Registered number 04728421

Annual Report 2013

BANK OF CYRPUS UK LIMITED

Report and financial statement

31 December 2013

Bank of Cyprus UK

Annual Report 2013

Bank of Cyprus UK

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Definitions

"BOCFS"	Bank of Cyprus Financial Services Limited
The "Company"	Bank of Cyprus UK Limited
"FCA"	Financial Conduct Authority
"FSCS"	Financial Services Compensation Scheme
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards
The "Group"	The Parent together with its subsidiary undertakings
"Laiki"	Cyprus Popular Bank Public Company Limited
"Laiki UK"	The UK branch of Cyprus Popular Bank Public Company Limited
The "Parent"	Bank of Cyprus Public Company Limited
"PRA"	Prudential Regulation Authority

Corporate information

Directors
Philip Nunnerley* - *Acting Chairman and senior independent non-executive director*
Soteris Antoniades† - *Assistant Chief Executive*
David Green* - *Acting Chairman of the Audit & Risk Committee and independent non-executive director*
Iacovos Koumi† - *Chief Executive*
Kypros Kyprianou† - *Assistant Chief Executive*
Spyros Neophytou* - *Non-executive director*

Other senior executives
Stephen Byrne† - *Head of Legal & Compliance and Company Secretary*
Andrew Michaelides† - *Chief Financial & Risk Officer*
Tony Leahy† - *Head of Human Resources & Communications*
Samantha Taylor - *Head of Internal Audit*

*Member of the Audit & Risk Committee
†Member of the Management Committee

Independent auditor
Ernst & Young LLP

Registered office
27-31 Charlotte Street, London W1T 1RP

Locations
Central London
27-31 Charlotte Street, London W1T 1RP

North London
PO Box 17484, 87 Chase Side, London N14 5WH

South London
18-24 Brighton Road, South Croydon CR2 6AA

Birmingham
123 Parade, Sutton Coldfield B72 1PU

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Registered in England and Wales under company number 04728421

www bankofcyprus co uk

Chairman's statement

The Company has not been immune from the challenges that have been faced by the UK banking sector in recent years Our problems have been exacerbated by the events surrounding the Eurogroup financial support deal for Cyprus and its banking system that was agreed in March 2013

It is a tribute to the management of the Company that we have not only survived and retained our presence but that we are now serving an even wider customer base following the acquisition of the Laiki UK deposits in April 2013

Following our business's incorporation as a subsidiary in 2012 we have taken steps to make ourselves financially and operationally independent of the Parent, which remains our shareholder We have a strong balance sheet, capital and liquidity We also have confirmation from the Parent that we are seen as a valuable part of the Group

As the UK economy continues to recover, businesses of all sizes now have the confidence to invest We are keen to finance this investment whenever we can We remain open for business and plan to grow our loan book substantially during 2014

I am confident that the Company has a great deal to offer its customers For individuals and businesses we have for many years offered an attractive home for savings For our entrepreneurial borrowers, the Company can offer a level of service and flexibility that the larger banks simply do not provide

Our business has operated in the UK market since 1955, and we have shown that we can respond successfully to difficult economic conditions We have a strong and focused management team, and hard working and committed employees They are more than capable of facing the challenges that lie ahead

I would like to thank my fellow directors, the management and staff for their valuable contribution throughout 2013 and the role they have played in helping to position our business for a successful future

Philip Nunnerley
Acting Chairman

Chief Executive's review

The Company's business model is straightforward accepting retail deposits, mainly from UK savers, to fund lending to UK-based small and owner-managed businesses, including property entrepreneurs This model has stood us in good stead through the financial crisis of recent years

The conversion of the business from a branch of the Parent to a subsidiary in June 2012 created a more resilient bank which has its own capital and liquid assets and is financially and operationally ringfenced from the Parent The March 2013 Eurogroup support deal for Cyprus and the crisis surrounding it were an early test of this resilience which the Company met successfully The outflow of deposits which might have been expected to be substantial in a time of such uncertainty for the Group was less than 8% of total deposits

As part of the Eurogroup deal, the second largest Cypriot banking group, Laiki, was resolved, and most of its assets and liabilities were transferred to the Parent We agreed to take on the deposits and current accounts in credit of the UK branch of Laiki on 1 April 2013, ensuring that the savers of Laiki UK were unaffected by the bail-in of Cypriot bank deposits At the same time we ensured, in liaison with the Special Administrator of Laiki, that the rights of Laiki UK staff were protected

For the Company, the transfer of the deposits of Laiki UK, together with the loyalty of existing depositors, ensured that there was ample liquidity for our requirements Our customer deposits at 31 December 2013 were £981m compared to £912m a year earlier

Our loan book has seen a decline during 2013, falling from £621m in December 2012 to £550m in December 2013 At a time of uncertainty it was important to conserve liquidity and it has taken time to rebuild our market presence and to regain the confidence of customers We are now seeing rising demand for new facilities

The increased deposits and reduced lending resulted in excess liquidity which has depressed profitability in 2013 The Company made a profit before provisions of £1 4m compared to £1 9m in 2012 It should be noted that the comparative profit and loss figures shown in these financial statements for 2012 cover trading only from 25 June 2012, the date the business was converted to a subsidiary

Profit before tax for 2013 was £0 1m, after interest on the subordinated debt of £2 3m and after a charge for impairments of advances of £1 3m In the previous year the Company increased its impairment provisions in the light of difficult economic conditions and the total impairment charge was £8 4m, resulting in a loss before tax in 2012 of £6 5m

The capital position remains strong, with total capital standing at 27 3% of risk weighted assets (2012 24 5%)

In the improving UK business climate for 2014 we are very much open for business and active in the market for lending to businesses and property entrepreneurs We intend to take advantage of our strong capital and liquidity position to support growth in lending

I would like to give special thanks to our customers for their continued loyalty and to our employees for their hard work and dedication I particularly extend a warm welcome to the customers and staff who have joined us from Laiki UK

Iacovos Koumi
Chief Executive

Strategic report

Business model
The Company's business model is to raise retail deposits, mainly in the UK market, and lend those deposits to UK business customers and property entrepreneurs It intends to grow its lending business sustainably throughout 2014, largely using existing surplus liquidity to fund this growth

Financial performance
The Chief Executive's review on page 4 includes an assessment of the Company's business, its performance during 2013 and its financial position at the end of 2013

Plans for 2014 and principal risks
For 2014 we are planning substantial growth in lending to take advantage of the strong capital and liquidity position which will restore the Company to profitability

The principal risks and uncertainties facing the Company are as follows

- failure to achieve loan growth
- further adverse developments in Cyprus and in particular with the Parent, which could result in a contagion effect and loss of confidence among the Company's customers notwithstanding the ringfencing currently in place and the protection offered to depositors by the UK's Financial Services Compensation Scheme
- increased impairments of customer advances as a result of decline in property values and/or a worsening economic climate
- failure to recruit, retain and motivate good calibre staff who can support the Company's strategy

The directors are of the view that loan growth is achievable in an improving UK economy and in a property market that has now recovered from the recession of 2008 to 2012, especially in London and the South East, the Company's main area of focus Activity in the early part of 2014 has borne out this expectation, with encouraging signs of further lending in the pipeline

Developments in Cyprus are outside the control of the Company, but since incorporation in 2012 further steps have been taken to minimise any reliance, whether financial or operational, on the Parent Experience of the Cyprus crisis in 2013 showed that through effective communication with customers, contagion can be managed The comfortable levels of liquidity and the profile of the deposit book, which consists largely of fixed term deposits which cannot flow out before they mature, gives the directors confidence about the Company's ability to deal with any contagion risk

The directors are of the view that growth in the property market remains sustainable for now and that the economic climate in the UK is improving However, lending policies remain prudent, so that good margins of servicing cover and security are maintained, enabling the Company to see through some decline in UK property prices or deterioration in the economy

Staff turnover in 2013 was 17 3% (9 6% in 2012), excluding retirements and departures initiated by the Company The increase in turnover was not surprising given the recent period of uncertainty, but it has proved possible to recruit good replacements for those who have left Looking forward the Company is aware that it operates in an intensely competitive employment market (in particular in London) It must therefore ensure that it continues to provide an attractive employment proposition in terms of job challenge, training and remuneration if it is to recruit and retain key skills

Environmental matters
The Company has adopted a corporate responsibility policy under which it seeks to minimise any adverse environmental impact of its operations This manifests itself in particular with regard to recycling waste and adopting energy efficient methods of heating and lighting

By order of the board

Stephen Byrne
Secretary

23 April 2014

Directors' report

The directors present their report and financial statements for the year ended 31 December 2013

Principal activity
The principal activity of the Company is business and personal banking

Financial results
The results of the Company for the year ended 31 December 2013 are set out in the income statement on page 10 The directors endorse the information and views set out in the Chairman's statement and Chief Executive's review

The directors are satisfied that the capital and liquidity positions of the Company more than meet regulatory requirements and are adequate for the foreseeable future

Going concern
The directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements A statement of responsibilities of the directors in relation to the financial statements is shown on page 8

The Company has its own capital and liquidity and is not dependent on the Parent for support

Dividends
The Company did not declare or pay a dividend in 2013 (2012 nil)

Hedging policy
The Company uses interest rate swaps to hedge against interest rate risk where appropriate Hedging is covered in more detail in note 15 of the financial statements

Capital
The current regulatory capital is shown in note 28 of the financial statements

Human resources
The Company had 167 permanent employees at 31 December 2013 During the year, the Company invested £98,000 in staff development

Board of directors
Full details of the board of directors are shown on page 2 Since 1 January 2013 the following resignations have taken place

Name of director	*Date of resignation*
Andreas Artemis	26 March 2013
Christis Hadjimitsis	12 April 2013
Vassilis Rologis	30 March 2013
Costas Severis	2 April 2013

No director who resigned in 2013 received any compensation for ceasing to be a director

Directors and their interests
None of the directors had any beneficial interest in the share capital of the Company or any other group company within the UK at any time during the year No option to purchase shares in the Company has been granted to any director

Disclosure of information to the auditors
So far as each person who was a director at the date of this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors
Ernst & Young LLP continue as auditors of the Company The Company is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually

Future developments and events after the balance sheet date
The Company plans to continue with its current business model of raising retail deposits, mainly in the UK market, and lending those deposits to UK business customers and property entrepreneurs It intends to grow its lending business sustainably throughout 2014, raising additional deposits where necessary to fund such lending growth

Corporate governance and risk management
The board is collectively responsible for governance and risk management It meets as and when required and at least quarterly It sets the overall risk appetite of the Company and ensures that acceptable risks are carefully managed and controlled The following are in place to ensure that this happens

At board level, the Audit & Risk Committee has within its terms of reference the oversight of all risks inherent in the business This committee meets as and when required and at least quarterly Risks are also overseen and managed by a number of executive committees

The main risk is credit risk which is the risk that customers will be unable to repay their loans and advances and will fail to perform under their contractual commitments Credit risk is managed by credit policies which include credit approval procedures and controls and analysis in relation to quality, sector and geographical area The risk is monitored at executive level by the Advances Committee, which meets monthly

Liquidity, cash flow and market risks are monitored at executive level by the Asset & Liability Committee, which meets monthly Systems risk, including risk relating to IT security, is monitored at executive level by the Systems Committee, which meets quarterly and regulatory and operational risks are monitored by the Compliance & Controls Committee, which meets quarterly, as does the Human Resources Committee which monitors resources risk in terms of our people and succession planning

Matters which in larger companies would be overseen by separate board committees, such as remuneration and board appointments, are overseen by the board as a whole

More information on risk management is set out in note 26 of the financial statements

Subsidiary
The Company is the immediate owner of 100% of the shares of a UK company, Bank of Cyprus Financial Services Limited (BOCFS), an appointed representative of Legal & General Partnership Services Limited BOCFS sells insurance and protection products of Legal & General

Charitable donations
During 2013 the Company made charitable donations totalling £23,000 (2012 £6,000)

Third party indemnity provisions for the benefit of directors
The Company has taken out directors' and officers' liability insurance

By order of the board

Stephen Byrne
Secretary

23 April 2014

Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) and applicable law Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements the directors are required to

- select suitable accounting policies in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance, and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

To the members of Bank of Cyprus UK Limited

We have audited the financial statements of Bank of Cyprus UK Limited for the year ended 31 December 2013 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 29 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report (including the strategic report and the directors' report) to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Peter Wallace
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP, London
23 April 2014

Notes
The maintenance and integrity of the Bank of Cyprus UK Limited website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Income statement and statement of comprehensive income

For the year ended 31 December 2013

	Notes	***2013***	*2012*
		£000	*£000*
Interest income	4	**35,808**	21,129
Interest expense	5	**(23,510)**	(14,492)
Net interest income		**12,298**	6,637
Fee and commission income	6	**3,321**	1,502
Foreign exchange gains	7	**458**	161
Net gains on financial instrument transactions	8	**332**	61
Total operating income		**16,409**	8,361
Staff costs	9	**(8,086)**	(3,272)
Depreciation and amortisation	10	**(1,453)**	(774)
Other operating expenses	11	**(5,468)**	(2,461)
Profit before provisions for impairment of loans and advances		**1,402**	1,854
Provisions for impairment of loans and advances	12	**(1,287)**	(8,371)
Profit/(Loss) before tax		**115**	(6,517)
Taxation	13	**(627)**	1,612
Loss after tax		**(512)**	(4,905)
Other comprehensive income		**-**	-
Total comprehensive loss for the year attributable to the equity holders		**(512)**	(4,905)

The notes on page 14 to 39 and all other primary statements form an integral part of these financial statements

Statement of financial position

At 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Assets			
Cash and balances with central banks	14	**468,784**	334,725
Placements with banks	14	**47,519**	48,126
Placements with related entities	14, 29	**9,916**	11,532
Investment in subsidiary	27	**400**	400
Loans and advances to customers	16	**550,494**	621,065
Property and equipment	17	**9,315**	10,245
Intangible assets	18	**510**	426
Other assets	19	**3,899**	2,500
Total assets		**1,090,837**	1,029,019
Liabilities			
Placements by related entities	29	**13,570**	19,866
Amounts due to banks		**1,006**	11
Customer deposits	20	**980,845**	911,695
Other liabilities	21	**5,777**	6,129
Subordinated loan	22	**30,056**	31,223
Total liabilities		**1,031,254**	968,924
Equity			
Share capital	23	**65,000**	65,000
Accumulated losses		**(5,417)**	(4,905)
Total equity		**59,583**	60,095
Total liabilities and equity		**1,090,837**	1,029,019

The notes on pages 14 to 39 form an integral part of these financial statements

These financial statements were approved by the board of directors on 23 April 2014 and were signed on its behalf by

Philip Nunnerley
Acting Chairman

Iacovos Koumi
Chief Executive

Statement of changes in equity

For the year ended 31 December 2013

	2013			*2012*
	Share capital	***Accumulated losses***	***Total***	*Total*
	£000	***£000***	***£000***	*£000*
1 January	**65,000**	**(4,905)**	**60,095**	-
Issue of equity shares	-	-	-	65,000
Total comprehensive loss for the year attributable to the equity holders	-	**(512)**	**(512)**	(4,905)
31 December	**65,000**	**(5,417)**	**59,583**	60,095

The notes on pages 14 to 39 form an integral part of these financial statements

Statement of cash flows

For the year ended 31 December 2013

	2013	*2012*
	£000	*£000*
Profit/(Loss) before tax	**115**	(6,517)
Adjustments for		
Provisions for impairment of loans and advances	**1,287**	8,371
Depreciation of property and equipment	**1,123**	598
Amortisation of intangible assets	**330**	176
Interest on subordinated loan	**2,262**	1,223
Tax paid	**(382)**	(667)
Changes in operating assets and liabilities		
Increase in customer deposits	**68,213**	8,419
Decrease in loans and advances to customers	**69,283**	67,703
Increase in other assets	**(1,483)**	(664)
(Increase)/decrease in accrued income and prepaid expenses	**(161)**	1,750
Increase/(decrease) in other liabilities	**323**	(3,907)
(Decrease)/increase in accrued expenses	**(675)**	1,372
Net cash flow from operating activities	**140,235**	77,857
Cash flows from investing activities		
Consideration received for assumption of net liabilities on transfer	-	4,902
Purchase of property and equipment	**(195)**	(59)
Purchase of intangible assets	**(414)**	(90)
Net cash flow from investing activities	**(609)**	4,753
Cash flows from financing activities		
Issue of share capital	-	65,000
Issue of subordinated loan	-	30,000
Interest paid on subordinated loan	**(3,429)**	-
Net cash flow used in financing activities	**(3,429)**	95,000
Net increase in cash and cash equivalents for the year	**136,197**	177,609
Cash and cash equivalents		
1 January	**374,506**	-
Cash and cash equivalents received on transfer	-	196,835
Net foreign exchange differences	**939**	62
Net increase in cash and cash equivalents for the year	**136,198**	177,609
31 December	**511,643**	374,506

The notes on pages 14 to 39 form an integral part of these financial statements

Notes to the financial statements

1 Corporate information

The Company was incorporated in England and Wales as a private company with limited liability on 9 April 2003 under its previous name of Bank of Cyprus Advances Limited On 25 June 2012 the Company changed its name to Bank of Cyprus UK Limited and the UK business of the Parent was transferred to the Company The Company is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA

The Company is wholly owned by Bank of Cyprus Public Company Limited, the Parent in which the financial statements of the Company are consolidated The Parent is incorporated in Cyprus and its consolidated financial statements may be obtained from www bankofcyprus com

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because the Company and its subsidiary are included in the consolidated financial statements of the ultimate Parent company, Bank of Cyprus Public Company Limited, which are publicly available These financial statements have been prepared on a standalone basis The accounting policies used by the Company that are relevant to an understanding of the financial statements are stated in note 2

2 Accounting policies

Basis of preparation

These standalone financial statements have been prepared on a historical cost basis, except for revaluation of land and buildings and derivative financial instruments that have been measured at fair value through profit and loss The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged

Statement of compliance

The standalone financial statements have been prepared in accordance with the IFRSs as adopted by the EU and the requirements of the Companies Act 2006

Presentation of financial statements

The financial statements are presented in sterling, which is the Company's functional and presentation currency All values are rounded to the nearest thousand, except where otherwise indicated

The Company presents its balance sheet broadly in order of decreasing liquidity An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in note 26

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company

Foreign currency translation

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting currency rate of exchange ruling at the balance sheet date All differences are taken to 'Foreign exchange gains' in the income statement

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined

Standards and interpretations that are issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below The Company intends to adopt these standards, if applicable, when they become effective

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

IAS 32 'Financial Instruments Presentation' (Amended) - Offsetting Financial Assets and Financial Liabilities The amendment is effective for accounting periods beginning on or after 1 January 2014 This amendment clarifies the meaning of 'currently has a legally enforceable right to set off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous The Company's management does not expect that this amendment will have a significant impact on the Company's financial position

On 1 January 2013, the Company adopted Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires disclosure of the effect or potential effects of netting arrangements on an entity's financial position The amendment requires disclosure of recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement The amendments have been applied retrospectively Disclosures are provided in Note 26

Standards and interpretations issued by the IASB but not yet adopted by the EU in 2013

IFRS 9 'Financial Instruments - Classification and Measurement' is effective for accounting periods beginning on or after 1 January 2015 IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39 The first phase of IFRS 9 will have a significant impact on the classification and measurement of financial assets and reporting for those entities that have designated financial liabilities using the fair value option The IASB addressed hedge accounting by issuing the Phase 3 of IFRS 9 in November 2013 The impairment of financial assets covered in Phase 2 of IFRS 9 has been finalised and is expected to be issued in mid 2014 The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued However, the impact of adoption depends on the assets and liabilities of the Company at the date of adoption Standard expected to be mandatory from 2018

IFRS 10 'Consolidated Financial Statements' replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements' IFRS 10 adopts a single definition of control a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity IFRS 10 requires retrospective application The Company's management does not expect that this amendment will have a material impact on the financial position

IFRS 12 'Disclosures of Involvement with Other Entities' includes all of the disclosures that were previously in IAS 27 and related to financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities A number of new disclosures are also required The Company's management does not expect that this amendment will have a material impact on the financial position

IAS 27 'Separate Financial Statements' comprises those parts of the existing IAS 27 that deal with separate financial statements The Company's management does not expect that this amendment will have a material impact on the financial position

Although IFRS 10, IFRS12 and IAS 27 have an effective date of 1 January 2013, they have been endorsed by the EU for application only from 1 January 2014

Annual Improvements 2011-2013

The IASB issued Annual Improvements to IFRSs 2011-2013 Cycle, a collection of amendments to IFRSs, in response to the four issues addressed during the 2011-2013 cycle

- IFRS 1 First-time Adoption of International Financial Reporting Standards Meaning of effective IFRS
  The objective of this amendment is to clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1 First-time Adoption of IFRS
- IFRS 3 Business Combinations Scope exceptions for joint ventures
  The objective of this amendment is to clarify that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3 and the scope exception only applies to the financial statements of the joint venture or the joint operation itself
- IFRS 13 Fair Value Measurement Scope of paragraph 52 (portfolio exception)
  Paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis This is referred to as the portfolio exception The objective of this amendment is to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments Presentation
- IAS 40 Clarifying the interrelationships of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property The objective of this amendment is to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and this judgement is based on the guidance in IFRS 3

Segmental information

The Company operates in the United Kingdom in one principal activity, namely business and personal banking

Revenue recognition

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

Interest income

For all financial assets measured at amortised cost and interest-bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial asset or liability, where appropriate, to the net carrying amount of that financial asset or liability The calculation takes into account contractual terms of the financial asset and liability (eg prepayment options) excluding future credit losses

Fee and commission income

Fees and commissions are recognised on an accruals basis to match the cost of providing the services except for advances arrangement fees which are amortised over the life of the advances

Retirement benefits

The cost of providing retirement pensions is charged to the profit and loss account at the amount of the defined contributions payable for each year Differences between contributions payable and those actually paid are shown as accruals or prepayments

Taxation

Taxation on income is provided in accordance with fiscal regulations and is recognised as an expense in the period in which the income arises Deferred tax is provided using the liability method

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date which will give rise to taxable amounts in future periods

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in profit or loss

Financial instruments

Date of recognition

The Company initially recognises advances and deposits on the date that they are originated All other financial assets and liabilities are initially recognised on the trade date at which the Company becomes party to the contractual provisions of the instruments

Initial recognition and measurement of financial instruments

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

Derivative financial instruments

The Company uses derivatives such as interest rate swaps and exchange rate contracts to manage market risk Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative Changes in the fair value of derivatives are included in 'Net gains on financial instrument transactions'

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement

Financial assets or financial liabilities designated at fair value through the profit and loss account

Financial assets and financial liabilities classified in this category are designated as such by management on initial recognition when any of the following criteria are met (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management framework, or (c) the financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract

Financial assets and financial liabilities designated at fair value through the profit and loss are recognised in the balance sheet at fair value Changes in fair value are recognised in 'Net gains or losses on financial instrument transactions' in the income statement Interest income and expense are included in the corresponding captions in the income statement according to the terms of the relevant contract using the effective interest rate method

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading investments', 'Investments available for sale' or 'Investments at fair value through profit or loss' After their initial recognition, loans and receivables are subsequently measured at amortised cost, less any provision for impairment The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances' in the case of loans and advances to customers

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets The collateral comes in various forms such as cash, securities, guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements Although the value of collateral is not recognised directly in the financial statements, collateral is valued for the purposes of risk management and in connection with the assessment of impairment of secured loans and advances to customers The fair value of collateral is generally assessed, at a minimum, at inception and based on the Company's quarterly reporting schedule Some collateral, for example cash or securities relating to margining requirements, is valued daily

To the extent possible, the Company uses active market data for valuing financial assets held as collateral Other financial assets which do not have a readily determinable market value are valued using models Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources

Financial guarantees

The Company provides guarantees in the normal course of business on behalf of its customers In the majority of cases, the Company will hold collateral against the resultant exposure or have a right of recourse to the customer, or both The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure banking facilities and guarantees to Her Majesty's Revenue and Customs The nominal principal amount of these guarantees is set out in Note 24

Subordinated loan

The subordinated loan in issue is initially measured at the fair value of the consideration received, net of any issue costs It is subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date at which the Company has the right to redeem the subordinated loan stock Interest on subordinated loan stock in issue is included in 'Interest expense' in the income statement

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset or where applicable a part of a financial asset or part of a group of similar financial assets is derecognised when (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Company has transferred its contractual rights to receive cash flows from the asset or (c) the Company has assumed an obligation to pay the received cash flows in full to a third party and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event or events have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

Individual impairment

For loans and advances to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral There is objective evidence that a loan is impaired when it is probable that the Company will not be able to collect all amounts due according to the original contract terms

Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults or a decline in the value of collateral

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure To assess the future cash flows from tangible collateral in the form of land and buildings the Company obtains up to date professional advice on the sale value

Future cash flows are based upon prudent assumptions about the value of the property representing the underlying security, costs that might be incurred in realising the value in the property, and the time it takes to repossess and sell properties The property value is updated at regular intervals to ensure the Company has a good understanding of the change in the market value of the property held as collateral

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss The interest income is recorded as part of 'Interest and income'

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract

Collective impairment

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

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

Loan renegotiations and forbearance

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower There are a number of different types of loan renegotiation, including the capitalisation of arrears, payment holidays, temporary transfer to interest-only terms and extensions of the due date of payment Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with the revised terms and are expected to continue to be paid in accordance with the revised terms

Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value

Write-offs

Loans together with the associated provisions are written off when there is no realistic prospect of recovery If a previously written off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the income statement

Changes after recognition of impairment

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

Hedge accounting

The Company uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks The Company applies hedge accounting for transactions which meet the specified criteria

At inception of the hedging relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge The method that will be used to assess the effectiveness of the hedging relationship also forms part of the Company's documentation

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective retrospectively for the designated period in order to qualify for hedge accounting A formal assessment is undertaken to ensure that the hedging relationship is highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated are expected to offset in a range of 80% to 125%

Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the income statement in 'Net gains on financial instrument transactions' The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Net gains on financial instrument transactions'

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement

Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve' The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on financial instrument transactions' in the income statement

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the income statement When a hedging instrument expires, or is sold, terminated or exercised, or 'when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the income statement

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition

Property and equipment

Property is originally measured at cost and subsequently measured at fair value less accumulated depreciation Valuations are carried out on a three year cycle by independent qualified valuers on the basis of current market values Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve This policy is applied to assets individually Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset

Computer hardware and furniture and equipment are carried at cost, less accumulated depreciation and impairment losses Historical cost includes expenditure that is directly attributable to acquisition

Property and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use

Depreciation of buildings and equipment is calculated on a straight line basis over the estimated useful life, as follows buildings 30 years, computer equipment 5 years, furniture and fixtures 10 years

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date Gains or losses on the disposal of property and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings

Intangible assets

Software acquired is measured on initial recognition at cost when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is three years

Intangible assets are reviewed for impairment when changes in circumstances indicate that the carrying value may not be recoverable If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount

Provisions for pending litigation or claims

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

3 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires the Company's management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the financial statements The accounting policies that are critical to the Company's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of estimates and assumptions are set out below

Going concern

The Company's directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future

The Company's capital position remains strong Stress tests carried out in September 2013 demonstrate that the Company holds sufficient capital to continue in business, even if subjected to a severe stress scenario which includes substantial reductions in the value of property held as security for advances

The Company's liquidity position has been strengthened by the transfer of £274m of deposits from Laiki UK After the initial Eurogroup agreement for the Cypriot bailout on 15 March 2013 there was a spike in the outflow of deposits, but even following this outflow there is sufficient liquidity for the Company's requirements for the foreseeable future

The assessment of the Company's ability to continue as a going concern does not rely on the availability of parental support The directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern

Accordingly, the financial statements for the year ended 31 December 2013 have been prepared on a going concern basis

Provision for impairment of loans and advances to customers

The Company reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required

The amount of provision is affected by the value of collateral held which mainly comprises land and buildings Any decreases in the fair value of this collateral will translate to increases in the required provisions for impairment of loans and advances For example, a 5% decrease in the value of collateral for impaired advances would lead to an increase in the provision for impairment by £1,150,000

In addition to provisions for impairment on an individual basis, the Company also makes collective impairment provisions The Company bases its calculation of collective provisions on loss rates arising from historical experience This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in the portfolio In addition, the use of historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not an accurate indicator of likely future trends

In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience The assumptions underlying this judgement are highly subjective The methodology and the assumptions used in calculating impairment losses are reviewed regularly

Taxation

The Company operates in the United Kingdom and is therefore subject to United Kingdom corporation tax Estimates are required in determining the provision for taxes at the balance sheet date The Company recognises tax liabilities for transactions whose tax treatment is uncertain Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities In relation to current year tax there are no assumptions or estimates that significantly affect the tax provision

Deferred tax assets are recognised by the Company in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies These variables have been established on the basis of significant management judgement and are subject to uncertainty

4 Interest income	2013 £000	2012 £000
Loans and advances to customers	**33,805**	20,205
Placements with banks and central banks	**1,750**	611
Placements with related entities	**253**	313
	35,808	21,129

Interest income from loans and advances to customers includes interest from impaired loans and advances amounting to £2,419,000 (2012 £385,000)

5 Interest expense

Customer deposits	**20,129**	12,339
Amounts due to related entities	**343**	440
Subordinated loan	**2,262**	1,223
	22,734	14,002
Derivative financial instruments	**776**	490
	23,510	14,492

6 Fee and commission income

Credit-related fees and commissions	**575**	307
Other banking fees and commissions	**2,746**	1,195
	3,321	1,502

7 Foreign exchange gains

Foreign exchange gains arise from the re-translation of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the year, and the revaluation of foreign exchange derivatives

8 Net gains on financial instrument transactions

Net gains arising from fair value hedges (see note 15)	**332**	61

9 Staff costs

Salaries	**6,436**	2,478
Social security costs	**706**	273
Retirement benefit costs - defined contribution scheme	**944**	521
	8,086	3,272

The number of staff employed (including three executive directors) by the Company as at 31 December 2013 was 167 (2012 157)

10 Depreciation and amortisation

	2013 £000	2012 £000
Depreciation	**1,123**	598
Amortisation of intangible assets	**330**	176
	1,453	774

11 Other operating expenses

	2013 £000	2012 £000
Information technology	**1,727**	892
Professional fees	**459**	408
Communication	**471**	227
Premises	**765**	388
Advertising	**285**	190
Money transmission	**624**	309
Printing and Stationery	**258**	71
Other operating expenses	**879**	(24)
	5,468	2,461

Professional fees include fees (including taxes) to the independent auditors of the Company, for audit and other professional services provided to the Company as follows

	2013 £000	2012 £000
Fees for the audit of the financial statements	**188**	198
Fees for tax compliance services	**50**	39
	238	237

12 Provisions for impairment of loans and advances

The movement of provisions for impairment of loans and advances to customers is as follows

	2013			2012
	£000	£000	£000	£000
	Individual impairment	Collective impairment	Total	Total
1 January	**19,401**	**3,500**	**22,901**	-
Assumed on transfer of business	-	-	-	12,922
Applied in writing off impaired loans and advances	**(6,173)**	-	**(6,173)**	(313)
Interest accrued on impaired loans and advances	-	-	-	1,921
Charge for the period	**1,287**	-	**1,287**	8,371
31 December	**14,515**	**3,500**	**18,015**	22,901

13 Taxation

	2013 £000	2012 £000
UK corporation tax		
Charge for the year	-	-
Adjustments in respect of prior years	273	67
	273	67
Deferred tax		
Debit/(credit) for the year	320	(1,618)
Adjustments in respect of prior years	34	(61)
	354	(1,679)
Tax debit/(credit) for the year	627	(1,612)

The tax charge/(credit) in the income statement for the year differs from the standard rate of corporation tax in the United Kingdom of 23 25% (2012 24 5%) The differences are reconciled below

Profit/(loss) before tax	115	(6,517)
Tax calculated at 23 25% (2012 24 5%)	27	(1,596)
Tax effect of		
Expenses not deductible for tax purposes	85	42
Non-taxable income	-	(169)
Tax rate change	208	105
Adjustment in respect of prior years – current tax	273	67
Adjustment in respect of prior years – deferred tax	34	(61)
	627	(1,612)

The net deferred tax asset arises from

Difference between capital allowances and depreciation	56	105
Property revaluation	(121)	(121)
Tax losses carried forward	1,302	1,607
Net deferred tax asset	1,237	1,591

Business projections indicate that there will be sufficient taxable profits against which to offset the deferred tax asset on losses within the next three years

The movement in the net deferred tax asset is set out below

1 January	1,591	-
Assumed on transfer of business	-	(88)
Deferred tax recognised in the income statement	(354)	1,679
31 December	1,237	1,591

The analysis of the net deferred tax (charge)/credit recognised in the income statement is set out below

	2013	2012
	£000	£000
Difference between capital allowances and depreciation	**64**	58
Tax losses brought forward and utilised	**(127)**	1,712
Other temporary differences	**(49)**	(47)
Change in tax rates	**(208)**	(105)
Adjustment in respect of prior years	**(34)**	61
	(354)	1,679

Deferred tax assets have been stated at the corporation tax rate of 20% (2012 23%) reflecting the reduction in the United Kingdom corporation tax rate which will take effect from 1 April 2015 and which was substantially enacted on 17 July 2013, on the basis that the Company's deferred tax assets will unwind after 1 April 2015

14 Cash, balances with central banks and placements with banks

Cash	**377**	405
Balances with the Bank of England	**468,407**	334,320
	468,784	334,725
Placements with related entities	**9,916**	11,532
Placements with banks	**47,519**	48,126
Cash and cash equivalents	**526,219**	394,383

Placements with banks earn interest based on the inter-bank rate for the relevant term and currency

Balances with central banks include mandatory deposits of £314,000 (2012 £224,000) which are not available for use in the Company's day to day business These comprise cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998

15 Derivative financial instruments

The use of derivatives is an integral part of the Company's activities Derivatives are used to manage the Company's own exposure to fluctuations in interest rates and exchange rates

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract

Interest rate caps and floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time

The fair value of derivative financial instruments represents the cost of replacement of these contracts at the balance sheet date The credit exposure arising from these transactions is managed as part of the Company's market risk management

The fair value of the derivatives can be either positive (an asset) or negative (a liability) as a result of fluctuations in market interest rates or foreign exchange rates in accordance with the terms of the relevant contract The aggregate net fair value of derivatives may fluctuate significantly over time

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met The Company also uses derivatives to hedge the changes in interest rates or exchange rates which do not meet the criteria for hedge accounting As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement

Changes in the fair value of derivatives designated as fair value hedges are recognised in the income statement The Company's fair value hedge relationships are principally interest rate swaps used to hedge the interest rate risk of fixed rate loans to customers

Gains or losses due to changes on fair value hedges for the year are as follows

	2013	2012
	£000	£000
Gains from change in fair value of trading derivatives	**132**	32
Gains from change in fair value of hedging instruments	**824**	363
Losses from change in fair value of hedged items	**(624)**	(334)
	332	61

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk

	2013			2012		
	Notional amount	**Fair value**		Notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	£000	**£000**	**£000**	£000	£000	£000
Interest rate related contracts						
Swaps	**31,442**	**-**	**(639)**	37,582	-	(1,472)
Collar	**2,742**	**2**	**(202)**	2,896	2	(332)
Spot foreign exchange rate contracts	**548**	**3**	**-**	625	3	-
Total derivative contracts	**34,732**	**5**	**(841)**	41,103	5	(1,804)

16 Loans and advances to customers

	2013			2012		
	Loans	**Overdrafts**	**Total**	Loans	Overdrafts	Total
	£000	**£000**	**£000**	£000	£000	£000
Gross loans and advances	**549,809**	**18,700**	**568,509**	621,905	22,061	643,966
Provisions for impairment of loans and advances	**(17,124)**	**(891)**	**(18,015)**	(21,847)	(1,054)	(22,901)
	532,685	**17,809**	**550,494**	600,058	21,007	621,065

The credit quality of gross loans and advances to customers is as follows

Neither past due nor impaired	**475,718**	**14,956**	**490,674**	509,750	17,178	526,928
Past due but not impaired	**39,589**	**1,541**	**41,130**	65,317	1,936	67,253
Impaired	**34,502**	**2,203**	**36,705**	46,838	2,947	49,785
	549,809	**18,700**	**568,509**	621,905	22,061	643,966

The length of arrears of past due but not impaired loans and advances to customers is as follows

Up to 30 days	**25,669**	**481**	**26,150**	23,673	334	24,007
31 to 90 days	**3,844**	**76**	**3,920**	15,065	256	15,321
91 to 180 days	**2,880**	**138**	**3,018**	8,285	97	8,382
181 to 365 days	**3,148**	**500**	**3,648**	8,280	1,042	9,322
Over one year	**4,048**	**346**	**4,394**	10,014	207	10,221
	39,589	**1,541**	**41,130**	65,317	1,936	67,253

Loans in arrears over 90 days are not considered impaired if there is sufficient collateral to give reasonable certainty that the loan will be recovered in full Loans and advances to customers are secured on property including £6,674,000 (2012 £1,186,000) cash collateral There are no repossessions of collateral held at the reporting date

17 Property and equipment

	2013					2012
	Freehold property	*Leasehold property*	*Computer equipment*	*Furniture & equipment*	*Total*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Cost or valuation at 1 January	**5,801**	**290**	**2,738**	**7,651**	**16,480**	-
Assumed on transfer of business	-	-	-	-	-	16,422
Additions or valuation	-	-	**152**	**41**	**193**	58
Cost or valuation at 31 December	**5,801**	**290**	**2,890**	**7,692**	**16,673**	16,480
Accumulated depreciation at 1 January	**(125)**	**(10)**	**(2,133)**	**(3,967)**	**(6,235)**	-
Accumulated depreciation assumed on transfer of business						(5,637)
Depreciation charge for the year	**(125)**	**(10)**	**(253)**	**(735)**	**(1,123)**	(598)
Accumulated depreciation at 31 December	**(250)**	**(20)**	**(2,386)**	**(4,702)**	**(7,358)**	(6,235)
Net book value at 31 December	**5,551**	**270**	**504**	**2,990**	**9,315**	10,245

Property includes land amounting to £2,045,000, of which £1,950,000 relates to freehold property and £95,000 relates to leasehold property No depreciation is charged for land The property of the Company was acquired under the business transfer in 2012 and it was last revalued at 31 December 2011 The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and recent market transactions in accordance with guidance published by the Royal Institution of Chartered Surveyors The carrying value of the property on the historical cost basis and on the revaluation basis are deemed to be the same as all property was acquired on the transfer of business in 2012 and no material change has been noted in the value of property post acquisition

18 Intangible assets

	2013	*2012*
Computer software	**£000**	*£000*
Cost at 1 January	**3,695**	0
Assumed on transfer of business	-	3,605
Additions	**414**	90
Cost at 31 December	**4,109**	3,695
Accumulated amortisation assumed on transfer of business	-	(3,093)
Accumulated amortisation at 1 January	**(3,269)**	-
Amortisation charge for the year	**(330)**	(176)
Accumulated amortisation at 31 December	**(3,599)**	(3,269)
Net book value at 31 December	**510**	426

19 Other assets

Debtors	**348**	368
Prepaid expenses	**2,273**	529
Deferred tax asset	**1,237**	1,591
Others	**41**	12
	3,899	2,500

20 Customer deposits

	2013	2012
	£000	£000
Customer deposits by category		
Demand	**244,814**	169,562
Notice	**123,307**	122,980
Term	**612,724**	619,153
	980,845	911,695
Customer deposits by geographical area		
United Kingdom	**556,573**	522,614
Cyprus	**304,975**	272,229
Greece	**80,365**	85,467
Other countries	**38,932**	31,385
	980,845	911,695

Customer deposits include cash collateral of £6,674,000 against advances as at 31 December 2013 (2012 £1,861,000)

21 Other liabilities

Trade creditors	**1,519**	1,371
Financial Services Compensation Scheme levy (note 25)	**568**	808
Interest rate swaps (held for trading)	**439**	753
Interest rate swaps (designated as fair value hedges)	**402**	1,051
Taxes payable	-	296
Items in the course of settlement	**2,230**	1,388
Tax deduction scheme for interest	**441**	302
Others	**178**	160
	5,777	6,129

22 Subordinated loan

Unsecured subordinated loan	**30,056**	31,223

The unsecured subordinated loan is due to the Parent Interest on the loan is payable at 7% above the sterling 3 month London Interbank Offered Rate The loan has no maturity date, and is repayable at the option of the Company at any time after 22 June 2017, subject to the prior consent of the PRA The loan is subordinated to the claims of other creditors and is unsecured

23 Share capital

	2013		2012	
	Number of shares	£000	Number of shares	£000
Issued and fully paid				
Ordinary shares of £1 each	**65,000,000**	**65,000**	65,000,000	65,000

24 Contingent liabilities and commitments

As part of the services provided to its customers, the Company enters into various revocable commitments and contingent liabilities These consist of financial guarantees and undrawn commitments to lend

Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer and to carry out those obligations should the customer fail to do so

Where guarantees are issued on behalf of customers, the Company usually holds collateral against the exposure and has a right of recourse to the customer

In relation to acceptances and guarantees, the table below shows the Company's maximum exposure should contracts be fully drawn upon and customers default without taking account of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held

	2013	*2012*
	£000	*£000*
Acceptances, guarantees and cashing facilities	**3,560**	3,842
Commitments to advance	**12,146**	15,266
	15,706	19,108

Contingent obligations and commitments are managed in accordance with the Company's credit risk management policies Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Company

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2013 amount to £83,000 (2012 £233,000)

Litigation

There are no other significant pending litigation claims or assessments against the Company the outcome of which would have a material effect on the Company's financial position or operations

25 Financial Services Compensation Scheme levy

The FSCS provides compensation to eligible depositors up to £85,000 in the event that a financial institution is unable to repay amounts due Following the failure of a number of financial institutions in 2008, the FSCS borrowed funds from the UK government to cover compensation for protected deposits These borrowings are expected to be repaid from the realisation of the assets of the institutions Under the FSCS levy rules, all deposit takers will be required to pay a proportion of any irrecoverable losses Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS The proportion of the total levy charged to each bank is determined by its share of deposits protected under the FSCS at 31 December each year

The Company paid the first of three annual instalments of £240,000 in 2013 As at 31 December 2013, the bank has accrued £568,000 in respect of the estimated future payments relating to the FSCS Specified Deposit Defaults Levy

The ultimate cost of the FSCS levy to the industry as a result of the banking collapses in 2008 is dependent upon various still uncertain factors, including the value of potential recoveries of assets by the FSCS and the level of protected deposits

26 Risk management

Through its normal operations the Company is exposed to a number of risks, the most significant of which are liquidity risk, credit risk, operational risk and market risk To manage these risks the Company has established clear risk policies, including limits, reporting lines and control procedures Adherence to these policies and procedures is independently monitored by the Company's credit risk, market risk, operational risk, compliance and internal audit functions The Company's risk management processes and internal controls are subject to regular review by the appropriate executive and board committees, including the Advances, Compliance & Controls, Asset & Liability and Audit & Risk committees

Fair value of financial assets and liabilities

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 For the purposes of this note, carrying value refers to amounts reflected in the balance sheet

		2013		*2012*	
	Notes	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a)	**468,784**	**468,784**	334,725	334,725
Placements with banks	(b)	**47,519**	**47,519**	48,126	48,126
Placements with related entities	(b)	**9,916**	**9,916**	11,532	11,532
Loans and advances to customers	(c)	**550,494**	**536,572**	621,329	604,224
Financial liabilities					
Amounts due to banks	(b)	**1,006**	**1,006**	11	11
Amounts due related entities	(b)	**13,570**	**13,570**	19,866	19,866
Customer deposits	(d)	**980,845**	**980,845**	911,695	911,695
Derivative financial liabilities	(e)	**841**	**841**	1,805	1,805
Subordinated loan	(f)	**30,056**	**30,056**	31,223	31,223

The fair value estimates are based on the following methodologies and assumptions

(a) The carrying amounts of these financial assets and financial liabilities approximate fair value
(b) The carrying value of placements with banks and amounts due to banks is considered to approximate fair value Placements with banks are repayable on demand or within twelve months Amounts due to banks are re-priced every three months relative to market rates As a result, the carrying value approximates the fair value
(c) The carrying value of loans and advances to customers is net of allowance for impairment losses and unearned income The fair value of the advances is calculated by adjusting the cash flows for the risk and discounting
(d) The carrying value of customer deposits is considered to approximate fair value The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand
(e) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss are based on quoted market prices and data or valuation techniques based on observable market data as appropriate to the nature and type of the underlying instrument
(f) The subordinated loan is non-traded and re-prices in response to changes in market rates Its fair value includes interest accrued since the last interest payment date

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total fair value***
	£000	***£000***	***£000***	***£000***
Derivative financial assets	-	**5**	-	**5**
Derivative financial liabilities	-	**(841)**	-	**(841)**

31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total fair value***
	£000	***£000***	***£000***	***£000***
Derivative financial assets	-	**5**	-	**5**
Derivative financial liabilities	-	**(1,805)**	-	**(1,805)**

Level 1 inputs are those with quoted prices for similar instruments, level 2 inputs have directly observable market inputs other than level 1 inputs, and level 3 inputs are not based on observable market data

Loans and advances to customers are at level 3 of the fair value hierarchy The fair value of loans and advances is dependent on estimates, including the risk premium A 1% increase in the risk premium would reduce the fair value of loans and advances on £14 4m (2012 £18 1m)

Liquidity risk

Liquidity risk is the risk of failure to realise assets or raise funds to meet current and future commitments To manage liquidity risk the Company maintains a portfolio of high quality liquid and marketable assets sufficient to meet the liquidity requirements of the PRA and the Company's internal policies Actual and projected cash flows of the Company are monitored on a continuing basis to ensure that the Company preserves a satisfactory liquidity position at all times

Analysis of assets and liabilities by expected maturity

31 December 2013	***Carrying value £000***	***Demand £000***	***Up to 3 months £000***	***3 months to 1 year £000***	***1 year to 5 years £000***	***Over 5 years £000***
Assets						
Cash and balances with central banks	**468,784**	**468,470**	-	**314**	-	-
Placements with banks	**47,519**	**31,019**	**16,500**	-	-	-
Placements with related entities	**9,916**	**5**	**9,911**	-	-	-
Investment in subsidiary	**400**	-	-	-	-	**400**
Loans and advances to customers	**550,494**	**48,246**	**66,010**	**81,975**	**210,803**	**143,460**
Property and equipment	**9,315**	-	-	-	-	**9,315**
Intangible assets	**510**	-	-	-	-	**510**
Other assets	**3,899**	-	-	**3,899**	-	-
Total assets	**1,090,837**	**547,740**	**92,421**	**86,188**	**210,803**	**153,685**
Liabilities and equity						
Amounts due to banks	**1,006**	**1,006**	-	-	-	-
Amounts due to related entities	**13,570**	**3,661**	-	**9,909**	-	-
Customer deposits	**980,845**	**244,815**	**280,299**	**341,582**	**114,149**	-
Other liabilities	**5,777**	-	-	**5,777**	-	-
Subordinated loan	**30,056**	**56**	-	-	-	**30,000**
Total liabilities	**1,031,254**	**249,538**	**280,299**	**357,268**	**114,149**	**30,000**
Total equity	**59,583**	-	-	-	-	**59,583**
Total liabilities and equity	**1,090,837**	**249,538**	**280,299**	**357,268**	**114,149**	**89,583**
Acceptances and guarantees	**3,560**	**3,560**	-	-	-	-

31 December 2012	*Carrying value*	*Demand*	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Assets						
Cash and balances with central banks	334,725	307,643	27,082	-	-	-
Placements with banks	48,126	32,848	15,278	-	-	-
Placements with related entities	11,532	128	11,404	-	-	-
Investment in subsidiary	400	-	-	-	-	400
Loans and advances to customers	621,329	38,120	47,587	88,759	253,620	193,243
Property and equipment	10,245	-	-	-	-	10,245
Intangible assets	426	-	-	-	-	426
Other assets	2,236	-	-	2,236	-	-
Total assets	1,029,019	378,739	101,351	90,995	253,620	204,314
Liabilities and equity						
Amounts due to banks	11	11	-	-	-	-
Amounts due to related entities	19,866	8,571	-	11,295	-	-
Customer deposits	911,695	169,562	251,960	335,433	154,740	-
Other liabilities	6,129	-	-	6,129	-	-
Subordinated loan	31,223	1,223	-	-	-	30,000
Total liabilities	968,924	179,367	251,960	352,857	154,740	30,000
Total equity	60,095	-	-	-	-	60,095
Total liabilities and equity	1,029,019	179,367	251,960	354,080	154,740	90,095
Acceptances and guarantees	3,842	3,842	-	-	-	-

The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities

Non-derivative financial liabilities

	2013					2012				
	Demand	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***	*Demand*	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	***£000***	***£000***	***£000***	***£000***	*£000*	*£000*	*£000*	*£000*	*£000*
Amounts due to banks	**1,006**	**-**	**-**	**-**	**-**	11	-	-	-	-
Amounts due to related entities	**3,661**	**-**	**9,932**	**-**	**-**	8,571	-	11,320	-	-
Customer deposits	**244,319**	**280,761**	**346,531**	**119,428**	**-**	169,562	252,438	342,294	163,798	-
Subordinated loan	**-**	**-**	**-**	**9,137**	**30,000**	-	-	-	10,799	30,000

The following table sets out the contractual maturity for derivative financial instruments When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as determined by the yield curves existing at the reporting date

Derivative financial liabilities

	2013				*2012*			
	Up to 3 months	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	***£000***	***£000***	***£000***	*£000*	*£000*	*£000*	*£000*
Interest rate swaps	**203**	**331**	**312**	**-**	231	659	931	-

The balances in the cash flow tables above will not agree directly to the balances in the balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and future interest payments

Credit risk

Credit risk arises principally from lending activities, but also from other on and off balance sheet transactions where there is a risk that the counterparty may not meet its obligations to the Company Credit risk occurs mainly in customer advances To control credit risk, the Company establishes exposure limits by various categories including counterparty, sector and country, which are reviewed on a continuing basis

Credit policies are approved by the board of directors on recommendation from the executive Advances Committee, which has management oversight of credit risk The Company maintains a dedicated credit risk function with responsibility for managing credit risk and monitoring management of advances by the Company's business units

The Advances Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions The Advances Committee approves credit facilities within its authority or makes recommendations to the Parent and the board of directors for approval

An analysis of impairments and watch list customer advances (advances which show symptoms of credit weakness) is shown below

	2013			*2012*		
	Loans	***Overdrafts***	***Total***	*Loans*	*Overdrafts*	*Total*
	£000	***£000***	***£000***	*£000*	*£000*	*£000*
Individually impaired	**34,502**	**2,203**	**36,705**	46,836	2,949	49,785
Allowance for impairment	**(13,737)**	**(778)**	**(14,515)**	(18,458)	(943)	(19,401)
	20,765	**1,425**	**22,190**	28,378	2,006	30,384
Watch list advances						
High risk	**17,875**	**1,105**	**18,980**	26,580	1,345	27,925
Medium risk	**26,780**	**3,230**	**30,010**	38,737	591	39,328
	44,655	**4,335**	**48,990**	65,317	1,936	67,253
Not subject to impairment nor on watch list	**470,652**	**12,162**	**482,814**	510,014	17,178	527,192
Allowance for collective impairment	**(3,387)**	**(113)**	**(3,500)**	(3,387)	(113)	(3,500)
Carrying amount	**532,685**	**17,809**	**550,494**	600,322	21,007	621,329

The following table shows the risk concentration by sector for customer advances

	2013	*2012*
	£000	*£000*
Business sector		
Property investment	**372,398**	396,918
Property development	**18,143**	31,198
Hotel, catering and leisure	**73,947**	92,143
Manufacturing	**11,960**	11,708
Retail and wholesale	**19,771**	27,611
Other business sectors	**36,357**	41,228
Personal sector	**35,933**	43,424
	568,509	644,230
Allowance for impairment	**(18,015)**	(22,901)
Carrying amount	**550,494**	621,329

The amount of loans and advances subject to forbearance is analysed below Forbearance means the active agreement by the bank with the customer to vary the terms of a loan agreement, either temporarily or permanently, to assist a customer to overcome financial stress and repay a loan that is secured by an owner-occupied residential property

31 December 2013	***Total***	***Neither past due nor impaired***	***Past due but not impaired***	***Impaired***
	£000	***£000***	***£000***	***£000***
Temporary conversions from repayment to interest only	**655**	**589**	**66**	-
Term extension for interest only loans	**6,352**	**6,352**	-	-
Term extensions for capital repayment	**704**	**375**	**329**	-
Payment holidays	**441**	**441**	-	-
Capitalisation of arrears	**131**	-	**131**	-
	8,283	**7,757**	**526**	-

31 December 2012	*Total*	*Neither past due nor impaired*	*Past due but not impaired*	*Impaired*
	£000	*£000*	*£000*	*£000*
Temporary conversions from repayment to interest only	804	157	405	242
Term extension for interest only loans	3,044	1,162	1,219	663
Term extensions for capital repayment	61	61	-	-
Payment holidays	1,430	544	886	-
Capitalisation of arrears	616	476	140	-
	5,955	2,400	2,650	905

Loans and advances for which have been subject to forbearance continue to be classified as being subject to forbearance until the loan or advance is redeemed or is restructured on normal commercial terms

Operational risk

Operational risk is the risk of loss or reputational damage arising from inadequate systems, errors, poor management, internal control breaches, fraud and external events Procedures and controls are in place to manage these risks throughout the Company and are supplemented by contingency planning to ensure business continuity, as well as the maintenance of insurance cover where appropriate

Market risk

Market risk is the risk that changes in the level of interest rates, exchange rates and other financial indicators will have an adverse financial impact

The Company is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature The Company aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates In managing these mismatches the Company makes use of appropriate interest rate derivative contracts including interest rate swaps

A summary of the Company's interest rate gap position is as follows

31 December 2013	***Carrying value £000***	***Non-interest bearing £000***	***Up to 3 months £000***	***3 months to 1 year £000***	***1 year to 5 years £000***	***Over 5 years £000***
Assets						
Cash and bank advances	**516,303**	**45,712**	**470,277**	**314**	**-**	**-**
Placements with related entities	**9,916**	**-**	**9,916**	**-**	**-**	**-**
Investment in subsidiary	**400**	**400**	**-**	**-**	**-**	**-**
Loans and advances to customers	**550,494**	**-**	**525,916**	**7,301**	**17,277**	**-**
Fixed assets	**9,825**	**9,825**	**-**	**-**	**-**	**-**
Other assets	**3,899**	**3,899**	**-**	**-**	**-**	**-**
Total assets	**1,090,837**	**59,836**	**1,006,109**	**7,615**	**17,277**	**-**
Liabilities						
Amounts due to banks	**1,006**	**-**	**1,006**	**-**	**-**	**-**
Amounts due to related entities	**13,570**	**-**	**13,570**	**-**	**-**	**-**
Customer deposits	**980,845**	**108,369**	**418,557**	**339,775**	**114,144**	**-**
Other liabilities	**5,777**	**4,918**	**859**	**-**	**-**	**-**
Subordinated loan	**30,056**	**56**	**30,000**	**-**	**-**	**-**
Total liabilities	**1,031,254**	**113,343**	**463,992**	**339,775**	**114,144**	**-**
Derivatives	**-**	**(3)**	**20,455**	**(3,236)**	**(17,216)**	**-**
Interest rate gap	**59,583**	**(53,510)**	**562,527**	**(335,396)**	**(114,083)**	**-**

31 December 2012						
Assets						
Cash and bank advances	382,851	27,583	355,044	224	-	-
Placements with related entities	11,532	23	11,509	-	-	-
Investment in subsidiary	400	400	-	-	-	-
Loans and advances to customers	621,329	2,258	558,239	22,918	37,914	-
Fixed assets	10,671	10,671	-	-	-	-
Other assets	2,236	2,236	-	-	-	-
Total assets	1,029,019	43,171	924,792	23,142	37,914	-
Liabilities						
Amounts due to banks	11	-	11	-	-	-
Amounts due to related entities	19,866	36	19,830	-	-	-
Customer deposits	911,695	70,875	354,265	334,673	151,882	-
Other liabilities	6,129	5,459	670	-	-	-
Subordinated loan	31,223	-	31,223	-	-	-
Total liabilities	968,924	76,370	405,999	334,673	151,882	-
Derivatives	-	(3)	34,985	(3,540)	(31,442)	-
Interest rate gap	60,095	(33,202)	553,778	(315,071)	(145,410)	-

The Company monitors its exposure to interest rate risk The annualised impact of a potential 1% change, both increase and decrease, in the interest rates against the Company's interest bearing assets and liabilities is as follows

	2013	*2012*
	£000	*£000*
Increase of 1%	**3,991**	2,868
Decrease of 1%	**(1,967)**	(1,416)

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios The figures represent the effect on net interest income for a year arising from a parallel rise or fall in all market interest rates and do not take into account the effect of any actions to mitigate the effect

Exchange rate risk
Foreign currency risk arises from mismatches between assets and liabilities in foreign currencies arising from the Company's lending, deposit taking and currency dealing activities The majority of currency dealings are carried out for the purpose of facilitating customer transactions The Company's treasury department is responsible for managing currency risk within intra-day and overnight limits The Company's currency net exposures remain low at the balance sheet date The potential impact on profit after tax and on equity of a change in currency exchange rates is negligible at the reporting date

Set-off
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously The Company is party to a number of arrangements that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented gross

The table below shows potential effect of the amounts that could be offset under the Company's right of set-off but which are shown gross in the financial statements

	2013			*2012*		
	Gross amounts presented in the balance sheet	***Offset amounts***	***Net amounts***	*Gross amounts presented in the balance sheet*	*Offset amounts*	*Net amounts*
	£000	***£000***	***£000***	*£000*	*£000*	*£000*
Financial assets						
Placements with banks	**47,519**	**1,005**	**46,514**	48,126	11	48,115
Placements with related entities	**9,916**	**9,916**	**-**	11,532	11,532	-
Loans and advances to customers	**550,494**	**24,592**	**525,902**	621,065	30,255	590,810
Financial liabilities						
Amounts due to banks	**1,006**	**1,005**	**1**	11	11	-
Amounts due related entities	**13,570**	**9,916**	**3,654**	19,866	11,532	8,334
Customer deposits	**980,845**	**24,592**	**956,253**	911,695	30,255	881,440

27 Investment in subsidiary

Bank of Cyprus Financial Services Limited (BOCFS), whose principal place of business is England and Wales, is a wholly owned subsidiary of the Company BOCFS is a representative of Legal & General Partnership Services Limited, which is authorised and regulated by the FCA for the purposes of recommending, advising on and selling life assurance and other insurance products bearing the Legal & General name The investment in subsidiary is accounted for at cost

28 Capital management

Pillar 3 of the Basel 3 accord covers the external communication of risk and capital information by banks as specified in the Basel rules The Pillar 3 disclosures for the Company are set out below

Capital adequacy

The Company is supervised by the PRA, as a UK authorised bank, and is required to satisfy the liquidity and capital requirements of the PRA on a standalone basis It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses without parental support

The Company carries out a full annual review of the adequacy of its capital to support its current and future activities, including during periods of stress, using the standardised approach for credit risk The review is documented in the Internal Capital Adequacy Assessment Process document, which is approved by the board of directors and submitted to the PRA The PRA reviews the Internal Capital Adequacy Assessment Process document and issues Individual Capital Guidance (ICG) setting out the minimum capital requirements for the Company

The Company manages its capital so as to ensure that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the ICG, including during periods of stress For this purpose it maintains its own buffer in excess of the regulatory requirements The preparation of annual plans, budgets and forecasts includes a projection of the capital position and capital requirements to ensure that capital resources will continue to be adequate

Composition of regulatory capital and ratios

	2013	*2012*
	£000	*£000*
Core Tier 1		
Shareholders' equity	**59,583**	60,095
Core Tier 1 deduction Intangible assets	**(510)**	(426)
	59,073	59,669
Qualifying Tier 2 capital		
Undated subordinated loan	**30,000**	30,000
Collective provisions	**3,500**	3,500
	92,573	93,169
Deductions from the totals of Tier 1 and Tier 2		
Investment in subsidiary	**(400)**	(400)
Total regulatory capital	**92,173**	92,769
Tier 1 ratio %	**17.5%**	15 8%
Total capital ratio %	**27.3%**	24 5%

The Parent, Bank of Cyprus Public Company Limited, is supervised by the Central Bank of Cyprus on a consolidated basis

The risk weighted assets by category are as follows

31 December 2013	***Balances***	***Risk weighted assets***	***Capital requirement***
	£000	***£000***	***£000***
Central governments and central banks	**468,784**	**-**	**-**
Institutions	**47,519**	**9,504**	**760**
Related entities	**2**	**3**	**-**
Corporate	**113,716**	**104,305**	**8,344**
Retail exposures			
Exposures to small and medium size enterprises	**64,633**	**48,475**	**3,878**
Retail exposures secured by residential real estate collateral	**245,272**	**79,970**	**6,398**
Other retail exposures	**17,030**	**12,772**	**1,022**
Exposures secured on residential real estate	**78,028**	**27,310**	**2,185**
Past due exposures	**36,177**	**41,711**	**3,337**
Other assets	**13,614**	**13,614**	**1,095**
	1,084,776	**337,664**	**27,019**
Off balance sheet exposures	**13,149**	**240**	**15**
Credit risk totals	**1,097,925**	**337,904**	**27,034**
Operational risk capital requirement			**2,899**
Total minimum capital requirement			**29,933**

Operational risk business lines and capital requirements are as follows

	Average income £000	**Capital requirement £000**
Commercial banking	**5,494**	**824**
Retail banking	**16,167**	**1,940**
Payment and settlement	**749**	**135**
Total average income and capital requirement	**22,410**	**2,899**

31 December 2012	*Balances £000*	*Risk weighted assets £000*	*Capital requirement £000*
Central governments and central banks	334,725	-	-
Institutions	48,126	9,625	770
Related entities	11,532		-
Corporate	93,028	86,815	6,945
Retail exposures			
Exposures to small and medium size enterprises	108,883	67,837	5,427
Retail exposures secured by residential real estate collateral	281,630	98,217	7,857
Other retail exposures	34,622	20,206	1,617
Exposures secured on residential real estate	49,948	17,482	1,399
Past due exposures	56,718	65,068	5,205
Other assets	9,807	12,879	1,030
	1,029,019	378,129	30,250
Off balance sheet exposures	16,715	424	34
Credit risk totals	1,045,734	378,553	30,284
Operational risk capital requirement			3,439
Total minimum capital requirement			33,723

Operational risk business lines and capital requirements for 2012 were as follows

	Average income £000	*Capital requirement* £000
Commercial banking	8,662	1,299
Retail banking	16,707	2,005
Payment and settlement	750	135
Total average income and capital requirement	26,119	3,439

29 Related party transactions

The Company is a wholly-owned subsidiary of Bank of Cyprus Public Company Limited, which is incorporated in Cyprus The Parent is the immediate and ultimate parent and the controlling party The smallest and largest group into which the results of the Company are consolidated is the Parent's group, whose annual report is available at www bankofcyprus com

The Company has one wholly-owned subsidiary company, BOCFS, which advises on and sells life assurance and other protection products

During 2013, the following transactions entered into with the Parent by the Company remained in force

- An unsecured subordinated loan agreement dated 20 June 2012 for £30m The interest rate under this agreement is set at 7% above the sterling 3 month London Interbank Offered Rate, and interest is payable annually At 31 December 2013 the outstanding balance was £30m and there was accrued interest of £56,000 (2012 £1,223,000) The loan has no maturity date, and is repayable at the option of the Company at any time after 22 June 2017

- A deposit agreement dated 4 July 2012 under which either party may deposit an amount with the other party up to a maximum of £45m The total deposits of each party are to equal the total deposits of the other party within a tolerance of 2% The deposits of the Parent with the Company are subject to a withdrawal notice of 100 days At 31 December 2013 the Company's deposits with the Parent totalled £9,868,000 (2012 £11,381,000) and there was accrued interest on them of £43,000 (2012 £23,000) The Parent's deposits with the Company at the same date totalled £9,879,000 (2012 £11,260,000) and there was accrued interest of £30,000 (2012 £35,000) Under the deposit agreement there is a right of set-off for each party in case of default or insolvency by the other party

- Nostro accounts held by the Company with the Parent with a total credit balance of £5,000 at 31 December 2013 (£128,000 at 31 December 2012)

- Vostro accounts held by the Parent with the Company with a total credit balance of £2,062,000 at 31 December 2013 (£3,860,000 at 31 December 2012)

In addition, during 2012 the Company entered into the following transactions with the Parent

- The purchase of the assets and business of the UK branch of the Parent on 25 June 2012 as set out in note 1

- Service level agreements for the provision of services by the Parent in connection with online banking, Swift payments and the Company's website By 31 December 2013 these Service Level Agreements had been terminated There was no charge for these services

- Up to 25 June 2012, the Parent, acting through its UK branch, administered the loan portfolio of the Company at no charge

- Up to 25 June 2012, the Parent, acting through its UK branch, provided funding to the Company at the same maturity and interest rate and in the same currency as the loans made by the Company to its customers The total interest paid by Company to the Parent was £181,000

During 2013, the Company levied a management charge of £110,000 (2012 £9,000) on its subsidiary, BOCFS, for the provision of staff and other support services At 31 December 2013 there was an interest-free debt of £400,000 to BOCFS (2012 £400,000)

During 2013, the following transactions entered into with fellow subsidiaries of the Parent remained in force

- Vostro accounts held by Bank of Cyprus Channel Islands Limited, a wholly owned subsidiary of the Parent, with a total balance of £11,000 at 31 December 2013 (2012 £3,142,000)

- Vostro accounts held by Tefkros Investments (CI) Limited, a wholly owned subsidiary of the Parent, with a total balance of £1,188,000 at 31 December 2013 (2012 £1,169,000)

Placements with and by related entities were as follows

	2013	*2012*
	£000	*£000*
Placements with related entities		-
Balance under deposit agreement of 4 July 2012 including accrued interest	**9,911**	11,404
Credit balances on nostro accounts	**5**	128
	9,916	11,532
Placements by related entities		
Balance under deposit agreement of 4 July 2012 including accrued interest	**9,909**	11,295
Credit balances on vostro accounts held by Parent	**2,062**	3,860
Credit balance on vostro account held by Bank of Cyprus Channel Islands Limited	**11**	3,142
Credit balance on vostro account held by Tefkros Investments (CI) Limited	**1,188**	1,169
Balance owed to BOCFS	**400**	400
	13,570	19,866

The Company made contributions to an employee savings plan during the year ended 31 December 2013 totalling £224,000 (2012 £100,000) The contributions are held as a deposit in the Company

The total personnel compensation of key management personnel paid by or on behalf of the Company was as set out below Key management personnel are defined as persons who are or have been members of the board or the Management Committee of the Company during 2013

	2013	*2012*
	£000	*£000*
Directors' emoluments	**595**	307
Short-term employee benefits of key management personnel	**301**	150

The total remuneration of the highest paid director was £239,000 (2012 £118,000) The amount of pension contributions paid by the Company to the pension scheme on behalf of the highest paid director was £33,000 (2012 £25,000)

Directors, key management personnel and their connected persons as of 31 December 2013 have the following balances with the Company in the normal course of business

	Number of key management personnel	***Amounts £000***
Secured loans, unsecured loans and overdrafts		
1 January 2013	**3**	**17**
Net movements in the year	**1**	**(5)**
31 December 2013	**4**	**12**
Deposit accounts and current account credit balances		
1 January 2013	**9**	**461**
Net movements in the year	**(2)**	**315**
31 December 2013	**7**	**776**