COOPERATIVE CENTRAL BANK

LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2014

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COOPERATIVE CENTRAL BANK LTD

OFFICERS AND PROFESSIONAL ADVISORS

Committee:

Nicolas Hadjiyiannis	- Independent Non-Executive Chairman
Charalambos Christodoulides	- Independent Non-Executive Vice Chairman
Demetris Theodotou	- Non-Executive Member
George Hadjinicolas	- Non-Executive Member
Athanasios Stavrou	- Independent Non-Executive Member
Georgios Kittos	- Independent Non-Executive Member
Panicos Pouros	- Independent Non-Executive Member
George Strovolides	- Independent Non-Executive Member
Lambros Pieri	- Independent Non-Executive Member
Marios Clerides	- Executive Member
Efthymios Pantazis	- Executive Member

General Manager:
Marios Clerides

Senior Management:

Efthymios Pantazis	Senior Director of Non-Performing Loans Division
Achilleas Yiallouros	Manager of Retail Banking Division
Spyros Lingis	Manager of Corporate Banking Division
Stavros Iacovou	Manager of Operations Division
Lambros Papalambrianou	Manager of Finance Division
Demetris Koulas	Manager of Administration Division
Andreas Trokkos	Head of Restructuring Unit
Maria Agathocleous	Head of Risk Management Unit
Marios Xenides	Head of Compliance Unit
Marios Demosthenous	Head of Internal Audit Unit
Yiannos Koukoularides	Head of Credit Control Unit

Independent Auditors:
KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

Legal Advisors:
Tassos Papadopoulos & Associates
Christos M. Triantafillides
George Z. Georgiou & Associates

Registered office:
8 Gregori Afxentiou Street, 1096 Nicosia, P.O. 24537, 1389 Nicosia

Report on Review of Interim Financial Information

To the Members of
Cooperative Central Bank Limited

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Cooperative Central Bank Ltd (“the Bank”) and its subsidiaries (together with the Bank, “the Group”) as of 30 June 2014, and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 6 month period then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis of Qualified Conclusion

Paragraph 20 of International Accounting Standard 34 “Interim Financial Reporting” requires that the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows, should disclose a comparative statement for the comparable interim period of the immediately preceding financial year. Management has not disclosed such information because it has assessed that the cost of resourcing for deriving the subject information from the Group’s records is higher than the expected value for the users of this interim financial information.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Michael M. Antoniades, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

14 Esperidon Street
1087 Nicosia
Cyprus

16 October 2014

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2014

	Note	30 June 2014 €'000
Interest income		**364.350**
Interest expense		**(160.877)**
Net interest income		**203.473**
Income from fees and commissions		**16.244**
Expenses for fees and commissions		**(10.424)**
Fair value loss on investment properties		**(200)**
Other income		**11.961**
Total net income		**221.054**
Staff costs	8	**(66.023)**
Depreciation		**(6.345)**
Other operating expenses	9	**(31.679)**
Total expenses		**(104.047)**
Operating profit before provisions for impairment		**117.007**
Net finance income		**52**
Net gain on disposal of financial assets available for sale		**866**
Increase in provisions for impairment of loans and other advances		**(53.580)**
Profit before tax		**64.345**
Tax	10	**21.275**
Profit for the period		**85.620**
Other comprehensive income		
Items that will not be reclassified in subsequent periods to profit or loss:		
Net change in the fair value of land and buildings		**(6.216)**
		(6.216)
Items that may be reclassified in subsequent periods to profit or loss:		
Net change in fair value of available for sale financial assets		**2.333**
		2.333
Other comprehensive expense for the period, net of tax		**(3.883)**
Total comprehensive income for the period		**81.737**

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
For the six months ended 30 June 2014

	30 June 2014 €'000
Profit attributable to:	
Equity holders of the Bank	**84.157**
Non-controlling interest	**1.463**
Profit for the period	**85.620**
Total comprehensive income attributable to:	
Equity holders of the Bank	**80.268**
Non-controlling interest	**1.469**
Total comprehensive income	**81.737**

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2014

	Note	**30 June 2014 €'000**	31 December 2013 €'000
ASSETS			
Cash		**102.292**	100.837
Deposits with central banks		**233.552**	959.275
Deposits with other banking institutions		**66.616**	64.133
Loans and other advances to customers	11	**10.543.915**	10.778.140
Inventories		**45.517**	44.676
Properties held for sale		**61.164**	83.321
Financial assets at fair value through profit or loss		**-**	202
Available for sale financial assets		**13.414**	24.825
Investments held to maturity		**2.450.284**	1.017.476
Investment property		**274.827**	254.990
Property, plant and equipment		**334.072**	331.864
Intangible assets		**1.506**	1.685
Investments in associates		**207**	208
Deferred tax asset	13	**24.469**	580
Other assets		**66.762**	46.379
Total assets		**14.218.597**	13.708.591
LIABILITIES			
Amounts due to other bank institutions		**96.875**	83.600
Deposits and other customer accounts		**12.603.940**	13.477.149
Repurchase agreements		**-**	202.581
Other loans		**48.984**	74.206
Loans for the repayment of refugee deposits		**36.534**	36.534
Deferred income		**-**	90
Other liabilities		**143.268**	127.534
Total liabilities		**12.929.601**	14.001.694
EQUITY			
Share capital	14	**1.515.113**	100.836
Reserves	15	**(255.008)**	(393.939)
Equity attributable to equity holders of the Bank		**1.260.105**	(293.103)
Non-controlling interest	12	**28.891**	-
Total equity		**1.288.996**	(293.103)
Total equity and liabilities		**14.218.597**	13.708.591
Contingent liabilities and non capital commitments	16	**621.378**	672.264

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Chairman Vice Chairman General Manager Finance Manager

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2014

	Share Capital €'000	Fair value reserve- land and buildings €'000	Fair value reserve – available-for-sale financial assets €'000	Merger reserve €'000	Statutory reserve required by law €'000	Dilution of shares reserve €'000	Profit available for distribution €'000	Total €'000	Non-controlling interest €'000	Total €'000
Balance at 1 January 2014	**100.836**	**166.708**	**(3.813)**	**39.918**	**(596.752)**	**-**	**-**	**(293.103)**	**-**	**(293.103)**
Comprehensive income										
Profit for the period	-	-	-	-	-	-	84.157	84.157	1.463	85.620
Other comprehensive income, net of tax										
Net change in fair value of land and buildings	-	(6.210)	-	-	-	-	-	(6.210)	(6)	(6.216)
Net change in fair value of available-for-sale financial assets	-	-	2.321	-	-	-	-	2.321	12	2.333
Other comprehensive expense for the period	-	(6.210)	2.321	-	-	-	-	(3.889)	6	(3.883)
Transactions with owners of the Bank										
Issue of share capital	1.500.000	-	-	-	-	-	-	1.500.000	-	1.500.000
Decrease in nominal value of shares	(85.723)	-	-	-	-	85.723	-	-	-	-
Increase in merger reserve	-	-	-	362	-	-	-	362	-	362
Transfer of profit for the period	-	-	-	-	84.157	-	(84.157)	-	-	-
	1.414.277	-	-	362	84.157	85.723	(84.157)	1.500.362	-	1.500.362
Changes in ownership interests in subsidiaries:										
Loss on deemed disposal	-	-	-	-	(27.422)	-	-	(27.422)	27.422	-
Balance at 30 June 2014	**1.515.113**	**160.498**	**(1.492)**	**40.280**	**(540.017)**	**85.723**	**-**	**1.260.105**	**28.891**	**1.288.996**

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2014

	Note	30 June 2014 €'000
Cash flows from operating activities		
Profit before tax		**64.345**
Adjustments for:		
Provision for impairment of loans and other advances to customers	11	**142.617**
Depreciation of property, plant and equipment		**6.109**
Amortization of computer software		**236**
Loss from disposal of property, plant and equipment		**(6)**
Fair value losses on investment properties		**200**
Impairment charge on financial assets available for sale		**(37)**
Net gain on disposal of financial assets available for sale		**(866)**
Income from investments held to maturity		**(23.332)**
Dividends		**(56)**
Net interest income		**(203.473)**
		(14.263)
Changes in:		
Deposits with central banks		**(84.276)**
Deposits with other banking institutions		**5.294**
Loans and other advances to customers		**91.608**
Investment properties		**(19.837)**
Inventories		**(841)**
Properties held for sale		**22.157**
Other assets		**(24.832)**
Amounts due to other banking institutors		**13.275**
Customer deposits and other customer accounts		**(873.209)**
Other liabilities		**15.734**
		(869.190)
Interest received		**364.350**
Interest paid		**(160.877)**
Dividends received		**56**
Tax paid		**(107)**
Net cash used in operating activities		**(665.768)**

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

COOPERATIVE CENTRAL BANK LTD

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2014

	30 June 2014 €'000
Cash flows from investing activities	
Income from investments held to maturity	**9.668**
Payment for acquisition of intangible assets	**(60)**
Payment for acquisition of property, plant and equipment	**(8.317)**
Proceeds from disposal available for sale financial assets	**10.429**
Proceeds from disposal of investments held-to-maturity	**81.722**
Net cash from investing activities	**93.442**
Cash flows from financing activities	
Repayment of other loan	**(25.780)**
Repayment of repurchase agreements	**(202.688)**
Net cash used in financing activities	**(228.468)**
Net decrease in cash and cash equivalents	**(800.794)**
Cash and cash equivalents at 1 January	**969.701**
Cash and cash equivalents at 30 June	**168.907**

The notes on pages 10 to 46 form an integral part of these condensed consolidated financial statements.

1. General

1.1 Reporting entity

The Bank was founded in Cyprus in 1937 (registration number 88) as a Cooperative limited liability company in accordance with Article 11 of the Cooperative Companies Law of 1923 and 1937. Its registered office is located at 8 Gregori Afxentiou street, 1096 Nicosia, P.O. Box 24537, 1389 Nicosia.

According to the Memorandum of Understanding which was agreed between the Republic of Cyprus and the European Central Bank, European Committee and International Monetary Fund ("Troika") the number of Cooperative Credit Institutions (CCIs) was reduced to 18, with the General Meetings of the Members approving the mergers in September 2013. On 4 October 2013, a decree for the nationalization of the Cooperative Movement was issued along with the increase of the share capital by €1,5 billion. The agreement for the granting of the bond that was issued by the European Stability Mechanism for recapitalization of the Cooperative Movement was signed on 28 February 2014.

In accordance with the Restructuring Plan, the Memorandum and the two government decrees issued on 4 October 2013 and 29 January 2014, the participation percentage of the voting rights of the Republic of Cyprus in the ownership structure of Cooperative Central Bank ("CCB") is 99% and of the previous shareholders is 1%. At the same time, CCB became a 99% shareholder in the remaining 18 Cooperative Credit Institutions. For this purpose, the cooperative holding company of CCB is established according to the article 12E of the Cooperative Companies Law, where the previous shareholders of CCB are transferred with a participation to its capital, equivalent to the participation each shareholder had in the share capital of CCB.

1.2 Public finance adjustment program and operating environment

On 25 March 2013 the negotiations between the Cyprus Government and Eurogroup have been concluded, and an agreement was reached for the provision of financial support towards the Cyprus Government of up to €10 billion and the development of a macroeconomic adjustment program. From the €10 billion, €2,5 billion will be available for the re-capitalisation of the banking institutions of Cyprus, including the Cooperative Sector, but excluding Bank Of Cyprus Plc ("Bank of Cyprus") and Laiki Bank Plc ("Laiki").

Furthermore, it was decided that Bank of Cyprus and Laiki will be set under resolution status and that, assets, insured deposits and the €9 billion provided by Emergency Liquidity Assistance ("ELA") will be transferred from Laiki Bank to Bank of Cyprus. The recapitalization procedure of Bank of Cyprus was completed in accordance with the relevant decrees of the Resolution Authority for "Bailing - in" meaning a partial conversion of the unsecured deposits into shares. Moreover, the holders of shares and credit securities of Bank of Cyprus have contributed towards its re-capitalization through the absorption of losses.

In accordance with the text of the economic adjustment program the target is to overcome both the short-term and the medium-term economic, financial and structural challenges that Cyprus is facing. The main aims of the program are:

1. to restore the strength of the Cyprus banking sector and to gain the trust of the depositors and the market with the thorough restructuring and downsizing of the financial institutions, the strengthening of supervision and to address the expected capital deficiencies, in accordance with the political agreement at the Eurogroup on 25 March 2013,

2. to continue the current process of restructuring the public finances in order to correct the excessive government budgetary deficit, as soon as possible, especially through measures to decrease the current primary expenditure, and by maintaining, medium term, the restructuring of the public finances, especially through measures to increase the efficiency of the public expenditure within a short-term public finances framework, to increase the collection of income and to improve the operation of the public sector, and

3. to implement corrective reforms in order to support the competitiveness and a sustainable and balanced development, allowing the correction of the macroeconomic imbalances, and more specific through the reform of the system of cost of living allowance and the removal of obstacles for the ordinary functioning of the services markets.

1. General (continued)

1.2 Public finance adjustment program and operating environment (continued)

The final text of the Memorandum of Understanding with Troika was agreed from the Board of Directors of the European Stability Mechanism and the Cyprus Parliament and approved by the member states of the Eurozone.

On 27 March 2013 the first decree was issued concerning the restrictions on the banking transactions. The scope and duration of the restrictions are decided and updated by the Ministry of Finance and the Governor of the Central Bank of Cyprus. The temporary restrictions on the bank transactions and cash transactions include restrictions on the withdrawals of cash, the clearing of cheques and restrictions of money transferred on other credit institutions in Cyprus and abroad.

On 29 March 2013, the Central Bank of Cyprus issued two decrees in relation to Laiki and Bank of Cyprus, implementing measures for these two banks as per The Resolution of Credit and Other Institutions Law of 2013.

On 18 April 2013, legislation was approved by the Parliament that allowed for increase of the Corporation tax from 10% to 12,5%, increasing the special contribution for defence from 15% to 30% as well as increasing the special tax relating to credit institutions from 0,11% to 0,15%.

The Central Bank of Cyprus announced on 24 April 2013 that an agreement was reached with the banking institutions in Cyprus, that provides that if the deposit rate offered by the financial institutions exceeds Euribor plus 300 basis points, then the financial institution must maintain additional special own funds.

On 2 May 2013, the Cyprus bonds have regained the ability to be used as a collateral for the purpose of funding from the European Central Bank.

The Central Bank of Cyprus (CBC) having evaluated the current regulatory framework in relation to the provision of advances, the procedure of impairment of assets and provisions and the handling of collateral for the provisions, has started to implement regulatory amendments. On 17 February 2014 the Central Bank of Cyprus issued a directive that covers the provisioning policy of loans and the procedures for provisions. The directive started with an immediate effect and the disclosure requirements have been applied for the year 2013.

Cyprus has returned to the international markets after three years by issuing a government bond, which provides a confirmation for the progress made on the recovery of the Cypriot economy, however without ensuring the sustainability of the national debt. The economic adjustment and the steps towards the financial system's stabilisation help gradually restore a positive economic climate. Also, the introduction of significant structural reforms is the beginning of an increase in the efficiency, productivity and competitiveness of the Cypriot economy. The first steps have been taken, but there is still a long way to go to the end of the recession.

By returning to the international markets, Cyprus has become more attractive to foreign investors, who are a key element for economic recovery. Cyprus can now offer new investment opportunities in commerce, services, energy, shipping, health, technology and tourism.

The return of Cyprus to the international markets and the satisfactory implementation of the Economic Adjustment Programme has recently caused the rating of Cyprus to be upgraded by the international credit rating agencies. On 25 April 2014, Standard & Poor's upgraded the credit rating of the domestic and foreign long-term sovereign debt from B- to B and affirmed the positive outlook for domestic and foreign lending. On the same date, credit rating agency Fitch Ratings revised the outlook on Cyprus's long-term foreign currency Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at B-. Also, Moody's ratings agency maintained the Caa3 rating of Cyprus's government bond, but changed the outlook from negative to positive.

1. General (continued)

1.2 Public finance adjustment program and operating environment (continued)

After the Eurogroup in September 2014 the President of the Eurogroup, Jeroen Dijsselbloem, and EU Commissioner responsible for Economic and Monetary Affairs and the Euro, Jyrki Katainen, have said that the amendments adopted by the House of Parliament on the foreclosures bill – a precondition for the disbursement of the next tranche of the island's €10 billion financial assistance programme – are not in accordance with the Memorandum signed with the Troika. As such, they confirm, the disbursement of the next tranche is inextricably linked with finding a solution to this issue.

The reform of the legal framework regarding repossession and insolvency is of high importance, so that balanced motives will be given to borrowers and lenders to negotiate and reach to an agreement regarding the restructuring of the non-performing loans. In September 2014 the House of Parliament adopted a number of legislative proposals tabled by MPs together with a bill on foreclosures. Cyprus' international lenders collectively known as the Troika (European Commission, European Central Bank, and the International Monetary Fund) have said that the amendments made by Parliament are "not compatible" with the adjustment programme's requirements. Two of the six laws have been returned by the Government to the parliament and the rest were submitted to the Supreme Court to assess whether they are in contradiction with the Cyprus Constitution. The hearing is planned for the 20th of October 2014. In relation to the two laws that were suspended, the one was accepted by the Parliament while the other one was voted again with changes.

The foreclosure law has been published in the Cyprus Gazette and it aims to expedite the procedure for foreclosures through private auctions in an attempt to manage the non performing loans. The law is effective for all loans except for private residents, for which the application start on the 1st January 2015. Additionally, the Parliament voted a resolution for the preparation of the insolvency framework which is expected to be in place in January 2015.

1.3 Principal activities

The main activities of the Group, which have remained the same as the previous period, is the provision of banking and financial services, in accordance with the legislation of Cooperative Companies and the conduct of trading activities. All activities are carried out in Cyprus.

1.4 Turnover

The turnover of the Group consists of revenue from interest, rights and commissions and other income.

2. Basis of preparation

2.1 Statement of compliance

These condensed consolidated interim financial statements have not been prepared in full compliance with International Accounting Standard, IAS 34 *Interim Financial Reporting.* Paragraph 20 of IAS 34 requires that the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows, should disclose a comparative statement for the comparable interim period of the immediately preceding financial year. Management has not disclosed such information because it has assessed that the cost of resourcing for deriving the subject information from the Group's records is higher than the expected value for the users of these condensed consolidated interim financial statements. Furthermore, not all the information required for a complete set of IFRS financial statements is included. However, selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

2. Basis of preparation (continued)

2.1 Statement of compliance (continued)

These condensed consolidated interim financial statements were authorised for issue by the Committee on 15 October 2014.

2.2 Functional and presentation currency

The condensed consolidated interim financial statements are presented in Euro (€), which is the functional currency of the Bank. The amounts presented in these financial statements are rounded to the nearest thousand unless when stated otherwise. The functional currency is the currency of the primary economic environment in which the Group operates and in which the elements of these financial statements are measured.

2.3 Basis of measurement

The condensed consolidated interim financial statements have been prepared under the historical cost convention, as amended with the fair value estimate of land and buildings, investment properties, financial assets available for sale and the financial assets at fair value through profit or loss.

2.4 Going concern basis

The condensed consolidated interim financial statements have been prepared on a going concern basis. Despite the recent developments in the economic environment of Cyprus, as stated in notes 1.2 and 3.1 to 3.9 of the condensed consolidated interim financial statements, the Management and the Committee of the Group have been satisfied on the basis of the analysis in note 3.9, that the Group has the means to continue its operations for the foreseeable future.

3. Use of estimates and judgments

In preparing these condensed consolidated interim financial statements, Management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

3.1 Cooperative Sector Restructuring Plan

On 14 June 2013, after a discussion with Troika, the Central Bank of Cyprus announced that the final requirements of the Cooperative Credit Institutions amounted to €1,5 billion. On 5 September 2013 the Parliament approved the legislation regarding the supervision and nationalization of the Cooperative Sector.

During September 2013, General Meetings of the Members of the 93 Cooperative Credit Institutions were held and approved the mergers as provided in the Restructuring Plan therefore reducing the CCIs number to 18.

On 27 September 2013, the European Stability Mechanism announced the deposit of €1,5 billion to Cyprus, an amount intended for the recapitalization of the Cooperative Credit Sector.

On 4 October 2013, the decree for the nationalization of the Cooperative Sector was issued. According to the decree, the share capital of the Cooperative Central Bank (CCB) increased by €1,5 billion with the issue of new shares, which are subscribed in full by the Republic of Cyprus with the provision of a bond of equivalent nominal value from the European Stability Mechanism to CCB. The bond has a duration of 18 months, and it could either be renewed or exchanged at its maturity date with cash.

3. Use of estimates and judgments (continued)

3.1 Cooperative Sector Restructuring Plan (continued)

According to the amended decree which was published in the Cyprus Gazette on 29 January 2014 and according to the valuation report of CCB's shares which was performed by an independent firm, the participation percentage and voting rights of the Republic of Cyprus in the ownership structure of CCB is ninety nine percent (99%) and of the existing shareholders of CCB is one percent (1%). In this respect the Cooperative Holding Company of CCB is incorporated to which all existing shareholders of CCB are transferred with participation to its capital proportionally to the participation each shareholder had in the share capital of CCB. The nominal value of the shares equals to one euro and twenty eight cents (€1,28) per share. Also, according to the decree specific reductions were made to the payroll of the Bank.

On 24 February 2014 the European Committee proceeded with the approval of the Cooperative Restructuring Plan. The recapitalization and restructuring measures of the CCIs conform to the EU rules for state aid, as stated by the European Committee which approved the Restructuring Plan of CCIs.

On 28 February 2014, the agreement between the Ministry of Finance, Cooperative Central Bank and European Stability Mechanism was signed for the issuance of the €1,5 billion bond for the recapitalization of the Cooperative Sector and the transfer of its shares to the Government.

On 24 March 2014 all merger procedures were completed. The main objectives of the Restructuring plan other than the mergers are:

- Regaining the confidence of depositors
- Decrease of operating costs and improvement of profitability
- Effective management of Non-Performing Loans
- Strengthening of Capital Adequacy
- Strengthening the operational framework of Corporate Governance
- Downsizing of branch network

3.2 Macro-economic environment in Cyprus

The progress of the adjustment program of the Cypriot economy has been assessed five times by Troika, and all assessments were positive. After the update of the Memorandum of Understanding in May 2014 the minimum capital adequacy ratio of banks returns to 8%. The latest review confirmed that the economic adjustment programme is still on the right track, with the fiscal targets having been reached with substantial margins. With regard to the financial system, the review stressed the need to boost efforts for the effective management of non-performing loans. It was also pointed out that the immediate reform of the legal framework on insolvency will be an important step to that end. The IMF review highlights the importance of continuing to strictly adhere to the Programme so that all reforms will be implemented - including privatisations, securing the sustainability of the national debt, improving the management of social benefits and modernising the tax system. Also, according to the fifth review of the IMF published on 2 July 2014, GDP growth in 2015 is projected at 0,4%, signaling an end to the recession.

The three most important challenges are the decrease of non-performing loans, maintaining the public finances in a sustainable path and the completion of reforms. As part of the restructuring plan of Cyprus, the government has committed to promote legislation that would ease the foreclosure of mortgages on loans of major debtors.

Progress has been recorded regarding the recapitalization and restructuring of the Cooperative Credit Sector and banks proceed with their restructuring plans. This has allowed a full loosening of the restrictions in domestic transactions, in line with the roadmap of the Cypriot government.

The authorities have also adopted measures for the implementation of their ambitious program of structural reforms. According to Troika, the prospects continue to be challenging despite the fact that the recession is expected to be lower during the period. The reduction of the GDP for the year 2014 has been revised to 3,2% from 4,2% due to the better than expected results of 2014 and other recent indicators which suggest an improvement in trust.

3. Use of estimates and judgments (continued)

3.2 Macro-economic environment in Cyprus (continued)

The economy is at a critical point. The structural reforms in the public and financial sector must go on unobstructed and without any rushed decisions, in order to dispense with the Memorandum. The fact that the foreign partners have recognised the efforts being made, the return to the international markets and the upgraded credit ratings of Cyprus and the Cypriot banks do not mean that the efforts to end the economic crisis can be relaxed. On the contrary, more and strenuous efforts are needed to put the economy back on the track of sustainable growth. Management assesses that in order to regain the trust of Cypriot society and foreign investors with regard to the potential offered by the country's modern economic environment is to unwaveringly carry on with the strict implementation of the Cyprus Economic Adjustment Programme.

3.3 Regulatory Capital Indicators

During the period ended 30 June 2014, the Group produced profits of €82m compared to the significant losses of €1,7 billion for the year ended 31 December 2013, due to the substantial decrease of the provision for impairment of loans and other advances.

As part of the agreement between Troika and the Cypriot government in March 2013, the Cooperative Sector was recapitalized with the issue of a bond from the European Stability Mechanism amounting to €1,5 billion and the transfer of 99% of the share capital to the Cyprus Government.

The Core Tier 1 ratio of the Group as of 30 June 2014 was calculated at 13,64%, which is taking into account the recapitalization with the issue of the €1,5 billion bond mentioned above. The Group aims to maintain its capital adequacy through the non distribution of profits, while, at the same time, the restructuring and sale of non-core assets will be determined based on the risk reduction and the capital adequacy.

From 1 January 2014, the new Capital Requirements Regulation ("CRR") and the Capital Requirements Directive IV ("CRD IV") are in force, however the CRD IV remains to be phased in local legislation. The Central Bank of Cyprus is in the process of determining its final position on the national discretions allowed by the aforementioned regulation and directive and setting the framework for the capital buffers, taking into consideration the parameters of the evaluation of the consolidated statement of financial position and the Pan-European stress test, in cooperation with Troika and by informing the European Stability Mechanism.

3.4 Liquidity

The Management and Committee of the Cooperative Sector review on a daily basis the liquidity position of the Group, which will continue to have access to liquidity facilities of the Central Bank, as per the existing rules, when it is necessary.

The Cyprus authorities have implemented in March 2013, temporary restrictive measures and capital movement controls on bank and cash transactions. These measures included limits in cash withdrawals and capital movements. The restrictive measures on capital movements within Cyprus have been lifted in May 2014.

The Cooperative Central Bank is allowed to use liquidity facilities from the Eurosystem up to €1,95 billion (according to the 31 May 2014 data) using as guarantee governmental bonds and the Eurobond of the European Stability Mechanism. Additionally, there is the possibility of borrowing from the interbank market using as guarantee the above bonds from the European Stability Mechanism, or through the issue of covered bonds backed by part of the loan portfolio. As a final solution, there is the capability of accessing the Emergency Liquidity Assistance Mechanism.

It is noted that the Cooperative Sector has developed a strategy to hold and reinforce its deposit base, while maintaining access to alternative sources of liquidity.

3. Use of estimates and judgments (continued)

3.5 Profitability

The conditions of the Cypriot economy and the macroeconomic environment, affects the profitability of the Group. The percentage of the recession of the Cyprus economy had initially been estimated at 4,2% at the beginning of 2014, however this has now been revised to 3,2%. The actual recession for the period from 1 January 2014 to 30 June 2014 has been 2,2%. In 2015, the GDP is expected to rise marginally. The high percentage of unemployment is expected to continue to affect negatively the ability of borrowers to repay their loans. It is also expected that, at least in the foreseeable future, the decline of the turnover of small and medium enterprises will result in the same negative consequences.

According to the Restructuring Plan, independent, centralised and specialised debt recovery units have been formed, through which the Group plans to effectively manage the recovery and restructuring of non-performing loans, so as to limit the percentage of non-performing loans and provisions for impairment, which are expected to arise due to the economic environment. In addition, the Group has adopted measures to reduce operating expenses, a profound example being the reduction in staff costs.

3.6 Stress Test

As part of the formation of a European Banking Union and more specifically of a Joint Supervisory Mechanism, stress tests are taking place, aiming at the assesment of the European Union's financial institutions' resilience against adverse developments in the markets. The Pan-European test will provide to the supervisors, the market competitors and institutions with fixed elements, in order to check and compare the European Union's banks' resistance against adverse developments. As a first step for these tests, an Asset Quality Review is being undertaken. The tests, in which amongst others the Bank of Cyprus, the Cooperative Central Bank, the Hellenic Bank and the RCB are taking part, aim to secure the consistency and comparability of the results of all banks based on a common methodology and scenario. The results of the stress tests are expected to be made publicly available on 26 October 2014.

As far as the lowest threshold of capital is concerned, the base scenario will correspond to 8% for the Common Equity Tier 1 Capital, while the adverse scenario to 5,5%. At the same time, apart from the common set of risks, the relevant authorities in each country can test the banks to risks relating to the peculiarities of each country.

For this reason, the European Banking Authority provides the relevant authorities with a consistent and comparable methodology, which will allow them to perform a rigorous evaluation of the resiliance of the banks under stress conditions.

The test has been planned in coordination with the European Central Bank, which carries out a complete evaluation within the context of its preparation for the Single Supervisory Mechanism ("SSM"), and includes risk assessment, asset quality control, and stress tests.

The test is being undertaken for a sample of European Union banks that represent at least 50% of every national banking sector. The resilience of EU banks will be evaluated for a three-year period (2014-2016). Banks must set under stress a common list of risks including those of credit risk, market risk, state risk, securitization and costs of financing.

The conduction of the exercise includes the close cooperation between the European Banking Authority and the Relevant Authorities in each member state, including the European Central Bank ("ECB"). More specifically, the European Authority will be responsible for the coordination of the test in cooperation with the ECB and ensuring an effective collaboration between the internal and external supervisors.

3.7 2015 Government Budget

The economy's prospects are expected to continue to gradually improve though substantial risks still exist, mostly related to the banking sector whose prospects are crucial to recovery, the Finance Ministry said in a report to the House of Parliament.

3. Use of estimates and judgments (continued)

3.7 2015 Government Budget (continued)

The report, entitled Economic Developments 2014 and Prospects 2015-2017, accompanied the state budget for 2015, which was submitted to parliament. The government expects 2015 to record modest growth of around 0,4%, 1,6% in 2016 and 2,0% the year after. For 2014 the estimated shrinkage is expected to be 3% and not 4,2% as initially indicated during the fifth review of the stability programme. However, destabilising factors still loomed, mainly related with the prospects of the banking sector, which are crucial for economic recovery.

Portfolio deleveraging, the level of non performing loans, and borrowing rates, constitute important indicators for the future course of the sector. Inflation is expected to reach 0,9% in 2015, and will continue to climb to 1,3 % and 1,5% in 2016 and 2017 respectively.

Unemployment is expected to peak at around 17% in 2015 and fall to 15,8% the following year and 14,4% in 2017. The state expects to collect some €5,9 billion in 2015 while expenditure will reach €6,6 billion.

The main sources of revenue are direct and indirect taxes, expected to reach around €4,9 billion in 2015 or 83% of total revenues. The rest concerns sale of goods and services, as well as transfers, estimated at €999 million.

Revenues from direct taxation as a percentage of GDP will remain at the same levels as this year – 14% – while indirect taxes will make up 17,1% of GDP compared with 16,8% in 2014.

On the expenditure side, payroll, pensions and bonuses, make up the biggest category though expected to be slightly less next year at €2,50 billion compared with €2,58 billion in 2014.

Personnel expenditure will see a 2,5% reduction in 2015 due to a freeze in recruitment and the elimination of vacant positions. Pensions and retirement bonuses will also drop by 4,0% due to a slowdown in early retirements compared with previous years. There will be a rise in operational expenses however – 9,6% or around €1,0 billion compared with €942 million in 2014. The increase is mainly due to VAT returns, procurement of pharmaceuticals, and higher spending on lighting and heating.

3.8 Uncertainties

The Management and the Committee of the Group are not in a position to predict precisely all of the developments that could influence the Cyprus economy and the Cooperative Sector’s performance in the exercise of the Asset Quality Review and in the Stress Tests as mentioned above, and as a result, what effect, if any, they could have on the future financial performance, cash flows, financial position and capital of the Group. Instead, they observe carefully the financial developments and adopt measures for maintaining the viability of the Cooperative Sector and the management of the present situation, but also of future possible adverse developments.

The ability of the Group to continue as a going concern depends on:

- The progress of the Cypriot economy, the movement of the market values of the real estate in Cyprus and the capability of borrowers to repay their loan obligations.
- The shaping of the international financial environment and especially in markets that affect Cyprus.
- The successful implementation of the Restructuring Plan of the Group and the realization of the long term macroeconomic scenario which formed the basis of its preparation.
- The continuing need for maintaining and reinforcing liquidity and the availability of liquidity provision mechanisms via the Central Bank.
- The outcome of the overall evaluation of the ECB, which could reveal additional capital needs for the Group.

3. Use of estimates and judgments (continued)

3.9 Evaluation of going concern

The Management and Committee of the Group, having taken into consideration the factors and measures as mentioned in the above section taken for the support of the economy of Cyprus and the implemented and planned actions as they are presented in the Restructuring Plan, have been satisfied that the Group has the means of continuing its operations in the foreseeable future. As a result the financial statements will continue to be prepared on the basis of the going concern principle for the following reasons:

- The Group has been recapitalized successfully, while there is an additional €1 billion available for the recapitalization of the Cypriot banking system in the support program.
- It is anticipated that Troika will continue to supply the necessary financial support to Cyprus in accordance with the Memorandum.
- The implementation of actions according to the Restructuring Plan will further improve the capital adequacy and liquidity of the Group.
- The liquidity indicators following the recapitalization are deemed adequate, while the Group maintains access to alternative sources of raising funds.
- The Bank and the Group maintain their ability to proceed with repossessions of collaterals on non performing loans.

4. Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

5. Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the condensed consolidated financial statements from the date that control commences until the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the condensed consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit in balance.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the condensed consolidated statements of financial position within equity, separately from equity attributable to the owners of the Bank. Non-controlling interests in the results of the Group are presented on the face of the condensed consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the owners of the Bank.

5. Basis of consolidation (continued)

Changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in the subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the condensed consolidated financial statements. Unrealised losses resulting from intra group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

6. Transactions under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Business combination of companies under common control

Business combination of companies regarding entities which are, in the end, controlled by the same party or parties before and after the business combination and this control is not transitory, is treated using the uniting of interest method. The principles of uniting of interests method are:

- The Group does not adjust the assets and liabilities at fair value but instead incorporates assets and liabilities at book values as shown in the books of the acquired company adjusted to achieve alignment with the accounting policies of the Bank.
- The merger reserve is created from the difference between the share capital of CCIs and the companies of the commercial sector which are consolidated and for which there was no equivalent investment cost in the books of CCB and the cost of investment in the share capital of CCB in the books of CCIs.
- The condensed consolidated financial statements incorporate the profit or loss of acquired companies which were absorbed, as if the companies (acquirer and acquiree) were consolidated from the date which common control was first established. As a result the condensed consolidated financial statements reflect the profit or loss of all the companies absorbed during the entire period even if the merger was performed during the period.

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7. Segmental analysis

	Banking, financial and insurance services €'000	Trading activities €'000	Total €'000
Six months ended 30 June 2014			
Net interest income/(expense)	203.513	(40)	203.473
Fees and commissions income	16.244	-	16.244
Fees and commissions expense	(10.370)	(54)	(10.424)
Other income	4.130	7.631	11.761
Total net income	213.517	7.537	221.054
Staff costs	(61.084)	(4.939)	(66.023)
Depreciation	(5.032)	(1.313)	(6.345)
Other operating expenses	(28.092)	(3.587)	(31.679)
Total expenses	(95.087)	(8.960)	(104.047)
Operating profit/(loss) before impairment provisions	118.430	(1.423)	117.007
Net gain on disposal of financial assets available for sale	873	(7)	866
Increase in provisions for impairment of loans and other advances	(53.580)	-	(53.580)
Net finance income	-	52	52
Profit before tax	65.723	(1.378)	64.345

Income from services between companies of each segment is not included in total net income shown above.

8. Staff costs

	30 June 2014 €'000
Wages and salaries	42.273
Social insurance costs and other Government funds	3.855
Other contributions	1.586
Social cohesion fund	687
Special contribution	166
Provident fund contributions	1.440
Costs of voluntary retirement scheme	15.626
Costs for defined retirement benefit plan	64
	65.697
Other staff costs	326
	66.023
Average number of employees (including Committee Members in their executive capacity)	2.858

Reduction of CCS payroll

According to the Restructuring Plan, it was decided to reduce the payroll cost of the Group by an average of 15%. This reduction was achieved by scaled reduction of the wages and by decreasing employer contributions to the Provident Fund by 7%. For the months of November and December 2013 and January and February 2014 no contribution was made by the employer to the Provident Fund of the CCIs.

Wage reductions were put in force as of 1 January 2014 for the CCIs and from 1 February 2014 for the Cooperative Central Bank (decree of the Ministry of Finance issued on 29 January 2014). Additionally, a Voluntary Retirement Scheme (VRS) was offered to employees of the CCIs and the CCB. Because of the above reductions and the savings from the VRS, the Group expects to have a 22% savings in staff costs.

The Group, other than the mandatory contributions to Social Insurance and other government funds, based on collective agreements, contributes to the following that are included in other contributions.

a) Medical scheme:
Medical care is provided to employees of the CCIs through the Pancyprian Cooperative Health Fund, to which the CCIs contribute defined contribution of 1,25% on the total emoluments of the year. Medical care is provided to the employees of CCB by the Union of Bank Employees of Cyprus, to which CCB contribute 1,25% on the total emoluments of the year.

b) Life insurance:
Group life insurance is provided to employees through predefined insurance schemes of companies represented by the Cooperative Central Bank.

c) Voluntary Retirement Scheme of CS:
Under the Restructuring Plan, there was the obligation to establish a Voluntary Retirement Scheme and it was expected that at least 282 employees would accept the plan, which addressed those employees over the age of 45, with discretion to accept people under this age if they wished to leave. The Plan came into force on 12 February 2014 and expired on 15 April 2014. A total of 227 people from the Credit sector and 75 from the Commercial Sector (302 individuals in total) accepted the plan. The total cost of the plan amounts to €23,6 million.

In addition, the Group has defined contribution plans in the CCIs, the employees Provident Funds, which prepare separate financial statements and provide their members with defined benefits upon retirement or early termination of service pursuant to their Articles of Association.

9. Other operating expenses

	30 June 2014 €'000
Taxes and licenses	**510**
Electricity	**1.826**
Cleaning and water supply	**578**
Insurance	**983**
Repairs and renovations	**1.006**
Telephone and postage	**1.413**
Stationery and printing	**1.387**
Maintenance of equipment	**518**
Audit fees	**582**
Other professional fees	**783**
Special levy on deposits	**9.695**
Remuneration of non-executive Committee members	**234**
Transportation costs	**1.001**
Advertisements	**294**
Other expenses	**10.869**
	31.679

Special Levy

According to the “Special Levy on Credit Institutions Law of 2011”, approved on 14 April 2011, a special levy, for the years 2011 and 2012, on credit institutions was imposed 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. Amendments which were approved on 21 December 2012, applying the terms of the Memorandum between the Republic of Cyprus and the lenders, 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. A subsequent amendment to the Law, published in the Cyprus Gazette on the 29th of April 2013, provided for an increase rate to the special levy of 0,15%. Based on new Law amendment published in the Cyprus Gazette on the 26th of July 2013 the special levy, from the year 2013 and thereafter, is calculated on a quarterly basis at the rate of 0,0375% on qualifying deposits held by each credit institution as at 31 December, 31 March, 30 June and 30 September of each year.

On 22 March 2013, the Law on the Establishment and Operation of the Deposit Protection and Resolution of Credit and Other Institutions Scheme, as well as for relevant matters, was enacted and the Law on the Establishment and Operation of the Independent Financial Stability Fund of 2011, which was applicable from 1st of January 2013, was repealed.

Based on the provisions of the new Law, two Funds are operated (The Deposit Protection and Resolution of Credit and Other Institutions) and their Funds are made up of:

1. The Deposit Protection Fund – transfer of the total of the account, in which the contributions of the credit institutions were deposited, based on the provisions of article 34 of the Banking Operations Law. Regular or extraordinary contributions to be imposed by the Management Committee of the Fund, loans, income from investments, donations and other income.

2. The Resolution of Credit and Other Institutions Fund – transfer of 25/60 of total revenue from the imposition of special levy, original or extraordinary contributions to be imposed by the Management Committee of the Fund, amounts derived from possible sanctions imposed on the affected institutions, loans, income from investments, donations and other income.

10. Tax

Tax recognised in profit or loss for the period

	30 June 2014 €'000
Corporation tax - current period	**2.537**
Corporation tax – prior year	**(21)**
Defence contribution - current period	**107**
Deferred tax - credit (Note 13)	**(23.889)**
Other taxes	**(9)**
Tax credit for the period	**(21.275)**

The corporation tax rate is 12,5%. The Group is subject to tax on income arising from transactions with non-members.

In accordance with article 13 of the Income Tax Law 118(I)/02, any tax losses of the Group companies in Cyprus which are not offset against taxable profits of other Group companies in Cyprus, are carried forward and offset against future taxable profits. Based on an amendment to the Income Tax Law issued on 21st December 2012, tax losses for the years from 2006 onwards can be carried forward and set off only against taxable profits for the next five years.

In line with International Accounting Standard 12, the Group has recognized a deferred tax asset in the period, of €23.889 thousand that arises from the tax losses brought forward from 2013. The recognition of the deferred tax asset is based on the forecasts of the Bank's Management for profitability that were conducted in 2014 and which indicate that it is probable that the Group may realize future taxable profits against which the deferred tax asset may be used.

Rents received by the Group are subject to defence contribution at the rate of 3%.

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11. Loans and other advances to customers

	30 June 2014 €'000	31 December 2013 €'000
Loans	**12.936.056**	13.251.846
Loans to companies under liquidation	**49.966**	49.966
Loans for the repayment of refugee deposits	**36.758**	36.758
Long term advances for agricultural development	**21.161**	21.161
	13.043.941	13.359.731
Accrued interest	**228.206**	4.024
	13.272.147	13.363.755
Provision for impairment	**(2.728.232)**	(2.585.615)
	10.543.915	10.778.140

	30 June 2014 €'000	31 December 2013 €'000
Analysis by category:		
Current accounts	**1.162.888**	1.185.521
Loans	**11.741.499**	12.040.744
Other debtors	**31.669**	25.581
	12.936.056	13.251.846

Provision for impairment	Total €'000
At 1 January 2013	**674.017**
Interest on impaired loans	100.133
Unwind of discounting	(52.451)
Charge for the year	1.868.796
Write-offs	(4.880)
At 31 December 2013	**2.585.615**
Individual provision	**824.228**
Collective provision	**1.761.387**
At 1 January 2014	**2.585.615**
Interest on impaired loans	199.560
Unwind of discounting	(110.523)
Charge for the period	53.580
At 30 June 2014	**2.728.232**
Individual provision	**1.001.780**
Collective provision	**1.726.452**

The impairment provision of loans to companies under liquidation is calculated by the CCB amounts to €49.079 thousand (31 December 2013: €48.802 thousand).

The non performing loans as at 30 June 2014 were €7.030.953 thousands (31 December 2013: €6.135.795 thousands) representing 53,00% of the portfolio of loans and other advances to customers (31 December 2013: 46,00%).

11. Loans and other advances to customers (continued)

The analysis of non-performing loans is disclosed in note 20, and is presented in accordance with the definition of the new directive.

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

Until the 30th June 2013, under the Directive of the Central Bank of Cyprus which applied to that date, customer loans and other advances which were not fully covered with tangible securities and presented past due balances of more than three months were classified as non-performing.

The exposure of the Group to credit risk and impairment losses in relation to loans and other advances to customers is reported in note 18.1 of the condensed consolidated financial statements.

Advances with terms that were renegotiated and forbearance policy

The net advances with terms that were renegotiated are analysed below by sector:

	30 June 2014 €'000	31 December 2013 €'000
Commercial sector	**90.673**	43.168
Construction and Real Estate entities	**128.980**	97.968
Manufacturing entities	**35.494**	23.730
Tourism entities	**19.718**	13.799
Other entities	**114.970**	56.290
Private sector	**1.255.994**	1.314.196
Total	**1.645.829**	1.549.151

Analysis by geographical segment:	**30 June 2014 €'000**	31 December 2013 €'000
Cyprus	**10.543.915**	10.778.140

12. Investments in subsidiaries

The entities with financial activities and the entities exclusively with commercial activities that were consolidated, are presented below:

Name	Country of incorporation	Main Activities
Limassol Co-operative Savings Society Ltd	Cyprus	Financial
Nicosia Co-operative Savings Society Ltd	Cyprus	Financial
Cyprus Police and Military Cooperative Savings Society Ltd	Cyprus	Financial
Paphos Cooperative Savings Society Ltd	Cyprus	Financial
Troodos Co-operative Credit Society Ltd	Cyprus	Financial
Lakatamia – Dheftera Co-operative Credit Society Ltd	Cyprus	Financial
Tamassos - Orinis and Pitsilias Co-operative Credit Society Ltd	Cyprus	Financial
Telecommunications Energy and Banks Employees Cooperative Savings Society Limited	Cyprus	Financial
Cyprus Educational Cooperative Savings Society Limited	Cyprus	Financial
Cyprus Civil Servants Co-operative Building and Savings Society Ltd	Cyprus	Financial
Kokkinochoria Co-operative Credit Society Ltd	Cyprus	Financial
"LEDRA" Co-operative Credit Society Ltd	Cyprus	Financial
Makrasyka – Larnaka – District of Famagusta Co-operative Credit Society Ltd	Cyprus	Financial
Allileggyis Co-operative Credit Society Ltd	Cyprus	Financial
Famagusta – Larnaka Co-operative Savings Society Ltd	Cyprus	Financial
Periferiaki Limassol Co-operative Credit Society Ltd	Cyprus	Financial
Periferiaki Nicosia Co-operative Credit Society Ltd	Cyprus	Financial
Strovolos Co–operative Credit Society Ltd	Cyprus	Financial
Pancyprian Cooperative Confederation Ltd	Cyprus	Commercial
SEM Ltd	Cyprus	Commercial
New SEBEGEP Ltd	Cyprus	Commercial
SOPAZ Ltd	Cyprus	Commercial
PEAL Troodos Ltd	Cyprus	Commercial
Newfields Ltd	Cyprus	Commercial
Comarine Ltd	Cyprus	Commercial
Cooperative Federation of Carob Supply of Limassol Ltd	Cyprus	Commercial
Cooperative Federation of Carob Supply of Larnaka Ltd	Cyprus	Commercial
Cooperative Federation of Carob Supply of Pafos Ltd	Cyprus	Commercial
Cooperative Federation of Carob Supply Ltd	Cyprus	Commercial
SYNERGKAZ Ltd	Cyprus	Commercial

The CCB at the end of the year was exercising substantially full control over the Cooperative Credit Institutions. The 99% percentage resulted in 2014 after the issue of the relevant decree from the Ministry of Finance.

12.1 Changes in ownership interests of subsidiaries

On 24 February 2014, as per the terms of the Cooperative Restructuring Plan the Group was recapitalized and restructured, resulting in recognition of non controlling interests, arising both from credit and commercial institutions. As at 30 June 2014, the Bank recognised non-controlling interests for an amount of €28.891 thousand.

12. Investments in subsidiaries (continued)

12.1 Changes in ownership interests of subsidiaries (continued)

The following summarizes the effect of changes in the Bank's ownership interests in credit and commercial institutions.

	€'000
Total equity attributable to the equity holders at 1 January 2014	(534.190)
Increase of share capital	1.170.000
Effect of decrease in equity holders' ownership interest	(27.422)
Share of comprehensive income	87.841
Total equity attributable to the equity holders at 30 June 2014	**696.229**

13. Deferred tax

Deferred tax is calculated in full on all temporary differences under the liability method using the applicable tax rates (Note 10).

Deferred tax is measured based on the tax rates that are expected to be applied on the period in which the assets will be realized or the liability will be settled taking into account the tax rates that have been enacted or substantially enacted until the reporting date.

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 Bank intends to settle its current tax assets and liabilities on a net basis.

In accordance with International Accounting Standard 12, the recognition of deferred tax asset arises from the tax losses of CCB and CCIs that were brought forward from 2013 and it is based on the forecasts of the Bank's Management for profitability that were conducted in 2014 (which are based on the available evidence, including the historical levels of profitability). These indicate that it is probable that the Group may realise future taxable profits against which the deferred tax asset may be used.

13. Deferred tax (continued)

The movement of the deferred tax account is as follows:

Deferred tax liability

	Accelerated tax depreciation €'000	Revaluation of land and buildings €'000	Profit on fair values of investment properties €'000	Temporary tax differences €'000	Total €'000
At 1 January 2013	**5.610**	**18.038**	**24.124**	**2.984**	**50.756**
Debit / (Credit) to:					
Statement of profit or loss and other comprehensive income	268	(16)	(1.844)	-	(1.592)
Fair value reserve	-	356	-	-	356
At 31 December 2013	**5.878**	**18.378**	**22.280**	**2.984**	**49.520**
At 1 January 2014	**5.878**	**18.378**	**22.280**	**2.984**	**49.520**
Debit / (Credit) to:					
Statement of profit or loss and other comprehensive income	-	-	-	-	-
Fair value reserve	-	-	-	-	-
At 30 June 2014	**5.878**	**18.378**	**22.280**	**2.984**	**49.520**

Deferred tax asset

	Tax losses €'000	Temporary tax differences €'000	Total €'000
At 1 January 2013	**510**	**253**	**763**
Debit / (Credit) to:			
Statement of profit or loss and other comprehensive income	(228)	45	(183)
At 1 January 2014	**282**	**298**	**580**
Debit / (Credit) to:			
Statement of profit or loss and other comprehensive income (Note 10)	23.889	-	23.889
At 30 June 2014	**24.171**	**298**	**24.469**

14. Share Capital

	30 June 2014 Number of shares	30 June 2014 €'000	31 December 2013 Number of shares	31 December 2013 €'000
Authorized				
Shares at €1,28 / €8,54 each	**1.562.500.000**	**2.000.000**	234.192.038	2.000.000
Issued and fully paid				
On 1 January	**11.807.464**	**100.836**	11.807.464	100.836
Issue of shares	**1.171.875.000**	**1.500.000**	-	-
Dilution of nominal value of shares	**-**	**(85.723)**	-	-
At 31 December	**1.183.682.464**	**1.515.113**	11.807.464	100.836

On 1st July 2013 there was an Extraordinary General Meeting during which it was decided to increase the authorized capital of the Bank at two billion euro (€2.000.000.000), comprising of two hundred and thirty four millions one hundred ninety two thousands thirty eight (234.192.038) shares with nominal value of eight euro and fifty four cents (€8,54) each.

On 29 January 2014, a decree of the Minister of Finance was published in the Cyprus Gazette according to which after the recapitalization of the Cooperative Sector the participation percentage and voting rights of the Republic of Cyprus in the ownership structure of CCB is ninety nine percent (99%) and of the existing shareholders of CCB is one percent (1%). For this purpose, the cooperative holding company of CCB is established according to the article 12E of the Cooperative Companies Law, where the existing shareholders of CCB are transferred with a participation to its capital, equivalent to the participation each shareholder had in the share capital of CCB.

On 28 February 2014, the General Meeting of members of the Bank approved the reduction in the nominal value per share from €8,54 to €1,28 and also the increase in the number of shares to 1.562.500.000.

On 10 March 2014 the Bank issued 1.171.875.000 shares of €1,28 each to the Republic of Cyprus, for the purpose of the recapitalization of the Cooperative Credit Sector.

In addition, regardless of the provisions of the article 31A of the Cooperative Companies Law and in accordance with the provisions of paragraph (4) of article 14 of the Law, as the above term is interpreted in the decree and in accordance with the provisions of paragraph 14 of the decree, the nominal value of the issued CCB's shares amounts to one euro and twenty eight cents (€1,28) per share.

The total issued and fully paid share capital on 30 June 2014 was 1.183.682.464 shares with nominal value of €1,28 each (31 December 2013: 11.807.464 with nominal value €8,54 each). The participation percentage of CCB in the ownership structure of each cooperative credit institution is 99% regardless of the participation percentage of the Republic of Cyprus in the ownership structure of CCB and remains fixed, during the entire period that the Republic of Cyprus participates in the ownership structure of CCB. The remaining 1% of the participation in the ownership structure and in the voting rights of each Cooperative Credit Institution will belong to the existing shareholders. For this purpose, a cooperative holdings company is established in each Cooperative Credit Institution, according to the article 12E of the Cooperative Companies Law, where all existing shareholders of Cooperative Credit Institution are transferred, with participation to its capital, equivalent to the participation each shareholder had in the share capital of the Cooperative Credit Institution.

15. Reserves

The movement in reserves is disclosed in the condensed consolidated statement of changes in equity.

The profit available for distribution reserve relates to the net profit for the period which is distributed according to article 41 of the Cooperative Companies Law no. 22 of 1985, as subsequently amended.

The statutory reserve required by law is created as per the article 41(1) of the Cooperative Companies Law no. 22 of 1985, as subsequently amended. This reserve is not available for distribution.

The fair value reserve for land and buildings arises from the revaluation of land and buildings. When revalued land or buildings are disposed, the portion of the revaluation reserve that relates to that asset is transferred directly to profit for distribution.

The fair value reserve for available for sale financial assets represents accumulated gains and losses arising on the revaluation of available for sale financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss, if those assets were disposed of or impaired.

The merger reserve is substantially created from the merger of the CCIs and the companies of the commercial sector that are under the common control of CCB. The share capital amounts of the CCIs and the trading companies are transferred to it along with any capital transactions within the Group.

The dilution of shares reserve is created to account for the dilution of number of shares that existed at the point of time when the nominal value of each share was reduced from €8,54 to €1,28 each.

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Bank for the account of the owners.

16. Contingent liabilities and commitments

In order to address the needs of its customers, the Bank conducts business involving documentary credits and guarantees. These facilities are not recognized in the condensed consolidated statement of financial position and their nominal amounts as at 30 June 2014 are shown below:

16.1. Contingent liabilities and commitments

	30 June 2014 €'000	31 December 2013 €'000
Contingent liabilities		
Guarantees	**92.979**	**96.410**
Commitments		
Undrawn or partly utilized limits on advances and loans	**526.841**	**573.986**
Documentary credits	**1.558**	**1.868**
	528.399	**575.854**
	621.378	**672.264**

16.1. Contingent liabilities and commitments (continued)

The maturity of the contingent liabilities and commitments of the Group are as follows:

	30 June 2014 €'000	31 December 2013 €'000
Within one year	**171.655**	207.377
Between one and five years	**246.957**	233.768
Over five years	**202.766**	231.119
	621.378	672.264

Guarantees are irrevocable commitments by the Group to pay a specific amount to a third party in the event of a customer's default on their contractual obligations.

Undrawn or partly utilized limits on advances and loans are commitments to provide credit facilities to customers. The credit facilities are provided for a fixed period of time and are evaluated at regular intervals.

Documentary credits are commitments by the Group to make payments to third parties provided that the terms of the documentary credit are satisfied, which include the presentation of the bill of lading and other documents.

The Group did not recognize any liability deriving from the above guarantees and documentary credits since it is estimated that no liability for payment will arise.

16.2. Contingent tax liabilities

Income tax returns which are submitted to tax authorities, are subject to review by the tax authorities. During future review of the income tax returns, of the current and previous years, of the Group and its subsidiaries by the tax authorities, there is a possibility that additional tax will be imposed in the year they are examined. The Committee is not able to assess the amount of these contingent tax liabilities.

16.3. Commitments for capital expenditure

Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

	30 June 2014 €'000	31 December 2013 €'000
Property, plant and equipment	**2.434**	3.013
Investment properties	**7.517**	15
	9.951	3.028

17. Related parties

During 2014, the Republic of Cyprus became the owner of the 99% of the share capital of the Bank and is therefore the ultimate controlling party of the Group.

Related parties include spouses, minor children and companies in which the members of the Committee/key management personnel hold, directly or indirectly, at least 20% of the voting rights in general meeting or they are directors or in any way control these companies.

17. Related parties (continued)

All transactions with members of the Committee, key management personnel, including their related parties are made on normal business terms. In addition, a number of advances to key management personnel are provided on the same terms as to the rest of the personnel of the Bank.

The following transactions were carried out with related parties:

17.1 Committee Members' remuneration

The remuneration of Committee Members and other key management personnel was as follows:

	30 June 2014 €'000
Fees of Non-Executive Members of the Committee	**115**
Remuneration of Executive Members of the Committee	**122**
Remuneration of key management personnel	**172**
Employer contributions	**55**
	464

The remuneration of non-executive members of the Committee, includes fees which are paid to members in order to cover expenses for the performance of their duties.

The key management personnel include the Heads of divisions and units that are considered to have authority and responsibility for planning, directing and controlling the activities of the Bank, whether directly or indirectly.

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17. Related parties (continued)

17.2 Loans and other advances

	30 June 2014 Number	30 June 2014 €'000
Members of the Committee, key management personnel and related parties:		
Less than 1% of the net assets of the Group per member of the Committee	10	1.549
Total	**10**	**1.549**

17.3 Deposits

	30 June 2014 €'000
Members of the Committee and key management personnel	1.623
Total	**1.623**

17.4 Contingent liabilities and commitments involving related parties

In addition, on 30 June 2014, there were contingent liabilities and commitments relating to guarantees and lines of credit not used, as follows:

	30 June 2014 €'000
Members of the Committee, key management personnel and related parties	153
Total	**153**

17.5 Exposures with the Republic of Cyprus

	30 June 2014 €'000
Debt securities	1.348.892
Guarantees provided for loans and other advances to customers	617.947

18. Financial Risk Management

Financial risk factors

The most significant risks to which the Group is exposed to are credit risk, market risk, currency risk, interest rate risk and liquidity risk. The Group has in place a risk management framework which gives emphasis on reliable measurement of financial risks. For the purposes of the condensed consolidated financial statements, disclosures are made in relation to credit risk which is considered as the most significant risk for the understanding of these financial statements. The aspects of the Group's financial risk management objectives and policies in respect of the rest of the risks, are consistent with those disclosed in the Group's consolidated financial statements as at end for the year ended 31 December 2013 monitored and managed as follows:

18.1 Credit risk

Credit risk arises from the customers' inability to repay their loans and other advances and fulfill their contractual obligations. The quality of the loans' portfolio is monitored on a systematic basis and provisions for impairment are recognized for specific or other losses that might relate to the portfolio.

The Group applies effective controls and procedures and obtains sufficient guarantees and collaterals so as to minimize the possibility of loss from credit risk.

Credit risk concentration
There are restrictions regarding the concentration of credit risk from the Banking Law of Cyprus and the relevant directive issued by the Central Bank of Cyprus. According to these restrictions, banks are not allowed to lend more than 25% of their capital base to a single customer and to associated with him parties taking into account the effect of credit risk mitigation. As at 30 June 2014 the Group was in compliance with the above restrictions.

Maximum exposure to credit risk ignoring collaterals
The table below reflects the worst case scenario of credit risk exposure without taking into account any collateral held. In order to estimate the effect of the risk as stated above, for the assets included in the condensed consolidated statement of financial position, the carrying amounts were used, as they are presented in the condensed consolidated statement of financial position.

Maximum exposure to credit risk:

	30 June 2014 €'000
Deposits with central banks	**233.552**
Deposits with other banking institutions	**66.616**
Loans and other advances to customers (Note 11)	**13.272.147**
Held to maturity investments	**2.450.284**
Other receivables	**104.648**
Total	**16.127.247**
Contingent liabilities (Note 16)	**92.979**
Commitments (Note 16)	**528.399**
Total not included in the condensed consolidated statement of financial position	**621.378**
Total credit risk exposure	**16.748.625**

As shown above, 79,2% of the total credit risk exposure arises from loans and other advances to customers, 14,6% from held to maturity investments and 1,39% from deposits with central banks.

18. Financial Risk Management (continued)

18.1 Credit risk (continued)

Impaired advances

If the Group does not expect the recovery of the total amount of the capital and interest due according to the contractual terms of the loan or the relevant agreement, it classifies these advances as impaired and classifies them in Grade 3 (high risk).

Non impaired advances

The Group's loans which were assessed individually and no impairment was identified, are classified in risk grades in the way below:

Grade 1 (Low Risk):
Loans which were past due up to 90 days and are performing.

Grade 2 (Medium Risk):
Loans past due between 91 and 180 days.

Grade3 (High Risk):
Loans past due over than 180 days.

Advances which are past due but not impaired

Includes loans for which, even if the repayment of interest and amount due is past due according to the contractual obligations, the Group after evaluation does not assess that they should be impaired, because of the amount of collateral or/and the level of repayment of amounts due.

Advances with conditions that were renegotiated

The Group, where it deems as beneficial, renegotiates the terms of advances for cases in which customers request so, as they are not in the position to repay according to the initial terms, either because of their adverse financial position or any other reason.

During the period the Group proceeded with the renegotiation of the repayment terms of advances of €1.645.830 (31 December 2013: €1.549.151), that relate to housing loans to private individuals and corporate loans to medium-sized businesses. There was no modification to the collateral of the loans since they are fully covered either with collaterals or government guarantees.

Under the new Directive, restructuring of a client's facilities covers any action that changes the terms and/or conditions of the client's facilities in order to deal with existing or expected difficulties of the client to service the facilities in accordance with the existing repayment schedule.

According to the said Directive, a restructured non-performing facility remains classified as non-performing for six months following the commencement of the new amortization repayment schedule of capital installments in relation to credit facilities with modifications in their amortization repayment schedule, while for credit facilities with gradual increase of the installment amount, the facility remains non-performing for six months following the first month at which the highest installment is due. Exceptions to the above rules are cases where the modified repayment schedule provides for a lump sum payment on maturity of 20% or higher of the outstanding balance (as at the date of restructuring). For these cases, the facility remains non-performing until its maturity.

18. Financial Risk Management (continued)

18.1 Credit risk (continued)

A restructured non-performing facility also remains classified as non-performing for six months following the restructuring in relation to overdrafts. After the six months, overdraft accounts will be classified as performing only if their credit turnover (excluding credits relating to cheques returned unpaid and credits relating to disbursement of loans) is equal to or higher than the interest charged for the above-mentioned period.

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

Collaterals

On the basis of the Group’s policy, the amount of credit facilities granted should be based on the repayment capacity of the relevant counterparties. Furthermore, for the hedging and mitigation of credit risk the Group obtains collaterals the nature of which is set by the Group’s policies.

The main collateral held by the Group includes mortgage interests over properties, pledging of cash, government and bank guarantees, charges over business assets as well as personal and corporate guarantees.

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18. Financial Risk Management (continued)

18.1 Credit Risk (continued)

30 June 2014	Loans and other advances to customers €'000	Deposits with other banking institutions €'000	Investments held to maturity €'000	Total €'000
Carrying amount	10.543.915	66.616	2.450.284	13.060.815
Impaired advances:				
Grade 1 (low risk)	2.333	-	-	2.333
Grade 2 (moderate risk)	1.253.136	-	-	1.253.136
Grade 3 (high risk)	5.237.980	-	-	5.237.980
Individual impairment	(1.001.780)	-	-	(1.001.780)
Carrying amount	5.491.669	-	-	5.491.669
Advances with conditions that were renegotiated	777.322	-	-	777.322
Past due but not impaired:				
Grade 1 (low risk)	902.796	-	-	902.796
Grade 2 (moderate risk)	81.000	-	-	81.000
Grade 3 (high risk)	388.818	-	-	388.818
Carrying amount	1.372.614	-	-	1.372.614
Analysis of past due				
0-30 days	502.553	-	-	502.553
30-60 days	253.803	-	-	253.803
60-90 days	168.145	-	-	168.145
90 days+	448.113	-	-	448.113
Carrying amount	1.372.614	-	-	1.372.614
Advances with conditions that were renegotiated	178.641	-	-	178.641
Neither past due nor impaired:				
Grade 1 (low risk)	5.286.113	66.616	2.450.284	7.803.013
Grade 2 (moderate risk)	119.971	-	-	119.971
Carrying amount	5.406.084	66.616	2.450.284	7.922.984
Advances with conditions that were renegotiated	689.867	-	-	689.867
Balances after individual impairment	12.270.367	66.616	2.450.284	14.787.267
Collective impairment	(1.726.452)	-	-	(1.726.452)
Total carrying amount	10.543.915	66.616	2.450.284	13.060.815

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18. Financial Risk Management (continued)

18.1 Credit Risk (continued)

31 December 2013	Loans and other advances to customers €'000	Deposits with other banking institutions €'000	Investments held to maturity €'000	Total €'000
Carrying amount	10.778.140	64.133	1.017.476	11.859.749
Impaired advances:				
Grade 1 (low risk)	840.859	-	-	840.859
Grade 2 (moderate risk)	714.557	-	-	714.557
Grader 3 (high risk)	3.898.431	-	-	3.898.431
Individual impairment	(824.228)	-	-	(824.228)
Carrying amount	4.629.619	-	-	4.629.619
Advances with conditions that were renegotiated	750.322	-	-	750.322
Past due but not impaired:				
Grade 1 (low risk)	640.882	-	-	640.882
Grade 2 (moderate risk)	261.362	-	-	261.362
Grade 3 (high risk)	975.899	-	-	975.899
Carrying amount	1.878.143	-	-	1.878.143
Analysis of past due:				
0-30 days	385.695	-	-	385.695
30-60 days	203.949	-	-	203.949
60-90 days	134.892	-	-	134.892
90 days+	1.153.607	-	-	1.153.607
Carrying amount	1.878.143	-	-	1.878.143
Advances with conditions that were renegotiated	169.717	-	-	169.717
Neither past due nor impaired:				
Grade 1 (low risk)	5.718.629	64.133	1.017.476	6.800.238
Grade 2 (moderate risk)	313.136	-	-	313.136
Carrying amount	6.031.765	64.133	1.017.476	7.113.374
Advances with conditions that were renegotiated	629.112	-	-	629.112
Balances after individual impairment	12.539.527	64.133	1.017.476	13.621.136
Collective impairment	(1.761.387)	-	-	(1.761.387)
Total carrying amount	10.778.140	64.133	1.017.476	11.859.749

18. Financial Risk Management (continued)

18.2 Other risks

18.2.1 Capital risk management

The primary regulatory authority, which determines and monitors the Group's capital requirements is the Central Bank of Cyprus (CBC). CBC is guided in its regulatory role by the recommendations of the Basel Committee and the European Union instructions for banking matters.

In 2007, CBC published the 'Unofficial consolidation of the directive for the calculation of capital adequacy and large exposures of banks of 2006 and 2007''with the last amendment taking place on July 2011, for the purpose of harmonization with the European Union Directives on the Calculation of Capital Requirements and Large Exposures (Basel II).

The Basel II directive consists of the following pillars:

<u>Pillar I – Minimum Capital Requirements</u>
Pillar I refers to the minimum capital requirements of the credit institution, so as the exposure of the Group to credit risk, market risk and operational risk is adequately covered.

<u>Pillar II – The supervisory review process</u>
Pillar II links the regulatory capital requirements to the banking institutions' internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The purpose of Pillar II is to promote the communication between supervisors and banks on a continuous basis and to evaluate how well the banks are assessing their capital needs in relation to their risks.

<u>Pillar III – Market discipline</u>
Pillar III requires the disclosure of information regarding the risk management policies of the banking institution, the results of the calculations of minimum capital requirements, as well as the results of the ICAAP together with reports regarding credit risk.

From 1 January 2014, the new Capital Requirements Regulation ("CRR") and the Capital Requirements Directive IV ("CRD IV") are in force, however the CRD IV remains to be phased in local legislation. The Central Bank of Cyprus is in the process of determining its final position on the national discretions allowed by the aforementioned regulation and directive and setting the framework for the capital buffers, taking into consideration the parameters of the evaluation of the consolidated statement of financial position and the Pan-European stress test, in cooperation with Troika and by informing the European Stability Mechanism.

In the context of legislative and regulatory demands for the connection of the Cooperative Credit Institutions (CCI) into a central organization as per the instructions of the European Union, the Cooperative Central Bank Limited assumed the role of central organization, defined as 'Central Body'. The Central Body started to operate on 1 January 2008. The Bank, by assuming its new role of the Central Body in compliance with the European Directive 2000/12/EC (recast Directive 2006/48/EC) relating to the taking up and pursuit of business of credit institutions and the Cooperative Societies Rules of 2004, guaranteed the commitments of affiliated CCIs so that the latter be exempted from the regulatory provisions of the Directive on an individual basis. The above Directive and the Rules provide that, the exempted provisions must be satisfied by the Central Body and the affiliated CCIs on a consolidated basis.

Effectively 1 January 2014, the calculation of the capital adequacy of the Central Body is performed according to the New Legislation and Directive of the European Central Bank concerning the minimum requirements for credit institutions (Capital Requirement Regulation (CRR)/Capital Requirement Directive (CRD IV)) dated 26 June 2013, and according to the relevant circular of the Central Bank of Cyprus dated 14 August 2014 (Κ.Δ.Π. 393/2014).

18. Financial Risk Management (continued)

18.2 Other risks (continued)

18.2.1 Capital risk management (continued)

As at 30 June 2014, the Group's equity comprises of:

- Common Equity Tier 1 capital: includes capital and reserves (including revaluation reserves and adjusted for deferred tax assets and intangible assets).

The capital adequacy of the Group, on an individual basis is monitored by the management every quarter. The required reports are submitted every quarter to the CBC, for calculating the capital requirements and large exposures on a collective basis.

On 16 December 2013, the CBC, with a letter modified the Directive on the Calculation of Capital Requirements and Large Exposures (cancellation of amendment no. 2 of 2011), setting the minimum Common Equity Tier 1 ratio at 9% as provided by the Memorandum of Understanding with Troika. On 29 May 2014 the CBC with a new letter re-defined the minimum Common Equity Tier 1 ratio at 8%, a percentage which is in line with the harmonized ratio which will be applied in the base scenario of the evaluation of the European Central Bank.

As at 30 June 2014, Common Equity Tier 1 ratio for the Central Body was calculated as 13,64% (31.12.2013: 13,60%) and includes the interim profits of €81.737 thousands and the final total provisions of approximately €2,73 billion (31.12.2013: €2,58 billion). The 31 December 2013 Common Equity Tier 1 ratio, which includes the state aid of €1,5 billion for the purpose of the recapitalization of the Cooperative Credit Sector, has been re-calculated as 13,60%, according to the requirements of the CRR and CRD IV and according to the relevant circular of the Central Bank of Cyprus noted above.

For the periods ended 30 June 2014 and 31 December 2013, the Group complied with all capital requirements, as presented below:

	30 June 2014 €'000	**31 December 2013 €'000**
Own Funds		
Common Equity Tier 1 capital	**1.254.342**	1.177.809
Total risk weighted assets	**9.199.290**	8.666.451
	%	%
Common Equity Tier 1 ratio	**13,64**	13,60

19. Fair value of financial instruments

Fair value represents the amount which an asset can be exchanged for or a liability settled at an arm's length transaction.

The majority of assets and liabilities are presented in their estimated fair value.

Fair value of loans and other advances is approximately equal to their book value in the condensed consolidated statement of financial position, net of the provisions for impairment.

Fair value of the remaining financial assets on the condensed consolidated statement of financial position does not differ significantly from their book value.

Fair value of the financial instruments traded in active markets such as the trading and available for sale investments which are listed in stock exchange, is based on stock prices at the reporting date. The stock price used for the financial assets held by the Group is the bid price. The appropriate stock price for financial liabilities is the current ask price.

Measurements of fair value recognized in the condensed consolidated financial position.

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - 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 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2014	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets				
Fair value through profit or loss				
Investment in debt securities	-	-	-	-
Financial assets available for sale				
Investment in shares	13.414	-	-	13.414
Total	13.414	-	-	13.414

31 December 2013	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets				
Fair value through profit or loss				
Investment in shares	202	-	-	202
Financial assets available for sale				
Investment in debt securities	-	10.252	-	10.252
Investment in shares	14.573	-	-	14.573
Total	14.775	10.252	-	25.027

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20. Analysis of performing and non-performing loans

30 June 2014		Performing credit facilities			
	Total credit facilities	Credit facilities that were not restructured	Credit facilities that were restructured	Total performing credit facilities	Non-performing credit facilities
	€'000	€'000	€'000	€'000	€'000
Credit facilities to legal entities	1.701.777	1.105.782	23.287	1.129.069	572.708
Commercial sector	297.756	172.058	6.087	178.145	119.611
Construction and Real Estate businesses	232.398	30.796	10.428	41.224	191.174
Manufacturing businesses	106.254	14.148	467	14.615	91.639
Tourism businesses	85.592	37.833	2.160	39.993	45.599
Other businesses	825.187	751.451	1.682	753.133	72.054
Services	154.590	99.496	2.463	101.959	52.631
Credit facilities to legal entities in retail	1.210.414	392.737	61.621	454.358	756.056
Commercial sector	246.838	99.706	9.108	108.814	138.024
Construction and Real Estate businesses	454.481	108.464	26.836	135.300	319. 181
Manufacturing businesses	136.881	45.822	8.810	54.632	82.249
Tourism businesses	61.875	15.227	3.793	19.020	42.855
Other businesses	167.585	73.881	4.413	78.294	89.291
Services	142.754	49.637	8.661	58.298	84.456
Credit facilities to individuals					
Credit facilities for the acquisition/ construction of property:					
(α) Owner occupancy	4.565.717	2.165.894	384.205	2.550.099	2.015.618
(β) For other reasons	561.920	143.629	40.939	184.568	377.352
Consumer loans	4.298.619	1.311.263	282.442	1.593.705	2.704.914
Credit cards	36.989	26.460	-	26.460	10.529
Current accounts	455.414	201.419	1.141	202.560	252.854
Credit facilities to self-employed	441.297	91.303	9.072	100.375	340.922
Total facilities	13.272.147	5.438.487	802.707	6.241.194	7.030.953
Provision for impairment	2.728.232	239.372	82.894	322.266	2.405.966

20. Analysis of performing and non-performing loans (continued)

31 December 2013		Performing credit facilities			
	Total credit facilities	Credit facilities that were not restructured	Credit facilities that were restructured	Total performing credit facilities	Non-performing credit facilities
	€'000	€'000	€'000	€'000	€'000
Credit facilities to legal entities					
Commercial sector	313.528	199.331	5.720	205.051	108.477
Construction and Real Estate businesses	217.194	53.584	19.437	73.021	144.173
Manufacturing businesses	98.774	16.330	2.065	18.395	80.379
Tourism businesses	81.162	42.972	5.254	48.226	32.936
Other businesses	761.833	646.839	2.298	649.137	112.696
Services	235.514	182.079	7.913	189.992	45.522
Credit facilities to legal entities in retail					
Commercial sector	246.336	113.083	19.273	132.356	113.980
Construction and Real Estate businesses	435.080	135.302	44.899	180.201	254.879
Manufacturing businesses	139.237	60.055	9.092	69.147	70.090
Tourism businesses	61.140	20.808	5.564	26.372	34.768
Other businesses	165.197	83.807	8.060	91.867	73.330
Services	161.354	61.090	13.150	74.240	87.114
Credit facilities to individuals					
Credit facilities for the acquisition/ construction of property:					
(α) Owner occupancy	4.622.457	2.469.490	431.079	2.900.569	1.721.888
(β) For other reasons	556.955	179.494	58.107	237.601	319.354
Consumer loans	4.272.406	1.512.308	366.873	1.879.181	2.393.225
Credit cards	30.126	21.392	-	21.392	8.734
Current accounts	559.912	292.932	2.586	295.518	264.394
Credit facilities to self-employed	405.550	113.527	22.167	135.694	269.856
Total facilities	13.363.755	6.204.423	1.023.537	7.227.960	6.135.795
Provision for impairment	2.585.615	437.108	159.740	596.848	1.988.767

COOPERATIVE CENTRAL BANK LTD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

21. Loan portfolio analysis as at 30 June 2014 based on the date the loans were issued

Date of issue	Total loan portfolio			Advances to legal entities			Advances to individuals for acquisiton/ construction of property			Advances to individuals- Other Advances		
	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	613.633	273.541	110.321	96.636	56.771	22.406	232.750	100.068	35.445	284.247	116.702	52.470
1 - 2 years	1.178.284	469.507	169.538	173.142	88.877	38.873	477.794	147.441	48.418	527.348	233.189	82.247
2 - 3 years	1.630.969	725.400	269.949	258.518	134.925	53.850	690.651	245.438	83.742	681.800	345.037	132.357
3 - 5 years	4.088.246	2.180.961	795.641	742.155	418.902	178.245	1.862.754	798.638	256.010	1.483.337	963.421	361.386
5 - 7 years	3.022.186	1.611.888	625.952	907.954	256.225	125.251	1.144.407	642.535	218.072	969.825	713.128	282.629
7 - 10 years	1.461.392	843.298	296.560	403.997	153.637	55.860	503.988	269.812	85.894	553.407	419.849	154.806
Over 10 years	1.277.437	926.358	460.271	329.789	219.427	111.679	215.293	189.038	68.851	732.355	517.893	279.741

Private Individuals – Housing loans include facilities provided for the acquisition or construction of property for owner occupancy or other reasons
Private Individuals – Other loans include all facilities provided to private individuals

21. Loan portfolio analysis as at 31 December 2013 based on the date the loans were issued (continued)

Date of issue	Total loan portfolio			Advances to legal entities			Advances to individuals for acquisition/ construction of property			Advances to individuals- Other Advances		
	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions	Total advances	Non-performing advances	Provisions
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	1.519.833	640.103	473.818	358.449	178.262	129.269	310.539	72.298	59.060	850.845	389.543	285.489
1 - 2 years	2.993.024	1.007.517	348.508	530.913	178.386	38.801	1.180.860	310.382	111.493	1.281.251	518.749	198.214
2 - 3 years	3.116.916	1.536.541	522.878	438.897	232.778	56.261	1.388.794	546.676	171.871	1.289.225	757.087	294.746
3 - 5 years	3.491.847	1.591.982	556.740	1.124.177	270.389	59.609	1.283.840	608.612	213.461	1.083.830	712.981	283.670
5 - 7 years	1.081.984	640.397	269.268	179.194	110.250	34.824	516.911	252.609	89.500	385.879	277.538	144.944
7 - 10 years	641.676	334.725	188.803	129.534	69.970	33.470	267.505	105.204	54.190	244.637	159.551	101.143
Over 10 years	518.475	364.391	225.600	153.408	102.722	38.297	161.009	106.896	66.876	204.058	154.773	120.427

Private Individuals – Housing loans include facilities provided for the acquisition or construction of property for owner occupancy or other reasons
Private Individuals – Other loans include all facilities provided to private individuals

22. Events after the reporting period

There were no significant events after the reporting period requiring additional disclosure in the condensed consolidated interim financial statements.