at the end of the reporting period, realised exchange gains or losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

9. OTHER OPERATING INCOME

	2014	2013
	€	€
Dividend income	46.801	2.814
Other income	892.566	917.430
	939.367	920.244

10. STAFF COSTS

	2014	2013
	€	€
Salaries and employer's contributions	13.941.489	16.850.353
Other staff expenses	285.614	2.180.895
	14.227.103	19.031.248

The number of staff employed by the Group as of 31 December 2014 was 272 (2013: 266).

The defined benefit plan operated by the Group has been converted into a defined contribution plan in provident fund as per the agreement on 4 January 2012 between the Cyprus Bankers Employers' Association (KEST) and the Cyprus Union of Bank Employees (ETYK). Although the employees of National Bank of Greece (Cyprus) Ltd are not all members of ETYK, the same amendment was agreed between the Bank and the National Bank of Greece (Cyprus) Ltd's employees union (SYPETE) on 14 June 2012, with effective date remaining the same as the one applicable to ETYK members, i.e. 1 January 2012.

Under the agreement from 1 January 2012, the employer pays a monthly contribution to the provident fund of 14% on the gross salary. Moreover the Group paid to the provident fund for each eligible member of the staff, the accumulated rights to retirement gratuity based on retirement plan benefit which was agreed as at 31 December 2011. Based on a new agreement signed in March 2014, the Bank proceeded as of 1 January 2014, in a reduction of the monthly contribution to the provident fund from 14% to 12%.

11. OTHER OPERATING EXPENSES

	2014	2013
	€	€
Occupancy costs	753.067	853.498
Rentals	874.818	894.492
Advertising and marketing	283.110	319.083
Repairs and maintenance	935.109	957.375
Administrative expenses	957.569	898.366
Other operating expenses	567.551	592.272
	4.371.224	4.515.086

Other operating expenses include fees of €75.750 (2013: €75.750) paid to the independent auditors of the Group, Deloitte Ltd, for the audit of the consolidated financial statements of the Group.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

12. TAX

Tax recognised in the income statement:

	2014	2013
	€	€
Corporation tax	1.336.346	-
Deferred tax	145.539	176.583
Prior years' taxes	-	(2.975)
Special levy tax	1.197.786	1.214.171
Withholding tax	2.408.763	-
	5.088.434	1.387.779

The Group is subject to corporation tax at the rate of 12,5% on its total taxable income (2013: 12,5%).

Under current legislation, tax losses may be carried forward and be set off against taxable income of the five succeeding years.

In accordance with the "Special Levy on Credit Institutions Law of 2011" the Bank is subject to a special levy for the years 2011 and 2012 at the rate of 0,095% on qualifying deposits held at 31 December of the year preceding the year of taxation. Amendments passed on 21 December 2012 provide for the extension of the validity of the relevant law, increase of the special levy tax to 0,11% and the deletion of provision under which the tax paid should not exceed 20% of the total taxable profits of the credit institution assessed by the Director of Inland Revenue.

The special tax levy on credit institutions was increased from 0,11% to 0,15% as of 1 January 2013. In order to take into account the significant decrease in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0,0375% per quarter. As from 1 January 2014 the special levy tax is charged on the deposits at 31 December of the previous year at a rate of 0,15%.

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

	2014	2013
	€	€
Profit/(loss) before tax	11.591.481	(1.943.841)
Taxation based on applicable tax rates	1.448.935	(242.980)
Tax effect of:		
Disallowed expenses	197.071	535.220
Non taxable income	(309.660)	(292.240)
Deferred tax	145.539	176.583
Special levy tax	1.197.786	1.214.171
Prior years' taxes	-	(2.975)
Withholding tax	2.408.763	-
Taxation charge	5.088.434	1.387.779

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

13. CASH AND BALANCES WITH THE CENTRAL BANK OF CYPRUS

	2014	2013
	€	€
Cash	7.198.809	9.098.123
Balances with the Central Bank of Cyprus:		
- due within three months	23.608.124	17.929.376
	30.806.933	27.027.499

Balances with Central Bank include obligatory deposits for liquidity purposes of an amount of €19.734.367 (2013: €12.910.490).

14. DEPOSITS WITH OTHER BANKS

	2014	2013
	€	€
Due within three months	89.771.375	9.896.683
	89.771.375	9.896.683

The fair value of the above balances approximates their carrying amount.

15. LOANS AND OTHER ADVANCES TO CUSTOMERS

	2014	2013
	€	€
Loans and advances to customers	1.557.196.296	1.381.034.149
Hire purchase and leasing debtors	6.877.739	6.896.167
	1.564.074.035	1.387.930.316
Provisions for impairment of loans and advances (Note 17)	(255.165.958)	(222.578.478)
	1.308.908.077	1.165.351.838

The distribution of advances based on the period they are demanded is presented below:

	2014	2013
	€	€
Due within three months	584.934.442	472.491.087
Between three months and one year	365.336.583	353.942.955
Between one and five years	406.487.534	377.857.921
Over five years	207.315.476	183.638.353
	1.564.074.035	1.387.930.316

The distribution of advances of the Group to the different sectors of the economy is presented below:

	2014	2013
	€	€
Commercial	945.398.595	737.970.220
Construction and manufacturing	344.741.237	326.910.047
Tourism	38.130.262	29.883.932
Personal, professional and housing	173.398.531	237.929.047
Other	62.405.410	55.237.070
	1.564.074.035	1.387.930.316

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

15. LOANS AND OTHER ADVANCES (Cont'd)

Analysis by geographical area:

	2014	2013
	€	€
Cyprus	740.599.698	738.137.590
Greece	761.201.470	584.523.160
Other countries	62.272.867	65.269.566
	1.564.074.035	1.387.930.316

The fair value of loans and other advances is approximately equal to the amount shown on the consolidated statement of financial position.

16. BALANCES WITH RELATED BANKS

(a) Deposits with related banks

	2014	2013
	€	€
National Bank of Greece S.A.	188.590.600	191.952.177
Other related banks	-	51.212.353
	188.590.600	243.164.530

The maturity of the above balances is presented below:

	2014	2013
	€	€
Due within three months	179.075.010	189.856.154
Between three months and one year	9.515.590	53.308.376
	188.590.600	243.164.530

The fair value of the above balances approximates their carrying amount.

(b) Deposits from related banks

	2014	2013
	€	€
National Bank of Greece S.A.	761.153.935	598.253.431
	761.153.935	598.253.431

The maturity of the above balances is presented below:

	2014	2013
	€	€
Due within three months	713.973.191	530.018.512
Due between three months and one year	47.180.744	68.234.919
Due between one and five years	-	-
	761.153.935	598.253.431

The fair value of the above balances approximates their carrying amount.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

17. PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES

	Total €
Balance 1 January 2013	186.720.960
Provisions for the year	15.968.474
Write offs against provisions	(565.252)
Suspended income	20.454.297
	222.578.479
Balance 1 January 2014	222.578.479
Provisions for the year	13.961.813
Write offs against provisions	(2.941.162)
Suspended income	21.566.828
	255.165.958

Amounts recognized in the income statement:

	2014 €	2013 €
Provision for impairment	13.961.813	15.968.474

18. INVESTMENTS

(a) Available-for-sale investments

	2014 €	2013 €
Listed equity securities	1.537.121	1.366.407
Unlisted equity securities	2.094.152	2.025.806
	3.631.273	3.392.213

Investments available for sale are as follows:

	2014 €	2013 €
JCC Payment Systems Ltd	870.518	802.172
National Insurance (Cyprus) Limited	1.223.634	1.223.634
Master Card International Incorporated	1.518.626	1.280.977
Bank of Cyprus Public Company Ltd	18.453	85.430
Hellenic Bank	42	-
	3.631.273	3.392.213

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Year ended 31 December 2014

18. INVESTMENTS (Cont'd)

(b) Held-to-maturity investments

	2014	2013
	€	€
Cyprus government bonds and treasury bills	99,400.041	109,610.541

	2014	2013
	€	€
Listed on the Cyprus Stock Exchange	99,400.041	109,610.541

The maturity of the above investments is presented below:

	2014	2013
	€	€
Within three months	99,400.041	109,610.541

19. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and installations	Motor vehicles	Furniture and equipment	Total
	€	€	€	€
Cost or valuation				
1 January 2013	18,447,371	326,985	6,512,744	25,287,100
Additions	3,901	-	16,041	19,942
Write offs/disposals	-	(63,047)	(1,007)	(64,054)
1 January 2014	18,451,272	263,938	6,527,778	25,242,988
Additions	-	1,650	41,122	42,772
Write offs/disposals	(403,084)	(26,500)	(2,257,486)	(2,687,070)
Revaluation	(926,400)	-	-	(926,400)
Transfer to investment property	(4,168,000)	-	-	(4,168,000)
31 December 2014	12,953,788	239,088	4,311,414	17,504,290
Depreciation				
1 January 2013	2,165,044	291,940	5,630,736	8,087,720
Charge for the year	530,996	20,298	240,489	791,783
Write off/disposals	-	(63,046)	(412)	(63,458)
1 January 2014	2,696,040	249,192	5,870,813	8,816,045
Charge for the year	524,145	13,441	191,579	729,165
Write off/disposals	(383,133)	(26,500)	(2,231,588)	(2,641,221)
Adjustment on revaluation	(312,750)	-	-	(312,750)
31 December 2014	2,524,302	236,133	3,830,804	6,591,239
Net book value				
31 December 2014	10,429,486	2,955	480,610	10,913,051
31 December 2013	15,755,232	14,746	656,965	16,426,943

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

19. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Fair value measurement of the Group's freehold land and buildings

The Group's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's land and buildings as at 31 December 2014 were performed by independent valuers not related to the Group.

Details of the Group's land and buildings and information about the fair value hierarchy as at 31 December 2014 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31.12.2014
	€	€	€	€
Land	-	6.459.000	-	6.459.000
Buildings	-	-	3.970.486	3.970.486
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There were no transfers between Level 1 and Level 2 during the year.

20. INVESTMENT PROPERTY

	2014	2013
	€	€
Balance at 1 January	-	-
Transferred from property, plant and equipment	4.168.000	-
	<u> </u>	<u> </u>
	<u>4.168.000</u>	<u>-</u>

The fair value of the Group's investment property as at 31 December 2014 has been arrived at on the basis of a valuation carried out at 31 December 2014 by independent valuers not related to the Group.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2014 are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31.12.2014
	€	€	€	€
Land	-	2.338.000	-	2.338.000
Buildings	-	-	1.830.000	1.830.000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There were no transfers between Level 1 and Level 2 during the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

21. INTANGIBLE ASSETS

	Computer software	
	2014	2013
	€	€
Cost		
1 January	10.959.631	9.961.367
Additions	456.656	998.264
31 December	<u>11.416.287</u>	<u>10.959.631</u>
Amortisation		
1 January	6.249.677	5.938.852
Charge for the year	397.398	310.825
31 December	<u>6.647.075</u>	<u>6.249.677</u>
Net book value		
31 December	<u><u>4.769.212</u></u>	<u><u>4.709.954</u></u>

22. OTHER ASSETS

	2014	2013
	€	€
Taxes refundable	563.959	710.018
Prepaid expenses	-	39.156
Other receivables	624.613	1.420.438
	<u>1.188.572</u>	<u>2.169.612</u>

23. DEPOSITS FROM OTHER BANKS

	2014	2013
	€	€
Interbank borrowing	1.228.334	1.088.612
Other deposits	662.638	-
	<u>1.890.972</u>	<u>1.088.612</u>

The maturity of the above balances is presented below:

	2014	2013
	€	€
Due within three months	<u>1.890.972</u>	<u>1.088.612</u>

The fair value of the above balances approximates their carrying amount.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	2014 €	2013 €
Time and Notice accounts	594.621.214	578.707.056
Demand and current accounts	127.295.165	152.237.521
Savings accounts	67.217.441	71.427.493
	789.133.820	802.372.070

Analysis by geographical area

	2014 €	2013 €
Cyprus	663.652.373	665.083.140
Greece	56.162.240	64.769.960
Other countries	69.319.207	72.518.970
	789.133.820	802.372.070

The fair value of the above balances approximates their carrying amount.

The above mentioned balances maturity is presented below:

	2014 €	2013 €
Due within three months	555.274.114	645.839.681
Between three months and one year	233.859.706	156.532.389
	789.133.820	802.372.070

25. OTHER LIABILITIES

	2014 €	2013 €
Receipts on behalf of third parties	2.175.996	2.149.838
Provision for staff leaving indemnities	492.806	700.212
Cheques - drafts payable	3.998.428	973.989
Fair value of derivatives	15.443	208.814
Other liabilities	7.823.354	3.881.353
Deferred tax	2.130.642	1.985.103
	16.636.669	9.899.309

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

26. SUBORDINATED LOAN FROM HOLDING COMPANY

	2014 €	2013 €
Balance 1 January	3.000.000	6.000.000
Repayments	(3.000.000)	(3.000.000)
Balance 31 December	-	3.000.000

The loan is repayable in five equal annual instalments starting from 31 December 2010. The interest on the loan is variable, is linked to the six-month Euribor and is payable on a six month basis.

The loan has been repaid during the year.

The subordinated loan is not secured and follows in priority the claims of depositors and other creditors of the Bank.

27. SHARE CAPITAL

	2014		2013	
	Shares	€	Shares	€
Authorised:				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000
Issued and fully paid				
Ordinary shares of Euro 1,71 each	30.000.000	51.300.000	30.000.000	51.300.000

28. REVALUATION RESERVE

	Land and buildings €	Available- for-sale investments €	Total €
Balance 1 January 2013	8.331.378	2.012.032	10.343.410
Gain from change in fair value	-	269.217	269.217
Balance 31 December 2013	8.331.378	2.281.249	10.612.627
Gain/(loss) from change in fair value	(613.650)	305.950	(307.700)
Balance 31 December 2014	7.717.728	2.587.199	10.304.927

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

29. CONTINGENT LIABILITIES AND COMMITMENTS

The nominal values of the contingencies and commitments as at 31 December are presented below:

	2014	2013
	€	€
Letters of Guarantee	36.621.515	72.281.483
Letters of Credit	19.112.598	18.931.256
Customers' credit limits that have been approved but have not been used	172.330.747	253.589.887
	228.064.860	344.802.626
	228.064.860	344.802.626

Letters of credit and guarantees are offset by corresponding obligations of third parties.

Pending litigations and claims

As at 31 December, 2014 there were pending litigations against the Group in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not probable that the Group will suffer any significant damage.

30. NET CASH USED IN OPERATING ACTIVITIES

	2014	2013
	€	€
Profit/(loss) before taxation	11.591.481	(1.943.841)
Depreciation of property, plant and equipment	729.165	791.783
Amortisation of intangible assets	397.398	310.825
Interest on subordinated loan	25.723	50.504
Provision for unused vacation	(207.407)	(386.617)
Provision for impairment of loans and advances	13.961.813	15.968.474
Net foreign exchange income	18.270	203.477
Loss on disposal of property, plant and equipment	45.850	595
(Profit)/loss from derivative financial instruments	(205.597)	197.127
Dividend income	(46.801)	(2.814)
Interest on debt securities	(4.443.499)	(6.552.912)
Provision for impairment of debt securities	66.976	2.948.192
	21.933.372	11.584.793
(Increase)/decrease in loans and other advances	(157.518.052)	115.394.410
Decrease in deposits and other customer accounts	(12.606.242)	(94.353.837)
Increase in deposits with other banks	(5.806)	(6.145)
Increase in obligatory balances with Central Bank of Cyprus	(6.823.877)	(3.589.623)
Increase/(decrease) in deposits from other banks	170.351	(1.761.815)
(Increase)/decrease in deposits with related banks	(4.063.017)	36.071.718
Increase/(decrease) in deposits from related banks	162.900.505	(88.687.874)
Decrease in other assets	993.266	519.202
Increase/(decrease) in other liabilities	6.915.590	(36.529.761)
	11.896.090	(61.358.932)
Net cash generated by/(used in) operations	11.896.090	(61.358.932)
Tax paid	(4.523.060)	(1.214.170)
	7.373.030	(62.573.102)
Net cash generated by/(used in) operating activities (Page 9)	7.373.030	(62.573.102)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

31. CASH AND CASH EQUIVALENTS

Analysis of cash and cash equivalents

	2014	2013
	€	€
Cash (Note 13)	7.198.809	9.098.123
Non-obligatory balances with Central Bank of Cyprus	3.873.757	5.018.886
Deposits with related banks - due within three months	119.546.739	178.183.686
Deposits with other banks - due within three months	89.759.424	9.890.538
	220.378.729	202.191.233

For the purpose of preparing the consolidated statement of cash flows, the maturities of cash equivalents relating to the balances with related and other banks and with the Central Bank of Cyprus, are based on their original contractual cash flows.

32. RELATED PARTY TRANSACTIONS

The parent company of the Group is National Bank of Greece S.A., a company registered in Greece.

Transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

During the year, the Group entered into the following trading transactions with related parties that are not members of the Group:

	Interest & other income		Interest & other expense	
	2014	2013	2014	2013
	€	€	€	€
National Bank of Greece S.A.	3.547.325	4.001.942	21.849.181	23.414.613
Subsidiaries of National Bank of Greece S.A.	22.138.943	20.805.275	1.374.000	1.621.480

Balances with related companies

The following balances were outstanding at the end of the reporting period:

	2014	2013
	€	€
Deposits and other customer accounts		
National Securities S.A.	68.881	63.811
NBG Management Services Limited	3.846.408	1.951.213
National Insurance (Cyprus) Limited	2.289.099	10.634.589
National General Insurance (Cyprus) Ltd	2.668.988	9.705.295
	8.873.376	22.354.908

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

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32. RELATED PARTY TRANSACTIONS (Cont'd)

Balances with related companies (cont'd)

	2014	2013
	€	€
Loans and other advances		
Astir Palace Vouliagmenis S.A.	156.164	195.249
Ethniki Leasing S.A.	274.570.317	198.137.783
Ethniki Factors S.A.	315.029.523	207.021.471
Ethniki Hellenic General Insurance S.A.	45.030.653	45.020.980
NBG Leasing IFN S.A.	31.003.660	32.118.508
	665.790.317	482.493.991

Deposits with and from related banks are presented in note 16 to the consolidated financial statements.

Key management personnel

	2014	2013
	€	€
Loans and advances to members of the Board of Directors and connected persons	479	626
Interest income	-	-
Deposits of members of the Board of Directors and connected persons	1.324.509	677.698
Interest expense	10.038	27.476

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 shares.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. All transactions with key management personnel are made on the same terms as those applicable to the rest of the Group's employees.

The remuneration of Directors and other members of key management during the year was as follows:

	2014	2013
	€	€
Fees paid to Directors as members of the Board	12.900	15.049
Executive Directors emoluments		
Salaries and other short-term benefits	328.647	375.994
Employer's contributions	4.908	3.094
	333.555	379.088
Total compensation	346.455	394.137

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Year ended 31 December 2014

33. SUBSIDIARY COMPANY

Details of the Company's subsidiary are as follows:

Name	Country of incorporation	% Participation	
		2014	2013
National Securities Cyprus Ltd	Cyprus	100	100

34. OPERATING ENVIRONMENT OF THE GROUP

Actual economic performance during 2014 was significantly better than originally expected. Fiscal reforms in the public finances continued successfully while the Troika programme targets were comfortably met. However, real economic activity is expected to remain stagnant in 2015 with GDP growth being close to zero.

The most important target of the Cypriot economy is to restore its credibility and reputation and to enhance peoples' confidence towards the banking sector. The successful outcome of the ECB Comprehensive Assessment for the Cypriot banks was a significant milestone, indicating that the banking sector was adequately recapitalised and restructured and is currently in a stronger position to support the economic recovery through the provision of financing to creditworthy households and businesses. Domestic downside risks remain and relate mostly to the high level of non-performing loans and the delays in the implementation of structural reforms agreed to in the economic adjustment programme. Furthermore, the uncertainty regarding the European economic recovery, the economic crisis in Russia and the political and economic uncertainty in Greece weigh negatively on the 2015 economic outlook.

The Management, like the rest Banking Sector in Cyprus, considers the recovery of the real economy a very difficult task, especially in the event that deleveraging does not take place, since private sector's lending remains at a high of 300% of the Cyprus GDP.

The critically high percentage of 300% in conjunction with the complex Regulatory Framework (divestments, insolvency) leads to a painful and long recovery period.

In this unfavorable environment, it is difficult for the Management to predict the developments which could have an impact on the Cypriot economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

On the basis of the evaluation performed, impairment has been recognized as disclosed in Note 17.

Under the current economic environment, the Management acts with flexibility and adaptability aiming primarily to efficiently manage NPL's, penetrate new market segments by targeting new sectors of economic activity (renewable sources of energy, etc.).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. RISK MANAGEMENT

Like any other financial institution, the Group is exposed to risks. The nature of the risks and the ways they are dealt with are explained below:

a) **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The loan portfolio is assessed on the basis of customer creditworthiness, sector of the economy and country of operation and is regularly audited by the Internal Audit department. The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

Maximum exposure to credit risk and collateral and other credit enhancements

The main types of collateral obtained by the Group for loans and advances to customers are mortgages of properties, blocked deposits, bank guarantees, pledges of equity securities of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

Collateral held as security for other financial assets is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured.

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35. RISK MANAGEMENT

a) Credit risk (cont'd)

Maximum exposure to credit risk and collateral and other credit enhancements (cont'd)

The table below shows the maximum exposure to credit risk, the tangible and measurable collateral and other credit enhancements held and the net exposure to credit risk. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

2014	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company				Net collateral €	Net exposure to credit risk €
		Cash €	Securities €	Property €	Other €		
Balances with Central Bank of Cyprus	19.734.367	-	-	-	-	-	19.734.367
Deposits with banks	278.361.975	-	-	-	-	-	278.361.975
Loans and other advances	1.308.908.077	652.932.231	9.758.123	415.985.337	3.006.421	1.081.682.112	227.225.965
Debt securities classified as held-to-maturity	99.400.041	-	-	-	-	-	99.400.041
Available-for-sale investments	3.631.273	-	-	-	-	-	3.631.273
Other assets	1.188.572	-	-	-	-	-	1.188.572
On-balance sheet total	1.711.224.305	652.932.231	9.758.123	415.985.337	3.006.421	1.081.682.118	629.542.193
Contingent liabilities and commitments							
Letters of guarantee	36.621.515						
Letters of credit	19.112.598						
Undrawn credit lines and other commitments to lend	172.330.747						
Off-balance sheet total	228.064.860						
Total credit risk exposure	1.939.289.165						

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35. RISK MANAGEMENT

a) Credit risk (cont'd)

Maximum exposure to credit risk and collateral and other credit enhancements (cont'd)

2013	Maximum exposure to credit risk €	Fair value of collateral and credit enhancements held by the Company					Net exposure to credit risk €
		Cash €	Securities €	Property €	Other €	Net collateral €	
Balances with Central Bank of Cyprus	12.911.610	-	-	-	-	-	12.911.610
Deposits with banks	253.061.213	-	-	-	-	-	253.061.213
Loans and other advances	1.165.351.838	473.273.151	9.897.220	411.290.851	3.483.954	897.945.176	267.406.662
Debt securities classified as held-to-maturity	109.610.541	-	-	-	-	-	109.610.541
Available-for-sale investments	3.392.213	-	-	-	-	-	3.392.213
Other assets	2.169.612	-	-	-	-	-	2.169.612
On-balance sheet total	1.546.497.027	473.273.151	9.897.220	411.290.851	3.483.954	897.945.176	648.551.851
Contingent liabilities and commitments							
Letters of guarantee	72.281.483						
Letters of credit	18.931.256						
Undrawn credit lines and other commitments to lend	253.589.887						
Off-balance sheet total	344.802.626						
Total credit risk exposure	1.891.299.653						

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35. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Credit quality of loans and other advances to customers

	2014	2013
	€	€
Neither past due nor impaired	496.492.372	554.599.585
Past due but not impaired	635.511.893	401.516.479
Impaired	432.069.770	431.814.252
	1.564.074.035	1.387.930.316

A loan is not past due when the customer has not missed a contractual payment (interest or capital) when contractually due. Past due loan are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis.

Loans and other advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Group using internal systems.

Loans and other advances to customers that are past due but not impaired

	2014	2013
	€	€
Past due up to 30 days	530.072.338	283.261.814
Past due 31 - 60 days	10.936.835	21.013.203
Past due 61 - 90 days	19.158.208	13.028.526
Past due over 90 days	75.344.512	84.212.936
	635.511.893	401.516.479

The collateral consists primarily of real estate, cash and letters of guarantee. More details are set out above in "Collateral and other credit enhancements".

The fair value of collateral that the Group holds for loans and other advances to customers that are past due but not impaired as at 31 December 2014 amounts to €661.880.040 (2013: €198.967.050).

The fair value of collateral is based on valuation techniques commonly used for the corresponding assets, which include reference to the market prices.

Impaired loans and other advances

The analysis of loans and other advances that are individually determined to be impaired is as follows:

	2014	2013
	€	€
Commercial	116.249.719	108.470.180
Construction and manufacturing	198.648.475	219.327.381
Tourism	11.776.681	10.042.766
Personal, professional and housing	70.573.363	62.469.294
Other	34.821.532	31.504.631
	432.069.770	431.814.252

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35. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Impaired loans and other advances (cont'd)

Analysis by geographical area:

	2014	2013
	€	€
Cyprus	415.692.202	418.699.132
Other countries	16.377.568	13.115.120
	432.069.770	431.814.252

The fair value of collateral that the Group holds for individually impaired loans as at 31 December 2014 amounts to €287.964.934 (2013: €231.906.396).

The collateral consists primarily of real estate, cash and letters of guarantee. More details are set out above in "Collateral and other credit enhancements".

Rescheduled loans and other advances to customers

	Maximum exposure to credit risk	Fair value of collateral	Net exposure to credit risk
	€	€	€
2014			
Neither past due nor impaired	42.276.192	569.603	41.706.589
Past due but not impaired	78.218.295	89.792.748	(11.574.453)
Impaired	23.912.672	36.034.760	(12.122.088)
	144.407.159	126.397.111	18.010.048

	Maximum exposure to credit risk	Fair value of collateral	Net exposure to credit risk
	€	€	€
2013			
Neither past due nor impaired	11.500.379	299.281	11.201.098
Past due but not impaired	35.138.840	25.306.601	9.832.239
Impaired	46.436.691	33.801.936	12.634.755
	93.075.910	59.407.818	33.668.092

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

35. RISK MANAGEMENT (Cont'd)

a) Credit risk (cont'd)

Credit quality of the Group's assets exposed to credit risk other than loans and other advances to customers - Analysis by rating agency

Balances with Central Bank of Cyprus and deposits with banks are analysed by Moody's rating as follows:

	2014	2013
	€	€
Aaa - Aa3	2.169.938	808.878
A1 - A3	36.560.684	6.813.263
Baa1 - Baa3	25.696.212	833.997
B1 - B3	19.734.367	-
Caa1 - Caa3	188.590.600	204.863.787
Unrated	25.344.542	52.652.898
	298.096.343	265.972.823

Investments in debt securities are analysed by Moody's rating as follows:

	2014	2013
	€	€
B3 (2013: Caa3)	99.400.041	109.610.541
	99.400.041	109.610.541
	99.400.041	109.610.541
	99.400.041	109.610.541
	99.400.041	109.610.541
	99.400.041	109.610.541

The Group's deposits and securities are neither past due nor impaired.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. RISK MANAGEMENT (Cont'd)

b) Liquidity risk

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

Group assets are mainly funded by deposits. The maturity of the deposits is actively monitored in order to avoid concentration of funding maturities at any point in time. The responsibility for the management of liquidity rests with the treasury department.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has build an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements, in order to also ensure compliance with the limits set by the Central Bank of Cyprus.

Analysis of financial assets and financial liabilities by remaining contractual maturity

The following liquidity tables analyse the financial assets and financial liabilities of the Group into relevant maturity groupings based on their remaining contractual maturity. The financial liabilities analysis disclosed in the tables represents the contractual undiscounted cash flows. However, the financial assets are presented on the same basis as the one provided to the management of the Group and to the Central Bank of Cyprus, as this presentation is considered to be the most appropriate presentation of the Group's liquidity. Accordingly, the analysis of the financial assets does not include any interest receivable cash flows.

2014	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Financial assets						
Cash and balances with Central Bank of Cyprus	30.806.933	-	-	-	-	30.806.933
Deposits with banks	255.699.342	13.147.043	9.515.590	-	-	278.361.975
Loans and other advances	326.378.476	3.390.008	365.336.583	406.487.534	207.315.476	1.308.908.077
Available-for-sale investments	3.631.273	-	-	-	-	3.631.273
Held-to-maturity investments	99.400.041	-	-	-	-	99.400.041
Other assets	64.897	919.397	135.999	68.279	-	1.188.572
	<u>715.980.962</u>	<u>17.456.448</u>	<u>374.988.172</u>	<u>406.555.813</u>	<u>207.315.476</u>	<u>1.722.296.871</u>
Financial liabilities						
Deposits from banks	709.464.343	8.016.720	48.776.352	-	-	766.257.415
Deposits and other customer accounts	377.463.777	187.361.027	226.952.697	-	-	791.777.501
Other liabilities	11.487.414	511.722	570.493	4.067.041	-	16.636.670
	<u>1.098.415.534</u>	<u>195.889.469</u>	<u>276.299.542</u>	<u>4.067.041</u>	<u>-</u>	<u>1.574.671.586</u>

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Year ended 31 December 2014

35. RISK MANAGEMENT (Cont'd)

b) Liquidity risk (cont'd)

Analysis of financial assets and financial liabilities by remaining contractual maturity(cont'd)

2014	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Off-balance sheet items						
Letters of Guarantee	-	-	36.621.515	-	-	36.621.515
Letters of credit	-	-	19.112.598	-	-	19.112.598
Amount of unutilised credit facilities	172.330.747	-	-	-	-	172.330.747
	<u>172.330.747</u>	<u>-</u>	<u>55.734.113</u>	<u>-</u>	<u>-</u>	<u>228.064.860</u>
2013	Less than 1 month €	Between 1-3 months €	Between 3 months to 1 year €	Between 1-5 years €	Over 5 years €	Total €
Financial assets						
Cash and balances with Central Bank of Cyprus	27.027.499	-	-	-	-	27.027.499
Deposits with banks	191.776.914	7.975.923	53.308.376	-	-	253.061.213
Loans and other advances	185.068.410	64.774.607	354.012.547	377.857.921	183.638.353	1.165.351.838
Available-for-sale investments	3.392.213	-	-	-	-	3.392.213
Held-to-maturity investments	109.610.541	-	-	-	-	109.610.541
Other assets	74.987	873.809	570.418	650.398	-	2.169.612
	<u>516.950.564</u>	<u>73.624.339</u>	<u>407.891.341</u>	<u>378.508.319</u>	<u>183.638.353</u>	<u>1.560.612.916</u>
Financial liabilities						
Deposits from banks	524.527.391	8.097.562	70.270.370	-	-	602.895.323
Deposits and other customer accounts	478.470.993	168.364.235	158.644.028	-	-	805.479.256
Subordinated loan	-	3.013.196	-	-	-	3.013.196
Other liabilities	3.755.726	2.169.184	700.966	3.273.433	-	9.899.309
	<u>1.006.754.110</u>	<u>181.644.177</u>	<u>229.615.364</u>	<u>3.273.433</u>	<u>-</u>	<u>1.421.287.084</u>
Off-balance sheet items						
Letters of Guarantee	-	-	72.281.483	-	-	72.281.483
Letters of credit	-	-	18.931.256	-	-	18.931.256
Amount of unutilised credit facilities	253.589.887	-	-	-	-	253.589.887
	<u>253.589.887</u>	<u>-</u>	<u>91.212.739</u>	<u>-</u>	<u>-</u>	<u>344.802.626</u>

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35. RISK MANAGEMENT (Cont'd)

c) Market risk

Market risk is the risk of loss from adverse changes in market prices. The Group is exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The ways that these risks are dealt with are analysed below:

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. It arises as a result of timing differences on the interest rate repricing of assets and liabilities. The Group monitors on a continuous basis the interest rate movements and the repricing or maturity structure of its assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. The difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to find the annual impact on earnings of any changes in interest rates for the next twelve months for each currency.

Sensitivity analysis

The table below indicates the effect on the Group's net profit and equity, if interest rates of the main currencies have been 100 basis points higher. A positive number below indicates an increase in profit/equity. For a decrease of 100 basis points there would be an equal and opposite impact on the net profit and equity.

Change in interest rates	Euro €'000	USD Dollars €'000	British Pound €'000	Other currencies €'000	Total €'000
2014					
+100 b.p. in all currencies	12.740	40	34	123	12.937
2013					
+100 b.p. in all currencies	14.507	187	57	147	14.898

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. It arises from an open position in a foreign currency, creating an exposure to a change in the relevant exchange rate. This may arise from the holding of financial assets in one currency funded by liabilities in another currency.

In order to manage currency risk, the Group has approved open position limits for each currency. Adherence to the limits is monitored on a daily basis by the treasury department.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

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Year ended 31 December 2014

35. RISK MANAGEMENT (Cont'd)

c) Market risk (cont'd)

Currency risk (cont'd)

The table below sets out the Group's foreign exchange risk resulting from its open foreign exchange positions. A positive number below indicates an increase in profit/equity. For a corresponding decrease there would be an equal and opposite impact on profit/equity.

Currency	Open position €'000	Change in exchange rate %	Impact on net profit/ equity €'000
2014			
US Dollar	593	+5	30
British Pound	(2.957)	+5	(148)
Other currencies	2.931	+5	147
2013			
US Dollar	(1.356)	+5	(68)
British Pound	(4.583)	+5	(229)
Other currencies	3.422	+5	171

d) Operational risk

Operational risk is the risk of loss arising from fraud, error, omission, systems failure or other external events. The Group manages operational risk through its Risk Management Unit where processes are documented and transactions are monitored. Furthermore, this is supported by the reviews undertaken by the Internal Audit division.

e) Regulatory risk

The operations of the Group are supervised by the Central Bank of Cyprus. All Banks in Cyprus have to comply with the requirements of both the European Union and Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Group.

f) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, regardless of whether that price is directly observable or estimated using another valuation technique.

With reference to the above, the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

35. RISK MANAGEMENT (Cont'd)

f) Fair value of financial instruments (cont'd)

Fair value measurements recognised in the statement of financial position

The Group 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 following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques.

- The fair values of available-for-sale investments that are traded on active liquid markets are determined with reference to quoted market prices. The unquoted equity securities are valued using valuation techniques that include inputs from non-observable data. The non-observable inputs to the models for the valuation of unquoted equity include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.
- The fair values of derivative instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

2014	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets at FVTPL				
Derivative financial assets	-	38.668	-	38.668
Available-for-sale investments				
Equities	1.537.121	-	2.094.152	3.631.273
Total	<u>1.537.121</u>	<u>38.668</u>	<u>2.094.152</u>	<u>3.669.941</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	-	15.443	-	15.443
Total	<u>-</u>	<u>15.443</u>	<u>-</u>	<u>15.443</u>

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

35. RISK MANAGEMENT (Cont'd)

f) Fair value of financial instruments (cont'd)

2013	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets at FVTPL				
Derivative financial assets	-	26.442	-	26.442
Available-for-sale investments				
Equities	1.280.977	85.430	2.025.806	3.392.213
Total	<u>1.280.977</u>	<u>111.872</u>	<u>2.025.806</u>	<u>3.418.655</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	-	208.814	-	208.814
Total	<u>-</u>	<u>208.814</u>	<u>-</u>	<u>208.814</u>

Reconciliation of Level 3 fair value measurements

	Available-for-sale unlisted shares	
	2014 €	2013 €
Balance of 1 January	2.025.806	2.248.517
Total gains/(losses) in other comprehensive income	68.346	(222.711)
Balance of 31 December	<u>2.094.152</u>	<u>2.025.806</u>

During 2014 and 2013 there were no transfers from Level 1 and Level 2.

36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group complies with externally imposed capital requirements and that the Group maintains good capital ratios in order to support its business and to maximise shareholders' value.

The capital adequacy regulations which govern the Group's operations are established by the Central Bank of Cyprus.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

36. CAPITAL MANAGEMENT (Cont'd)

As from 1 January 2014, the new Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy 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 Central Bank of Cyprus 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%. The CBC imposes additional capital requirements (Pillar 2 additions), for risks which are not covered by the above-mentioned capital requirements, taking also into account the provisions of the Directive (CRD IV) and of the Regulation (CRR).

The Directive of the Central Bank of Cyprus to credit institutions for the purpose of harmonization with the European Union Directives on the Calculation of Capital Requirements and Large Exposures of 2007 to 2011 (Basel II) was in force until 31 December 2013.

The Group's capital position under CRD IV/CRR on a transitional basis is presented below.

	2014 €'000
Common Equity Tier 1 (CET1)	166.046
Additional Tier 1 Capital (AT1)	-
Tier 2 Capital (T2)	2.016
Regulatory Capital	168.062
Risk weighted assets - credit risk	846.266
Risk weighted assets - market risk	3.525
Risk weighted assets - operational risk	79.738
Total risk weighted assets	929.529
	2014 %
Common Equity Tier 1 (CET1) ratio	17,86
Tier 2 ratio	0,22
Total capital ratio	18,08

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

36. CAPITAL MANAGEMENT (Cont'd)

The Group's capital position under the rules which were applicable as at 31 December 2013 is presented below:

	2013 €'000
Core original own funds	151.817
Original own funds	151.817
Supplementary own funds	13.612
Deductions	(1.223)
Total own funds	164.206
Risk weighted assets - credit risk	899.788
Risk weighted assets - market risk	5.938
Risk weighted assets - operational risk	96.913
Total risk weighted assets	1.002.639
	2013 %
Core tier 1 ration	15,14
Tier 1 ratio	15,08
Tier 2 ratio	1,30
Total capital ratio	16,38

37. CATEGORIES OF FINANCIAL INSTRUMENTS

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Assets at fair value through profit or loss	Available- for-sale assets	Held-to- maturity assets	Total
2014	€	€	€	€	€
Financial assets as per consolidated statement of financial position					
Cash and balances with Central Bank of Cyprus	30.806.933	-	-	-	30.806.933
Deposits with banks	278.361.975	-	-	-	278.361.975
Loans and other advances	1.308.908.077	-	-	-	1.308.908.077
Available-for-sale investments	-	-	3.631.273	-	3.631.273
Held-to-maturity investments	-	-	-	99.400.041	99.400.041
Other assets	1.149.904	38.668	-	-	1.188.572
	1.619.226.889	38.668	3.631.273	99.400.041	1.722.296.871

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

37. CATEGORIES OF FINANCIAL INSTRUMENTS (Cont'd)

2014	Derivative liabilities at fair value through profit or loss €	Other financial liabilities at amortised cost €	Total €
Financial liabilities as per consolidated statement of financial position			
Deposits from banks	-	763.044.906	763.044.906
Deposits and other customer accounts	-	789.133.820	789.133.820
Subordinated loan	-	-	-
Other liabilities	15.443	16.621.227	16.636.670
	<u>15.443</u>	<u>1.568.799.953</u>	<u>1.568.815.396</u>

2013	Loans and receivables €	Assets at fair value through profit or loss €	Available- for-sale assets €	Held-to- maturity assets €	Total €
Financial assets as per consolidated statement of financial position					
Cash and balances with Central Bank of Cyprus	27.027.499	-	-	-	27.027.499
Deposits with banks	253.061.213	-	-	-	253.061.213
Loans and other advances	1.165.351.838	-	-	-	1.165.351.838
Available-for-sale investments	-	-	3.392.213	-	3.392.213
Held-to-maturity investments	-	-	-	109.610.541	109.610.541
Other assets	2.143.170	26.442	-	-	2.169.612
	<u>1.447.583.720</u>	<u>26.442</u>	<u>3.392.213</u>	<u>109.610.541</u>	<u>1.560.612.916</u>

2013	Derivative liabilities at fair value through profit or loss €	Other financial liabilities at amortised cost €	Total €
Financial liabilities as per consolidated statement of financial position			
Deposits from banks	-	599.342.043	599.342.043
Deposits and other customer accounts	-	802.372.070	802.372.070
Subordinated loan	-	3.000.000	3.000.000
Other liabilities	208.814	9.690.495	9.899.309
	<u>208.814</u>	<u>1.414.404.608</u>	<u>1.414.613.422</u>

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 21 May 2015.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

ADDITIONAL RISK DISCLOSURES

**Year ended 31 December 2014
(Unaudited)**

Credit risk

In February 2014, the Central Bank of Cyprus ('CBC') 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 IFRS 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. The disclosures required by the Directive, in addition to those presented in Notes 3 and 35 of the consolidated financial statements, are set out in the following tables. The disclosure requirements for 2013 have been prepared based on the information and tables published by the CBC in February 2014. Subsequently the CBC has amended the disclosures tables. As a result, the tables presented for 2014 are not comparable to the disclosure tables of 2013. In addition, the 2013 tables present non performing loans based on CBC Directive whereas the 2014 tables disclose non performing exposures based on the European Banking Authority (EBA) standards.

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

**CREDIT RISK
(Unaudited)**

Analysis of loan portfolio from banking services according to transaction performance status as at 31 December 2014

Table A

	Gross carrying amount			Accumulated impairment	
	of which non-performing exposures	of which exposures with forbearance measures	of which on non-performing exposures	of which non-performing exposures	of which exposures with forbearance measures of which on non-performing exposures
Loans and advances *					
General governments	1.814.251	-	-	22.113	-
Other financial corporations	683.851.754	31.813.642	809.983	9.245.875	431
Non-financial corporations	627.152.630	91.105.541	52.624.659	151.707.870	1.824.166
Of which: Small and Medium-sized Enterprises	75.443.383	4.719.613	3.089.724	18.452.042	294.266
Of which: Commercial real estate	97.879.117	12.084.049	4.851.727	30.515.604	860.520
By sector					
1. G Wholesale & Retail Trade	209.492.365	111.594.106		61.451.484	
2. F Construction	161.211.944	134.696.767		36.802.727	
3. C Manufacturing	84.378.210	41.427.218		22.150.668	
4. L Real Estate Activities	77.810.074	35.897.974		13.603.988	
5. I Accommodation & Food Services Activities	31.059.426	10.644.654		3.392.699	
Other sectors	63.200.612	28.068.431		14.306.304	
Households	251.255.400	170.897.985	6.259.993	94.190.100	1.161.630
Of which: Residential mortgage loans	97.264.079	45.348.632	4.192.187	10.838.008	537.545
Of which: Credit for consumption	153.991.324	125.549.340	2.067.806	83.352.090	624.085
	1.564.074.035	543.405.230	144.407.158	255.165.958	3.713.452
				59.694.635	247.999.662
					2.452.760

*Excluding loans and advances to central banks and credit institutions.

**CREDIT RISK
(Unaudited)**

Analysis of loan portfolio from banking services according to transaction performance status as at 31 December 2013

Table A

	Total credit facilities €	Performing credit facilities			Non performing credit facilities €
		Non restructured credit facilities €	Restructured credit facilities €	Total €	
1. Corporate					
Wholesale and retail trade, repair of motor vehicles and motorcycles	172.833.607	79.790.428	8.316.552	88.106.980	84.726.627
Construction	147.449.315	15.669.725	10.015.809	25.685.534	121.763.781
Manufacturing	81.324.289	45.774.146	2.523.765	48.297.911	33.026.378
Real Estate activities	71.172.654	31.333.958	972.421	32.306.379	38.866.275
Accommodation and food service activities	25.028.800	15.692.088	2.032.565	17.724.653	7.304.147
Other	583.098.572	532.911.237	6.918.428	539.829.665	43.268.907
	1.080.907.237	721.171.582	30.779.540	751.951.122	328.956.115
2. Retail					
Wholesale and retail trade, repair of motor vehicles and motorcycles	30.369.760	11.923.302	300.934	12.224.236	18.145.524
Manufacturing	10.949.397	3.797.842	134.136	3.931.978	7.017.419
Construction	10.526.145	2.282.926	1.158.525	3.441.451	7.084.694
Real Estate activities	5.488.247	2.750.893	89.014	2.839.907	2.648.340
Accommodation and food service activities	4.855.132	1.873.922	214.922	2.088.843	2.766.288
Other	6.905.351	3.172.063	224.166	3.396.229	3.509.122
	69.094.032	25.800.947	2.121.697	27.922.644	41.171.387
3. Individuals					
Credit facilities for the purchase/construction of immovable property	99.727.736	55.041.623	2.290.846	57.332.469	42.395.267
(a) Owner occupied	58.649.372	37.354.209	1.462.466	38.816.675	19.832.697
(b) For other purposes	41.078.364	17.687.414	828.380	18.515.794	22.562.570
Consumer loans	57.311.959	7.801.305	547.049	8.348.354	48.963.605
Credit cards	6.741.548	1.975.943	-	1.975.943	4.765.605
Current accounts	5.789.361	4.422.729	-	4.422.729	1.366.632
Credit Facilities to sole traders	68.358.443	8.360.796	-	8.360.796	59.997.647
	237.929.046	77.602.396	2.837.895	80.440.291	157.488.756
4. Total facilities (1+2+3)	1.387.930.316	824.574.925	35.739.132	860.314.057	527.616.258
Provisions	222.578.480	8.084.431	881.255	8.965.686	213.612.792

NATIONAL BANK OF GREECE (CYPRUS) LIMITED

**CREDIT RISK
(Unaudited)**

Analysis of loan portfolio from banking services on the basis of loan origination date as at 31 December 2014

Table B

	Gross carrying amount of total loans		Loans to non-financial corporations		Loans to other financial corporations		Loans to households	
	Non-performing loans	Accumulated impairment	Non-performing loans	Accumulated impairment	Non-performing loans	Accumulated impairment	Non-performing loans	Accumulated impairment
Total loans granted								
Within 1 year	624,190,509	5,793,195	210,902,716	4,483,071	374,301,759	26,034	38,986,034	1,284,089
1 - 2 years	306,711,739	1,715,863	54,694,314	752,129	241,454,975	-	10,562,450	963,734
2 - 3 years	32,123,330	1,493,397	23,899,268	840,233	810,719	431	7,413,343	653,273
3 - 5 years	105,173,052	2,381,668	34,138,962	1,133,076	52,910,928	-	18,123,162	1,248,592
5 - 7 years	56,977,358	2,057,107	37,122,435	1,244,283	5,066,039	-	12,974,633	812,822
7 - 10 years	28,563,155	1,924,202	10,822,935	997,174	-	-	17,740,220	6,925,000
More than 10 years	410,334,892	232,634,230	255,572,000	137,505,188	9,307,334	9,307,326	145,455,558	86,106,553
	1,564,074,035	247,999,662	627,152,630	146,955,154	683,851,754	10,178,093	251,255,400	91,996,091

**CREDIT RISK
(Unaudited)**

Analysis of loan portfolio from banking services on the basis of loan origination date as at 31 December 2013

Table B

Loan origination date:	Total loans			Credit facilities to legal entities			Credit facilities to private individuals for the purchase/construction of immovable property			Credit facilities to private individuals - other loans		
	Total credit facilities €	Non performing credit facilities €	Provisions €	Total credit facilities €	Non performing credit facilities €	Provisions €	Total credit facilities €	Non performing credit facilities €	Provisions €	Total credit facilities €	Non performing credit facilities €	Provisions €
Within 1 year	719.863.144	77.053.529	13.781.819	684.332.349	67.253.503	10.923.530	16.226.613	5.813.080	455.450	19.304.182	3.986.946	2.402.839
1 - 2 years	43.565.738	9.887.314	2.329.883	31.511.235	7.499.999	1.126.773	6.860.484	1.055.965	122.054	5.194.019	1.331.350	1.081.056
2 - 3 years	95.535.996	15.840.916	1.932.206	80.363.189	13.016.508	1.074.917	12.692.906	1.716.789	341.008	2.479.901	1.107.619	516.281
3 - 5 years	147.502.588	73.786.774	12.771.891	117.086.977	57.710.452	8.608.928	24.624.559	11.262.313	2.709.533	5.791.052	4.814.009	1.453.430
5 - 7 years	97.919.128	79.325.445	22.422.874	68.477.172	61.767.636	19.066.518	26.410.886	15.259.417	2.252.678	3.031.070	2.298.392	1.103.678
7 - 10 years	52.335.441	42.688.362	17.957.024	23.361.396	18.223.923	8.232.669	8.344.716	4.339.171	1.571.321	20.629.329	20.125.268	8.153.034
Over 10 years	231.208.281	229.033.920	151.382.781	144.868.951	144.655.481	90.662.482	4.567.574	2.948.534	1.097.093	81.771.756	81.429.905	59.623.206
	1.387.930.316	527.616.258	222.578.478	1.150.001.269	370.127.502	139.695.817	99.727.738	42.395.267	8.549.137	138.201.309	115.093.489	74.333.524

Credit facilities to private individuals for the purchase/construction of immovable property include facilities for owner occupation or for other purposes.
Credit facilities private individuals - other loans include all other credit facilities granted to private individuals.

