Annual Financial Report 2018

Bank of Cyprus

Contents

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This document contains certain forward-looking statements which can usually be identified by terms used such as 'expect', 'should be', 'will be' and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Bank of Cyprus Public Company Ltd Group (the Group) near term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, expected impairment charges, the level of the Group's assets liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange fluctuations, legislative, fiscal and regulatory developments and information technology, litigation and other operational risks. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward-looking statements. The forward-looking statements made in this document are only applicable as from the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based.

Non-IFRS performance measures

Bank of Cyprus Public Company Ltd (the Company) management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the Annual Financial Report as they enable the readers to identify a more consistent basis for comparing the Group's performance between financial periods and provide more detail concerning the elements of performance which management is most directly able to influence or are relevant for an assessment of Bank of Cyprus Group. They also reflect an important aspect of the way in which the operating targets are defined and performance is monitored by the Group's management. However, any non-IFRS performed measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Refer to 'Definitions and explanations on Alternative Performance Measures Disclosures' on pages 431 to 433 of the Annual Financial Report for 2018 for further information, reconciliations with Consolidated Financial Statements and calculations of non-IFRS performance measures included throughout this document and the most directly comparable IFRS measures.

The definitions and explanations on Alternative Performance Measures Disclosures are presented in 'Definitions and explanations on Alternative Performance Measures Disclosures' of the Annual Financial Report 2018.

The Annual Financial Report 2018 is available at the Bank of Cyprus Public Company Ltd Registered Office (51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

The Board of Directors submits to the shareholders of Bank of Cyprus Public Company Ltd (the Company) their Management Report together with the audited Consolidated Financial Statements (Consolidated Financial Statements) and Financial Statements of the Company for the year ended 31 December 2018.

The Annual Financial Report relates to the Company and together with its subsidiaries the Group.

Activities

The principal activities of the Company and its subsidiary companies involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt.

All Group companies and branches are set out in Note 52 of the Consolidated Financial Statements. Acquisitions and disposals made during the year 2018 are detailed in Notes 52, 53 and 54 of the Consolidated Financial Statements.

Operating environment in Cyprus

Economic recovery became more deeply rooted with real Gross Domestic Product (GDP) rising by 3.9% in 2018 following increases of 4.5% and 4.8% in the preceding two years (Cyprus Statistical Service). GDP growth in 2018 was underpinned by robust expansion in private consumption and services exports particularly tourism. Fixed investments particularly construction activity also made an important contribution. On a sectoral basis growth was mainly driven by tourism, trade and transport, construction and professional and business services. The outlook for 2019-2020 remains positive with real GDP expected to rise by 3.3% and 2.7% respectively according to the European Commission (European Economic Forecast, Winter 2019, Interim).

Employment increased by 5.6% in 2018 compared with an increase of 4.6% in 2017 (Cyprus Statistical Service). As a result the unemployment rate dropped to an average of 8.4% in 2018 from 11% in 2017 and contributed to strong private consumption growth (Cyprus Statistical Service).

Exports of goods and services continued to grow robustly in 2018 rising by 3.3% in real terms (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery, but Cyprus might also be impacted negatively by the exit of the UK from the EU (Brexit). Cyprus has close trade and investment links with the UK, making its economy vulnerable to the impact of Brexit on the UK economy. Tourist arrivals from the UK accounted for about 34% of total arrivals in 2017-2018. A possible decline in tourist arrivals from the UK and a drop in their spending will need to be mitigated by increasing arrivals and revenues from other countries.

Regarding prices, consumer inflation accelerated modestly in 2018 to 1.4% from 0.5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

The budget turned to a surplus of 1.8% of GDP in 2017. The budget surplus is estimated at 2.8% of GDP in 2018, according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018), excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus will also remain sizable in 2019-2020 according to the European Commission. The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme, a State-supported scheme to aid the loan repayment of vulnerable groups with non-performing exposures (NPEs) backed by primary residences, will be relatively low and its impact on the budget balance will be marginal.

Gross Government debt is estimated at 105% of GDP in 2018 according to the European Commission, up from 96% in 2017. This followed the placement of €3.2 billion Government bonds in the CyCB to facilitate the sale of the good assets of CyCB. However, its underlying dynamics remain stable and it is expected to decline significantly in coming years. The debt ratio will decline to 98.4% in 2019 and to 91% in 2020 according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018).

Operating environment in Cyprus (continued)

In the banking sector, the stock of NPEs declined significantly. For the first eleven months of 2018, NPEs dropped by 46% or by €9.6 billion to €11.2 billion, after the CyCB transaction and the sale of a package of NPEs by Bank of Cyprus, according to data by the Central Bank of Cyprus. The ratio of NPEs to gross loans dropped to 32.1% at the end of November 2018 from 42.5% at the end of December 2017. The ratio of total impairments to total NPEs was 52.2% at the end of November 2018.

In July 2018, the Cyprus government took additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs.

The sovereign risk ratings of the Cyprus government improved considerably. In October 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

Financial results

A reconciliation of the Consolidated Income Statement for the year ended 31 December 2018 between statutory and underlying basis is set out in this section of this Management Report.

Financial results (continued)

The main financial highlights for 2018 are set out below:

Consolidated Income Statement underlying basis		
€ million	**2018**	2017 (represented)
Net interest income	**452**	544
Net fee and commission income	**166**	174
Net foreign exchange gains and net gains on other financial instruments transactions and disposal/dissolution of subsidiaries and associates	**67**	48
Insurance income net of insurance claims and commissions	**53**	50
Net gains from revaluation and disposal of investment properties and disposal of stock of properties	**18**	26
Other income	**26**	19
Total income	**782**	861
Staff costs	**(217)**	(205)
Other operating expenses	**(158)**	(154)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)	**(25)**	(23)
Total expenses	**(400)**	(382)
Operating profit	**382**	479
Provision charge	**(168)**	(780)
Impairments of other financial and non-financial assets	**(20)**	(65)
Provisions for litigation, regulatory and other matters	**(23)**	(93)
Total provisions and impairments	**(211)**	(938)
Share of profit from associates	**9**	9
Profit/(loss) before tax and non-recurring items	**180**	(450)
Tax	**3**	(14)
(Profit)/loss attributable to non-controlling interests	**(1)**	3
Profit/(loss) after tax and before non-recurring items	**182**	(461)
Advisory and other restructuring costs excluding discontinued operations and NPE sale (Helix)	**(44)**	(29)
Profit/(loss) after tax - organic	**138**	(490)
Profit from discontinued operations (UK)	**3**	-
Restructuring costs relating to NPE sale (Helix)	**(18)**	-
Loss relating to NPE Sale (Helix)	**(150)**	-
Impairment of deferred tax assets	**(79)**	(62)
Loss after tax	**(106)**	(552)

Financial results (continued)

Key Performance Ratios	**2018**	2017 (represented)**
Net interest margin*	**2.48%**	3.10%
Cost to income ratio	**51%**	44%
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	**48%**	42%
Operating profit return on average assets	**1.8%**	2.3%
Basic losses per share attributable to the owners of the Company (€ cent)	**(1.2)**	(6.2)

*Including the Helix and Velocity portfolios of €1,148 million (NBV) and €6 million (NBV) respectively which have been classified as non-current assets and disposal groups held for sale
**Represented for the disposal of the UK subsidiary

Consolidated Balance Sheet

€ million	**2018**	2017
Cash and balances with central banks	**4,610**	3,394
Loans and advances to banks	**473**	1,193
Debt securities, treasury bills and equity investments	**1,515**	1,121
Net loans and advances to customers	**10,922**	14,602
Stock of property	**1,530**	1,641
Non-current assets and disposal groups classified as held for sale	**1,470**	7
Other assets	**1,555**	1,640
Total assets	**22,075**	23,598
Deposits by banks	**432**	495
Funding from central banks	**830**	930
Repurchase agreements	**249**	257
Customer deposits	**16,844**	17,850
Subordinated loan stock	**271**	302
Other liabilities	**1,082**	1,147
Total liabilities	**19,708**	20,981
Shareholders' equity	**2,121**	2,586
Other equity instruments (AT1)	**220**	-
Total equity excluding non-controlling interests	**-**	-
Non-controlling interests	**26**	31
Total equity	**2,367**	2,617
Total liabilities and equity	**22,075**	23,598

Financial results (continued)

Consolidated Balance Sheet (continued)

Key Balance Sheet figures and ratios	**2018**[1]	**2018**	2017
Gross loans and advances to customers (€ million)	**15,900**	**13,148**	18,755
Accumulated provisions (€ million)	**3,852**	**2,254**	4,204
Customer deposits (€ million)	**16,844**	**16,844**	17,850
Loans to deposits ratio (net)	**72%**	**65%**	82%
NPE ratio	**47%**	**36%**	47%
NPE provisioning coverage ratio	**52%**	**47%**	48%
Leverage ratio	**10.0%**	**10.0%**	10.4%
Capital ratios and risk weighted assets			
Common Equity Tier 1 capital ratio (CET 1) (transitional)	**15.4%**[2]	**12.1%**	12.7%
CET1 (allowing for IFRS 9 transitional arrangements)	**15.4%**[2]	**11.9%**	12.2%
Total capital ratio	**18.5%**[2]	**15.2%**	14.3%
Risk weighted assets (€ million)	**14,012**[2]	**15,369**	17,260

[1]Including the Helix and Velocity portfolios of €1,148 million (NBV) and €6 million (NBV) respectively which have been presented as non-current assets and disposal groups held for sale.

[2]Pro forma for DTC and Helix.

Financial results (continued)

Reconciliation of the Income Statement for the year ended 31 December 2018 between statutory and underlying basis

€ million	**Underlying Basis**	**Reclassification**	**Statutory Basis**
Net interest income	452	(33)	419
Net fee and commission income	166	-	166
Net foreign exchange gains and net gains on other financial instruments transactions and disposal/dissolution of subsidiaries and associates	67	17	84
Insurance income net of insurance claims and commissions	53	-	53
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	18	-	18
Other income	26	-	26
Total income	**782**	(16)	**766**
Staff costs	(217)	-	(217)
Other operating expenses	(158)	(90)	(248)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	(25)	-	(25)
Total expenses	**(400)**	(90)	**(490)**
Operating profit	**382**	(106)	**276**
Provision charge	(168)	(133)	(301)
Impairments of other financial and non-financial assets	(20)	-	(20)
Provisions for litigation, regulatory and other matters	(23)	23	-
Total provisions and impairments	**(211)**	(110)	**(321)**
Share of profit from associates	9	-	9
Profit/(loss) before tax and non-recurring items	**180**	(216)	**(36)**
Tax	3	(79)	(76)
(Profit)/loss attributable to non-controlling interests	(1)	-	(1)
Profit/(loss) after tax and before non-recurring items	**182**	(295)	**(113)**
Advisory and other restructuring costs excluding discontinued operations and NPE sale (Helix)	(44)	44	-
Profit/(loss) after tax - organic*	**138**	(251)	**(113)**
Profit from discontinued operations (UK)	3	4	7
Restructuring costs relating to NPE sale (Helix)	(18)	18	-
Loss relating to NPE Sale (Helix)	(150)	150	-
Impairment of deferred tax assets	(79)	79	-
Loss after tax	**(106)**	-	**(106)**

*This is the profit after tax, before discontinued operations, restructuring costs and loss relating to the Helix sale and the impairment of DTA.

Financial results (continued)

Reconciliation of the Income Statement for the year ended 31 December 2018 between statutory and underlying basis (continued)

The reclassification differences between the underlying basis and the consolidated income statement (statutory basis) for the year ended 31 December 2018 are set out below:

- Net interest income on underlying includes €32.5 million unrecognised interest on previously credit impaired loans which have cured during the year, which is presented within 'Credit losses to cover credit risk on loans and advances to customers' in the Consolidated Financial Statements in line with an IFRIC discussion which has taken place in November 2018 (Presentation of unrecognised interest following the curing of credit impaired financial asset (IFRS 9)).
- 'Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the Consolidated Financial Statements include an amount of €16.1 million relating to net gains on loans and advances to customers measured at fair value through profit or loss (FVPL) disclosed within 'Provisions charge' under the underlying basis. Additionally, it includes €3.8 million relating to the UK disclosed within discontinued operations in the underlying basis.
- 'Restructuring costs relating to NPE sale (Helix)' of €18.4 million, 'Provisions for litigation, regulatory and other matters' of €22.8 million and 'Advisory and other restructuring costs-excluding the NPE sale (Helix)' of €32.2 million disclosed as expenses in the Consolidated Financial Statements are shown separately under the underlying basis (from the total of €32.2 million around €1.3 million relates to restructuring costs on the disposal of the UK group therefore is classified as discontinued operations in the underlying basis).
- €3.6 million for UK regulatory matters included within expenses in the Consolidated Financial Statements, are disclosed within discontinued operations in the underlying basis.
- The loss of disposal of Helix of €149.8 million disclosed within 'Credit losses to cover credit risk on loans and advances to customers' in the Consolidated Financial Statements is separately disclosed under the underlying basis.
- Impairments of other financial instruments relating to UK of €2.7 million is classified as a cost on discontinued operations per the underlying basis.
- The impairment of deferred tax asset of €79 million included within 'Income tax' in the Consolidated Financial Statements is classified as a non-recurring item and disclosed within 'Impairment of DTA' under the underlying basis.

Balance Sheet Analysis

Capital Base

Shareholders' equity totalled €2,121 million at 31 December 2018, compared to €2,586 million at 31 December 2017, mainly as a result of the initial application of IFRS 9. The Common Equity Tier 1 capital (CET1) ratio (transitional basis) stood at 12.1% at 31 December 2018, compared to 12.7% at 31 December 2017. Adjusting for Deferred Tax Assets, the CET1 ratio on a fully-loaded basis (IFRS 9 transitional) totalled 11.9% at 31 December 2018, compared to 12.2% at 31 December 2017.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. For the year 2018 the impact on the capital ratios is 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019. The CET1 ratio on a fully-loaded basis (including the full impact of IFRS 9) amounts to 10.1% at 31 December 2018 (and 13.5% pro forma for Deferred Tax Credit (DTC) and Helix). On a transitional basis and on a fully phased-in basis after the five year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

As at 31 December 2018, the Total Capital ratio stood at 15.2%, compared to 14.3% at 31 December 2017.

Financial results (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

The Group's capital ratios are above the minimum CET1 regulatory capital ratio of 9.375%, comprising a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and a phased-in CCB of 1.875% and the overall Total Capital Ratio requirement of 12.875%, comprising a Pillar I requirement of 8.00% (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a Pillar II requirement of 3.00% (in the form of CET1), as well as a phased-in CCB of 1.875%.

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the O-SII buffer currently set by the CBC for the Group is 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022.

Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The Group's phased-in CET1 capital ratio will be 10.5%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The Group's Total Capital requirement will be 14.0%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The final 2018 SREP decision will apply from 1 April 2019. The Group CET1 ratio remains above these requirements.

The European Banking Authority (EBA) final guidelines on SREP and supervisory stress testing in July 2018 and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that CET1 held for the purposes of Pillar II add-ons cannot be used to meet any other capital requirements (Pillar 1, P2R or the combined buffer requirements), and therefore cannot be used twice. Such restrictions are, however, only expected to apply with effect from the 2019 SREP cycle. Pillar II add-ons derive from the Group's individual capital guidance, which is a point in time assessment made in the context of the SREP process and, accordingly, they may vary over time.

Sale of Bank of Cyprus UK Limited (BOC UK)

In November 2018, the Company completed the sale of its wholly owned subsidiary bank in the UK, Bank of Cyprus UK Limited ('BOC UK') and its subsidiary Bank of Cyprus Financial Services Limited ('BOC FS', and together the 'UK Group'), following receipt of the necessary regulatory approvals from the Prudential Regulation Authority and ECB. The transaction has had an overall positive impact on the Group capital ratios of c.70 bps.

Additional Tier 1

In December 2018, the Bank of Cyprus Holdings Public Limited Company proceeded with the issuance of €220 million of Additional Tier 1 Capital Securities (the Capital Securities).

The proceeds of the issue have been on-lent by Bank of Cyprus Holdings Public Limited Company to the Company. The on-loan constitutes Additional Tier 1 capital for the Company. The issuance has increased the Total Capital Ratio by c.140 bps to 15.2% as at 31 December 2018.

Financial results (continued)

Balance Sheet Analysis (continued)

Project Helix

In August 2018, the Company reached an agreement for the sale of a portfolio (the Portfolio) of loans with a gross book value of €2.8 billion as at 30 June 2018 (of which €2.7 billion related to NPEs) secured by real estate collateral (known as Project Helix, or the Transaction). The gross book value of €2.8 billion included properties of €39 million as at 30 June 2018 that will also be transferred to the buyer. The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by the Company. As at 31 December 2018, the Helix portfolio included loans with gross book value of €2.7 billion (of which €2.6 billion related to NPEs) secured by real estate collateral, and properties of €74 million (compared to properties of €60 million as at 30 September 2018).

At completion, the Company will receive gross cash consideration of c.€1.4 billion. The Company's participation in the senior debt in relation to such financing has been syndicated down to €50 million, from the initial level of €450 million, significantly de-risking the Company's residual exposure to the portfolio sold.

In March 2019, the Company received approval from the ECB for the Significant Risk Transfer (SRT) benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. Completion is currently expected to occur in early second quarter of 2019.

The impact from this Transaction on the CET1 ratio is a decrease of c.80 bps relating to the accounting loss (including transaction costs) of c.€150 million for 2018, declining to c.€105 million as the time value of money of c.€45 million unwinds to completion. On completion, the derecognition of the Helix portfolio is expected to have a positive impact on the CET1 ratio of 160 bps, resulting from the release of risk weighted assets.

All relevant figures and pro forma calculations are based on 31 December 2018 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the Transaction, currently expected to occur in the early second quarter of 2019.

Legislative amendments for the conversion of deferred tax asset (DTA) to deferred tax credit (DTC)

A conversion of DTA to DTC was adopted by Parliament on 1 March 2019. The law amendment covers the losses transferred from Laiki Bank to the Company in March 2013. The introduction of Capital Requirements Directive IV (CRD IV) in January 2014 and its subsequent phasing-in led to a more capital intensive treatment of this DTA for the Company.

The law amendment, when it enters into force, will result in improved regulatory capital treatment, under CRD IV, of the deferred tax asset amounting to €250 million or a CET1 uplift of 170 bps (transitional basis) as at 31 December 2018.

The CET1 ratio (transitional basis) of 12.1% as at 31 December 2018 improves to 15.4% pro forma for DTC and Helix. The Total Capital ratio of 15.2% as at 31 December 2018 improves to 18.5% pro forma for DTC and Helix.

Funding

Funding from Central Banks

At 31 December 2018, the Company funding from central banks amounted to €830 million, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO II), compared to €930 million at 31 December 2017.

Financial results (continued)

Balance Sheet Analysis (continued)

Deposits

Group customer deposits totalled €16,844 million at 31 December 2018, compared to €17,850 million at 31 December 2017. Group customer deposits decreased by 6% at 31 December 2018, reflecting the disposal of the UK subsidiary.

Customer deposits in Cyprus increased by 5% to €16,844 million at 31 December 2018 (compared to €15,983 million at 31 December 2017). Customer deposits accounted for 76% of total assets at 31 December 2018.

The Loan to Deposit ratio (L/D) stood at 72% at 31 December 2018 when ignoring the classification of the Helix portfolio as a disposal group held for sale and 82% at 31 December 2017, compared to a high of 151% at 31 March 2014.

Subordinated Loan Stock

At 31 December 2018 the Company's subordinated loan stock (including accrued interest) amounted to €271 million (compared to €302 million as at 31 December 2017) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 million, issued by the Company in January 2017.

Liquidity

At 31 December 2018 the Group Liquidity Coverage Ratio (LCR) stood at 231% compared to 190% at 31 December 2017 and was in compliance with the minimum regulatory requirement of 100%.

The Net Stable Funding Ratio (NSFR ratio) was not introduced on 1 January 2018, contrary to what was expected. It will become a regulatory indicator when CRR2 is enforced with the limit set at 100%. At 31 December 2018, the Group's NSFR, on the basis of Basel III standards, stood at 119% compared to 111% at 31 December 2017.

In accordance with the CRR, the local regulatory liquidity requirements set by the Central Bank of Cyprus (CBC) were abolished on 1 January 2018. The CBC introduced a macro-prudential measure in the form of a liquidity add-on imposed on top of the LCR requirement of the Company, which became effective on 1 January 2018 until 31 December 2018. The objective of the measure was to ensure that there was going to be a gradual release of the excess liquidity in the Cyprus market arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that are not subject to outflow rates under the LCR. The measure was implemented in two stages, the first stage was applicable from 1 January 2018 until 30 June 2018 and the second stage from 1 July 2018 until 31 December 2018, with a reduction of 50% of the add-on rates from 1 July 2018. The LCR add-on was fully abolished on 1 January 2019. As at 31 December 2018, the Company was in compliance with the LCR including the add-on, which stood at 171%.

Loans and loan portfolio quality

The Company is the single largest credit provider in Cyprus with a market share of 45.4% at 31 December 2018 (2017: 39.2%).

BOC PCL is the single largest credit provider in Cyprus with a market share of 45.4% at 31 December 2018.

Group gross loans totalled €15,900 million at 31 December 2018, compared to €18,755 million at 31 December 2017. Gross loans in Cyprus totalled €15,702 million at 31 December 2018 and accounted for 99% of Group gross loans.

Financial results (continued)

Balance Sheet Analysis (continued)

Loans and loan portfolio quality (continued)

The remaining UK operations as at 31 December 2018 included gross loans in the UK amounting to €11 million, compared to €1,621 million at 31 December 2017. The exposures remaining post the sale of BOC UK are expected to be run down over time and have been categorised as non-core overseas exposures.

New loan originations for the Group reached €2,231 million for 2018, at the same levels as new lending in 2017. New loans granted in Cyprus reached €1,870 million, exceeding new lending in Cyprus for 2017.

At 31 December 2018, the Group net loans and advances to customers totalled €10,922 million (compared to €14,602 million at 31 December 2017).

In addition, at 31 December 2018, net loans and advances to customers of €1,148 million were classified as a disposal group held for sale in line with IFRS 5 and relate to Helix (none at 31 December 2017). Moreover, at 31 December 2018, net loans and advances to customers of €6 million were classified as a disposal group held for sale in line with IFRS 5 and relate to Project Velocity.

Tackling the Group's loan portfolio quality remains the top priority for the Group. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio.

NPEs were reduced to €7,419 million at 31 December 2018, accounting for 47% of gross loans (ignoring the classification of the Helix and Velocity portfolios as a disposal group held for sale), compared to 47% at 31 December 2017, on the same basis with respect to Helix and Velocity, but before the disposal of the UK subsidiary. This included an amount of €99 million which relates to a reclassification between gross loans and advances to customers and accumulated provisions on loans and advances to customers classified as a disposal group held for sale.

The provisioning coverage ratio of NPEs stood at 52% at 31 December 2018 compared to 48% at 31 December 2017, on the same basis with respect to Helix and Velocity, but before the disposal of the UK subsidiary.

When taking into account tangible collateral at fair value, NPEs are fully covered.

	31 December 2018		31 December 2017	
	€ million	**% of gross loans**	€ million	% of gross loans
NPEs as per EBA definition	**7,419**	**46.7%**	8,804	46.9%
Of which: - NPEs with forbearance measures, no arrears	**1,211**	**7.6%**	1,619	8.6%

Project Helix

During 2018, the Group accelerated balance sheet de-risking through reaching an agreement in August 2018 for the sale of a portfolio of loans (the 'Portfolio') with a gross book value of €2.8 billion (of which €2.7 billion relate to non-performing loans as at 30 June 2018), secured by real estate collateral ('NPLs') (known as 'Project Helix', or the 'Transaction').

The Transaction is the first NPL disposal by the Company and represents a significant milestone in the delivery of the Company's strategy of improving asset quality through the reduction of NPEs.

Project Helix reduces the NPE ratio by c.11 p.p. to 36% as at 31 December 2018. Ignoring the classification of the Helix and Velocity portfolios as disposal groups held for sale, the NPE ratio is 47%, including the impact from the UK sale (+5 p.p.).

Financial results (continued)

Balance Sheet Analysis (continued)

Project Helix (continued)

In March 2019, the Company received approval from the ECB for the Significant Risk Transfer (SRT) benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. Completion is currently expected to occur in early in the second quarter 2019.

All relevant figures and pro forma calculations are based on 31 December 2018 financial results, unless otherwise stated.

ESTIA

In July 2018, the Government announced a scheme aimed at addressing NPEs backed by primary residence, known as ESTIA. This Scheme is expected to positively impact c.€0.9 billion of retail core NPEs, subject to eligibility criteria and participation rate. This Estia eligible portfolio refers to the potentially eligible portfolio based on the Company's available data. Eligibility criteria relate primarily to the Open Market Value (OMV) of the residence, total income and net wealth of the household. These will act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of contractual and OMV, and the Government to subsidise one third of the instalment. The terms of the Scheme are subject to finalisation and the Scheme is expected to be launched in the second quarter of 2019.

Project Velocity

In December 2018, the Company entered into an agreement with APS Delta s.r.o, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 million and a gross book value of €34 million as at 30 September 2018 (known as 'Project Velocity' or the 'Sale'). The gross book value of this portfolio as at 31 December 2018 was €33 million.

The Sale is expected to be neutral to both the profit and loss account and to capital. The Sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2019.

Real Estate Management Unit (REMU)

The Real Estate Management Unit (REMU) on-boarded €428 million of assets in 2018, via the execution of debt for asset swaps and repossessed properties. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed disposals of €196 million in 2018, resulting in a profit on disposal of €33 million for the year.

Following the incorporation of Cyreit Variable Capital Investment Company PLC, properties of carrying value €166 million were reclassified from the stock of properties to investment properties. In November 2018, the Company signed an agreement for the disposal of its entire holding in the investment shares of the Cyreit Fund, resulting in a valuation loss of €14 million recorded in 2018, relating to both properties and other receivables. The completion of the disposal is subject to regulatory approvals and expected in early second quarter of 2019.

As at 31 December 2018, assets held by REMU had a carrying value of €1.5 billion, in addition to assets reclassified to investment properties of €166 million, which were subsequently classified as a disposal group held for sale. As at 31 December 2018, properties with carrying value of €74 million were included in the portfolio for the NPE sale (Helix).

Overseas exposure

Further to the disposal of the UK subsidiary, residual exposures of €11 million remain in the UK at 31 December 2018. These exposures are expected to be run down over time and are now categorised as non-core overseas exposures.

Financial results (continued)

Balance Sheet Analysis (continued)

Real Estate Management Unit (REMU) (continued)

At 31 December 2018 there were overseas exposures of €144 million in Greece (compared to €168 million as at 31 December 2017), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated in January 2019, following the completion of deregistration formalities with respective authorities.

Income Statement Analysis

Net interest income (NII) and net interest margin (NIM) for 2018 amounted to €452 million and 2.48% respectively, when ignoring the classification of the Helix portfolio as a disposal group held for sale. NII was down by 17% compared to €544 million for 2017.

The NII presented under the Underlying Basis includes unrecognised interest on previously credit impaired loans which have cured during 2018, amounting to €33 million. For statutory reporting purposes, for the year ended 31 December 2018, this amount is presented within "Credit losses to cover credit risk on loans and advances to customers" in line with an IFRIC discussion, which has taken place in November 2018 (Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). Accordingly, the ratios calculated based on the Underlying Basis, are disclosed without taking into account this reclassification.

Average interest earning assets for 2018 amounted to €18,190 million, ignoring the classification of the Helix portfolio as a disposal group held for sale, up by 4% a year earlier.

Non-interest income for 2018 amounted to €330 million, up 4% compared to 2017, mainly comprising net fee and commission income of €166 million, net foreign exchange gains and net gains on financial instrument transactions and gains on disposal/dissolution of subsidiaries and associates of €67 million, net insurance income of €53 million, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €18 million and other income of €26 million.

Net fee and commission income for 2018 amounted to €166 million, compared to €174 million for 2017, on the same basis, down by 4% a year earlier, mainly due to the implementation of IFRS 9 under which certain commission income types are not recognised on Stage 3 loans.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €67 million for 2018, increased by 40% a year earlier, mainly due to the gains on disposal of bonds of €19 million.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 2018 amounted to €18 million, which included a net profit from the disposal of stock of properties of €33 million (REMU gains) and a valuation loss of the Cyreit assets of €14 million.

Total income for 2018 amounted to €782 million, compared to €861 million for 2017, down by 9% compared to 2017, with the reduction reflecting the year to year reduction in NII.

Total operating expenses for 2018 were €375 million compared to €359 million for 2017.

Staff costs of €217 million for 2018 increased by 6% (compared to €205 million in 2017), mainly due to the effect of the renewal of the 2017 annual collective agreement with the employees' union.

Other operating expenses for 2018 were €158 million.

Operating profit for 2018 was €382 million, compared to €479 million for 2017, down by 20% a year earlier, mainly due to the lower volume on loans and pressure on lending rates.

Financial results (continued)

Income Statement Analysis (continued)

The provision charge for 2018 totalled €168 million, compared to €780 million for 2017.

Expected credit losses (cost of risk) for 2018, other than the classification of the Helix portfolio as a disposal group held for sale, accounted for 1.0% of gross loans, compared to 4.3% for 2017.

Impairments of other financial and non-financial assets for 2018 totalled €20 million, compared to €65 million for 2017.

The tax credit for 2018 totalled €3 million, compared to a tax charge of €14 million for 2017.

Profit after tax and before non-recurring items for 2018 was €182 million, compared to a loss of €461 million for 2017.

Advisory and other restructuring costs - excluding discontinued operations and NPE sale (Helix) for 2018 amounted to €44 million compared to €29 million for 2017.

Profit after tax arising from the organic operations of the Group for 2018 amounted to €138 million, compared to a loss of €490 million in 2017.

Profit from discontinued operations for 2018 amounted to €3 million and relate to the sale of UK subsidiary during the year.

Restructuring costs relating to NPE sale (Helix) for 2018 amounted to €18 million.

Loss relating to NPE sale (Helix) including transactions costs for 2018 amounted to €150 million.

The impairment of DTA for 2018 was €79 million (compared to €62 million for 2017), resulting from the on-going review of the recoverability of the deferred tax asset.

Loss after tax attributable to the owners of the Company for 2018 was €106 million, compared to €552 million for 2017. This does not take into account the post balance sheet event allowing the conversion of DTA into DTC.

Business Overview

As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, after the disposal of the UK subsidiary, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery. Most recently, in March 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In January 2019, Moody's Investors Service upgraded the Company's long-term deposit rating to B3 from Caa1, with a positive outlook. The positive outlook reflects expectations of further improvements in the banks' financial fundamentals, mainly asset quality over the next 12-18 months, in the context of an improved operating environment in Cyprus. At the end of August 2018, Standard and Poor's upgraded their long-term issuer credit rating on the Company to 'B+' from 'B' and changed the outlook to stable from positive. The key drivers for the ratings were the improvement in the Company's financial fundamentals, mainly in asset quality, and its funding position.

Tackling the Company's loan portfolio quality is of utmost importance for the Group. The Group has been successful in Company engineering restructuring solutions across the spectrum of its loan portfolio, and expects the reduction of residual NPEs (post the NPE sale (Helix)) to continue at a revised pace of c.€200 million per quarter, as portfolio size and business line mix is expected to change radically post execution of Helix. In parallel, the Group continues to actively explore a number of alternatives to accelerate the de-risking of its balance sheet, including further disposals of NPEs and other non-core assets.

Business Overview (continued)

Project Helix

In August 2018, the Company reached an agreement for the sale of a Portfolio of loans (the Portfolio) with a gross book value of €2.8 billion as at 30 June 2018 (of which €2.7 bn relate to non-performing loans) secured by real estate collateral. The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by the Company. The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC (NYSE:APO) (together with its consolidated subsidiaries 'Apollo'), the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio. The purchaser was selected following a competitive sale process. Following a transitional period where servicing is retained by the Company, it is intended that the servicing of the Portfolio will be carried out by a long-term servicer. Arrangements in relation to the migration of servicing from the Company to the long-term servicer, including the timing of the migration, remain under discussion between the parties.

In March 2019, the Company received approval from the ECB for the Significant Risk Transfer (SRT) benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. Completion is currently expected to occur in early in the second quarter 2019.

Project Velocity

In December 2018, the Company entered into an agreement with APS Delta s.r.o, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 million and gross book value of €34 million as at 30 September 2018 (known as "Project Velocity" or the "Sale"). This portfolio comprises of 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at 31 December 2018 was €33 million.

APS Delta s.r.o is a wholly owned subsidiary of APS Capital Group s.r.o., a company registered in Czech Republic which specialises in the investment, management and recovery of loan portfolios across Central and South-Eastern Europe.

The Sale is part of the strategy of the Company to reduce its stock of non-performing loans and has been conducted at arm's length. Furthermore, the Sale is consistent with ECB guidelines regarding the management of non-performing loans.

The Sale is expected to be neutral to both the profit and loss account and to capital. The Sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2019.

ESTIA

In July 2018, the Government announced ESTIA, a scheme aimed at addressing NPEs backed by primary residence. This Scheme is expected to positively impact c.€0.9 billion of retail core NPEs, subject to eligibility criteria and participation rate. This Estia-eligible portfolio refers to the potentially eligible portfolio based on available data from the Company. Eligibility criteria relate primarily to the open market value (OMV) of the residence, total income and net wealth of the household. These will act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of contractual and open market value, and the Government to subsidise one third of the instalment. The terms of the Scheme are subject to finalisation and the Scheme is expected to be launched in the second quarter of 2019.

Sale of Bank of Cyprus UK Limited (BOC UK)

In November 2018, the Company completed the sale of its wholly owned subsidiary bank in the UK, Bank of Cyprus UK Limited ('BOC UK') and its subsidiary Bank of Cyprus Financial Services Ltd ('BOC FS', and together the 'UK Group'), to Cynergy Capital Limited ('Cynergy'), following receipt of the necessary regulatory approvals from the Prudential Regulation Authority (PRA) and the ECB.

Business Overview (continued)

The sale consideration amounted to £107 million (c.€120 million) comprising of £103 million base consideration plus a purchase price adjustment of £4 million. Half of the base consideration together with the purchase price adjustment was received upon completion and the remaining half is deferred over 24 months, without any performance conditions attached.

The Group lost control over the UK Group and as a result, it did not consolidate it on and as from 30 September 2018. The sale of the UK Group was completed on 23 November 2018. Comparatives have been represented for the results of the UK Group, from continuing operations to discontinued operations. The representation did not have an impact on the financial performance of the Group.

The sale has an overall positive impact on the Group capital ratios of c.70 bps and the transaction did not materially impact the profit and loss account, including the recycling to the Income Statement of a foreign currency gain of €18 million previously recorded in the foreign currency translation reserve.

The decision to sell the UK Group was in line with the Group’s strategy of delivering value for shareholders and focusing principally on supporting the growing Cypriot economy. In addition, the Group and BOC UK signed an agreement for cooperation in a number of key areas going forward, including continuity of servicing for existing customers. Following completion, BOC UK has been rebranded to ‘Cynergy Bank’, a name chosen to reflect the bank’s Cypriot heritage, combined with a modern and energetic focus.

Other

The strategic focus of the Group is to reshape its business model to grow in the core Cypriot market through prudent new lending. The Group expects to continue to be able to support the recovery of the Cyprus economy through the provision of new lending. Growth in new lending in Cyprus is focused on selected industries that are more in line with the Company's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects.

Aiming at supporting investments by SMEs and mid-caps to boost the Cypriot economy, and create new jobs for young people, the Company continues to provide joint financed schemes. To this end, the Company continues its partnership with the European Investment Bank (EIB), the European Investment Fund (EIF), the European Bank for Reconstruction and Development (EBRD) and the Cyprus Government.

Management is also placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group’s insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group’s income streams. The insurance income net of insurance claims for 2018 amounted to €53 million, compared to €50 million for 2017 contributing 16% of non-interest income.

In order to further optimise its funding structure, the Company continues to focus on the shape and cost of deposit franchise, taking advantage of the increased customer confidence towards the Company, as well as improving macroeconomic conditions.

Post further NPE reduction, the Group will focus on the need to manage costs.

Business Overview (continued)

Other (continued)

The Company continues its Digital Transformation Programme in collaboration with IBM. The Company's Strategic Digital Transformation Partner, which focuses on three strategic pillars: developing digital services and products that enhance customer experience, streamlining internal processes and introducing new ways of working to improve the workplace environment. The Company has spent the last year establishing the foundations to support the delivery of change. Various new products and features were introduced such as the launch of the new mobile app, the introduction of the 1Bank B2B (business to business) APIs (Application Programming Interface) which are interfaces that enable businesses to enjoy access to 1Bank functionality directly through their own systems without the need to access the 1Bank website. Moreover, the Company is leading the way in Cyprus in establishing an open banking ecosystem, by being the first bank in Cyprus to launch its PSD2 APIs (Payment Service Directive 2, Application Programming Interface) and also by integrating with eight UK banks allowing customers to view their account balances and transactions from the integrated banks together with their Bank of Cyprus accounts through 1Bank. Furthermore, several initiatives are in progress, including enhancing digital channels to improve customer experience, automating internal end to end processes using a BPM (Business Process Management) platform and introducing collaboration and knowledge sharing tools across the organisation.

Strategy and Outlook

The Group remains on track for implementing its strategic objectives aiming to become a stronger, safer and a more focused institution capable of supporting the recovery of the Cypriot economy and delivering appropriate shareholder returns in the medium term.

The key pillars of the Group's strategy are to:
- Materially reduce the level of delinquent loans
- Further improve the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

KEY PILLARS	PLAN OF ACTION
1. Materially reduce the level of delinquent loans	• Sustain momentum in restructuring and continue reduction of NPEs • Focus on terminated portfolios (in Recovery Unit) – accelerated consensual foreclosures • Real estate management via REMU • Continue to explore alternative accelerating NPE reduction measures such as NPE sales, securitisations etc.
2. Further improve the funding structure	• Focus on shape and cost of deposit franchise
3. Maintain an appropriate capital position	• Internally generate capital
4. Focus on core Cyprus markets	• Targeted lending in Cyprus into promising sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee income from international business, wealth, and insurance
5. Achieve a lean operating model	• Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time • Post further NPE reduction, the Company will focus on the need to manage costs
6. Deliver returns	• Deliver appropriate medium term risk-adjusted returns

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Directors believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

In making this assessment, the Directors considered the significant transactions during 2018 which have had a positive impact on the capital position of the Group, including the disposal of Bank of Cyprus UK Ltd, the agreement for the sale of non-performing loans and the issuance of €220 million Additional Tier 1 Capital Securities. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC), the Group's Financial and Capital Plan and the developments in the operating environment in Cyprus (Note 4 of the Consolidated Financial Statements).

The Group has developed a Financial and Capital Plan (the 'Plan'), which has been approved by the Board in February 2019. One of the most important objectives of the Plan was to ensure that the Group has sufficient resources and capital in order to continue the balance sheet de-risking and further deal with the residual NPEs. The IFRS 9 impact on a fully phased-in basis has been considered within the Group's Plan. Despite the implementation risk associated with the outcome of future events outlined in the Plan at the reporting date, the Directors believe that there is sufficient capital throughout the period of assessment to meet regulatory capital requirements. The Group will continue its de-risking strategy and remains focused to implement the actions contemplated in the Plan.

The Directors, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Non-Performing Exposures (NPEs)

- The continued organic reduction (now achieved for fifteen consecutive quarters) of the Group's NPEs which have decreased from €8,804 million in December 2017 to €7,518 million at 31 December 2018 and are further reduced to €4,768 million pro-forma for Project Helix (Note 4.2.2 of the Consolidated Financial Statements); and
- The reduction of NPE's has been a regulatory focus for a number of years and will continue to be so. The Group is currently preparing an updated NPE strategy plan for the years 2019-2021 which will be submitted to the ECB by end of June 2019. The Directors believe that the reduction of NPEs is a significant factor with regard to the future viability of the Group as a pillar bank in Cyprus.

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% and 15.2% respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).

Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased in CET1 ratio and Total Capital ratio remain unchanged, when ignoring the phasing in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

The projected capital ratios of the Group indicate that there will be sufficient capital throughout the period of assessment when considered in conjunction with the following items:

- The phase-in of IFRS 9. The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the total impact on adoption of IFRS 9 of €308,511 thousand, on 1 January 2018 and any subsequent increase allowed by the regulation for phasing in (i.e. increase in Stage 1 and Stage 2 allowance), will impact the capital ratios over a period of five years. The impact on the regulatory capital is being phased in based on a weighting factor until is fully absorbed at the end of the five years. The initial impact of IFRS 9 was phased in by 5% on 1 January 2018 regulatory capital and increases to 15% (cumulative) on 1 January 2019;

Going concern (continued)

- The enactment of the Income Tax Amendment Law 28 (1) of 2019 by the Cypriot parliament in March 2019, allowing for the conversion of the Group's deferred tax assets into deferred tax credits. This result in a more capital efficient tax asset. The law will result in improved regulatory capital treatment under CRR and will increase CET1 by c. 170 bps on a transitional basis as at 31 December 2018. This improvement includes the impact from a reversal of impairment of the related deferred tax asset of approximately €108 million recognised during 2017 and 2018, which will be reversed in 2019 Income Statement of the Group; and
- The regulatory capital position of the Group will strengthen further, upon completion of the sale of loans and advances to customers (the 'Helix Portfolio' or the 'Transaction'), largely NPEs, classified as held for sale (Note 30 of the Consolidated Financial Statements). A significant step towards completion of the Transaction was the ECB approval of the Significant Risk Transfer (the 'SRT') for regulatory capital purposes. The Company has received the SRT approval in March 2019. The completion of the Transaction remains subject to various other conditions precedent. On completion, the derecognition of the Helix portfolio will have a positive impact on the Group's CET1 ratio, of 160 basis points, resulting from the release of risk weighted assets. Completion is currently expected to occur in early second quarter of 2019.

Funding and liquidity

- The Group has made a significant improvement in its liquidity position and ratios; and
- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Notes 4.2.3 and 48 of the Consolidated Financial Statements).

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

Capital base

Equity totalled €2,121 million at 31 December 2018. The CET1 ratio (transitional) totalled 12.1% at 31 December 2018 (2017: 12.7%). Adjusting for DTA, the CET1 ratio on a fully-loaded basis (IFRS 9 transitional) totalled 11.9% at 31 December 2018 (2017: 12.2%). The Total Capital ratio (transitional) at 31 December 2018, stood at 15.2% (2017: 14.3%).

Additional information on regulatory capital is disclosed in the Additional Risk and Capital Management Disclosures which form part of this Annual Report and in the Pillar 3 Disclosures Report, which is available on the Group's website www.bankofcyprus.com (Investor Relations).

Share capital

As at 31 December 2018, there were 8,922,945 issued ordinary shares with a nominal value of €0.10 each.

Information about the changes in the authorised and issued share capital during 2018 and 2017 is disclosed in Note 36 of the Consolidated Financial Statements.

Share-based payments - share options

Following the incorporation of Bank of Cyprus Holdings Public Limited Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan (as approved on 24 November 2015 by the Annual General Meeting of the Company) was replaced by the Share Option Plan which operates at the level of Bank of Cyprus Holdings Public Limited Company.

Treasury shares of the Company

Up to the restructuring of the Group and the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group, shares of the Company held by entities controlled by the Group were deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss was recognised in the consolidated income statement of 2017.

Change of control

There are no significant agreements to which the Company is a party and which take effect following a change of control of the Company, but the Company is party to a number of agreements that may allow the counterparties to alter or terminate the agreements following a change of control. These agreements are not deemed to be significant in terms of their potential effect on the Group as a whole.

The Group also has agreements which provide for termination if, upon a change of control of the Company, the Company's creditworthiness is materially worsened.

Other information

During 2018 and 2017 there were no restrictions on the transfer of the Company's ordinary shares or securities and no restrictions on voting rights other than the provisions of the Banking Law of Cyprus which requires the CBC approval prior to acquiring shares of the Company in excess of certain thresholds and the requirements of the Market Abuse Regulation, which relates to transactions with related parties.

Shares of the Company held by the life insurance subsidiary of the Group as part of its financial assets which are invested for the benefit of insurance policyholders carry no voting rights, pursuant to the insurance law. The Company does not have any shares in issue which carry special control rights.

There are no agreements between shareholders, known to the Company, which may result in restrictions on the transfer of securities or voting rights.

Dividends

Based on the SREP decisions of prior years, the Company was under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2018 and 2017.

Following the 2018 SREP decision, the Company is still under equity dividend distribution prohibition. This does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company.

On 14 December 2018, the Board of Directors of the Company approved the declaration of a conditional interim dividend, amounting to €135,000 thousand, in the form of scrip, through the issue of 675,000 thousand of ordinary shares of a nominal value of €0.10 per share to be issued at a premium of €0.10 per share to BOCH Ltd, out of the Company's profits for the financial year of 2016. The declaration of such dividend was conditional and subject to lifting of regulatory restrictions. Specifically, the payment of the aforementioned interim dividend could be effected only if the 2018 SREP decision permitted the Company to make the distribution contemplated by such declaration. The final 2018 SREP decision, received on 27 March 2019, allowed the payment in the form of scrip dividend. The scrip dividend was paid on 27 March 2019 through the issue of 675,000 thousand of ordinary shares of a total issue price of €0.20 per share Bank of Cyprus Holdings Public Limited Company.

Events after the reporting date

Legislative amendments for conversion of deferred tax assets (DTA) to deferred tax credits (DTC)

On 1 March 2019 the Cyprus Parliament adopted legislative amendments on Income Tax Law ('the Law') published on the Official Gazette of the Republic on 15 March 2019 ('the amendments').

The amendments allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC). To the extent that the DTC are not utilised they are converted into a receivable amount by the credit institution that falls within the scope of these amendments. The law amendments cover the income tax losses transferred from Laiki Bank to the Company in March 2013 within the framework of 'The Resolution of Credit and Other Institutions Law' of 2013.

Events after the reporting date (continued)

Legislative amendments for the conversion of deferred tax asset (DTA) to deferred tax credit (DTC) (continued)

Under the Law the Company may, potentially and gradually, convert up to an amount of €3.3 billion tax losses to DTC (which led to the creation of DTA amounting to €417 million), with the conversion being based on the tax rate applicable at the time of conversion. The tax losses in excess of the €3.3 billion transferred from Laiki Bank to the Company in March 2013 cannot be utilised by the the Company except in cases where there are transfers arising due to reorganisations made prior to 1 October 2019 (subject to the prior approval of the Minister of Finance). the Company paid a consideration for the DTA as part of the consideration paid for the acquisition of certain assets and liabilities of Laiki Bank in 2013.

The law amendment will result in improved regulatory capital treatment of the DTA, under CRR and will increase CET1 by c. 170 bps on a transitional basis, as at 31 December 2018. This improvement includes the impact from the reversal of impairment of the related DTA of €108 million recognised in previous year, which will be reversed in 2019 Income statement.

Resignation of the Group's CEO

On 3 March 2019 the Group's CEO Mr John Patrick Hourican informed the Board of his decision to leave the Group in September 2019.

Principal risks and uncertainties - Risk management and mitigation

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and insurance risk. The Group monitors, manages and mitigates these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 46 to 49 of the Consolidated Financial Statements.

The Group is also exposed to litigation risk, arising from claims, investigations, regulatory and other matters. Further information is disclosed in Note 40 of the Consolidated Financial Statements.

Additionally, the Group is exposed to the risk on changes in the fair value of property which is held either for own use or as stock of property or as investment property. Stock of property is predominately acquired in exchange of debt and is intended to be disposed of in line with the Group's strategy. Further information is disclosed in Notes 23, 26 and 28 of the Consolidated Financial Statements.

In addition, details of the significant judgements, estimates and assumptions which may have a material impact on the Group's financial performance and position are set out in Note 5 of the Consolidated financial statements.

Details of the financial instruments and hedging activities of the Group are set out in Notes 22 and 46 to 48 of the Consolidated financial statements.

Research and development

The Group did not incur any expenditure in research and development for the year ended 31 December 2018.

Relevant audit information

In the case of persons who are Directors at the time this report is approved in accordance with section 330 of the Companies Act 2014:

- the Directors hereby individually and collectively acknowledge, that so far as each Director is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- that he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

Preparation of periodic reporting

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance of effective operations, internal financial controls and compliance with rules and regulations. It has the overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

The Group has appropriate internal control mechanisms, including sound administrative and accounting procedures, Information Technology (IT) systems and controls. The governance framework is subject to review at least once a year.

Policies and procedures have been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations.

The Board, through the Audit Committee, conducts reviews on a frequent basis, regarding the effectiveness of the Group's internal controls and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information provided to investors. The reviews cover all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. The role of the Audit Committee is inter alia to ensure the financial integrity and accuracy of the Company's financial reporting.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period. The submission of financial information from each reporting entity is subject to sign off by the responsible financial officer. Further analytical review procedures are performed at Group level. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and regulatory requirements and relevant standards, is adequate.

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

The Annual Report in advance of its submission to the Board is reviewed and approved by the Executive Committee. The Board, through the Audit Committee scrutinises and approves the financial statements, results announcements and the Annual Report and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the Group's financial statements and other significant disclosures before their publication.

Service termination agreements

The service contract of one of the executive directors in office as at 31 December 2018 includes a clause for termination, by service of six months' notice to that effect by either the executive director or the Company, without cause and the the Company also maintains the right to pay to the executive director six months' salary in lieu of notice for immediate termination. The terms of employment of the other executive director are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the the Company based on years of service and for a four month prior written notice by the executive director in the event of a voluntary resignation.

Board of Directors

The members of the Board of Directors of the Company as at the date of this Directors' Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Directors' Report except as disclosed below. On 23 January 2018, the Board of Directors decided to appoint Ms Maria Philippou and Ms Paula Hadjisotiriou as members of the Board of Directors. Their appointments were approved on 23 July and 13 August 2018 respectively. On 27 August 2018 the Chairman of the Board of Directors informed the Board about his intention to step down from his position at the Board at the next Annual General Meeting on 14 May 2019. Mr Michael Spanos who was a member of the Board throughout the year resigned on 21 January 2019. On 26 February 2019 the Board of Directors decided to appoint Mr Efstratios-Georgios (Takis) Arapoglou as member of the Board of Directors and his appointment is subject to approval by the ECB.

After the Annual General Meeting of Shareholders on 14 May 2019, the Board intends also to consider Mr Arapoglou as a candidate to succeed Dr Josef Ackermann as Chairman, once the relevant process commences, consistent with the provisions of the Bank's Corporate Governance Code. If selected, Mr Arapoglou would take up his duties after his board membership is approved by the ECB.

On 3 March 2019, Mr John Patrick Hourican informed the Board of his decision to leave the Group in September 2019.

In accordance with the Articles of Association at each annual general meeting of the Company every Director who has been in office at the completion of the most recent annual general meeting since they were last appointed or reappointed, shall retire from office and offer themselves for re-election if they wish.

The remuneration of the Board of Directors is disclosed in Note 51 of the Consolidated Financial Statements.

Non-financial information statement

Information on the Group's business model, the Group's policies on environmental matters, social and employee matters, bribery and corruption, the principal risks related to these matters and how the group manages these risks, and an analysis of the non-financial key performance indicators relevant to the group is available at www.bankofcyprus.com (Responsibility, CSR Reports).

The Group has an Anti-bribery and Corruption Policy in place and expects all employees to act with integrity and honesty. Employees are trained in order to be in a position to understand their obligations.

The Group has appropriate policies on anti-money laundering sanctions and countering the financing of terrorism, therefore is in a position to meet its regulatory requirements relating to these risks. The non-financial key performance indicators are included in the CSR report available on the Group's website.

Prof. Dr. Josef Ackermann
Chairman

John Patrick Hourican
Chief Executive Officer

28 March 2019

Consolidated Financial Statements

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Consolidated Income Statement
for the year ended 31 December 2018

	Notes	2018 €000	2017 (represented)* €000
Continuing operations			
Turnover	2.9	**978,991**	1,102,049
Interest income	8	**557,087**	723,268
Income similar to interest income	8	**52,054**	31,878
Interest expense	9	**(144,024)**	(167,199)
Expense similar to interest expense	9	**(46,042)**	(44,014)
Net interest income		**419,075**	543,933
Fee and commission income	10	**178,907**	183,752
Fee and commission expense	10	**(12,421)**	(10,211)
Net foreign exchange gains	11	**37,688**	45,062
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	**46,670**	3,008
Insurance income net of claims and commissions	13	**52,912**	50,401
Net losses from revaluation and disposal of investment properties		**(13,275)**	(4,061)
Net gains on disposal of stock of property	28	**31,867**	30,447
Other income	14	**25,604**	19,069
		767,027	861,400
Staff costs	15	**(216,740)**	(205,888)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	16	**(25,095)**	(22,846)
Other operating expenses	16	**(248,492)**	(275,376)
		276,700	357,290
Net gains on derecognition of financial assets measured at amortised cost		**27,825**	173,443
Credit losses to cover credit risk on loans and advances to customers	17	**(329,083)**	(953,498)
Credit losses of other financial instruments	17	**(1,610)**	(6,459)
Impairment of non-financial instruments	17	**(18,651)**	(58,972)
Loss before share of profit from associates		**(44,819)**	(488,196)
Share of profit from associates	54	**9,095**	8,957
Loss before tax from continuing operations		**(35,724)**	(479,239)
Income tax	18	**(75,916)**	(75,573)
Loss after tax from continuing operations		**(111,640)**	(554,812)
Discontinued operations			
Profit after tax from discontinued operations	7	**7,243**	480
Loss for the year		**(104,397)**	(554,332)
Attributable to:			
Owners of the Company-continuing operations (loss)		**(113,128)**	(552,339)
Owners of the Company-discontinued operations (profit)		**7,243**	480
Total loss attributable to the owners of the Company		**(105,885)**	(551,859)
Non-controlling interests-continuing operations		**1,488**	(2,473)
Total profit/(loss) attributable to non-controlling interests		**1,488**	(2,473)
Loss for the year		**(104,397)**	(554,332)
Basic and diluted losses per share attributable to the owners of the Company (€ cent)-continuing operations	19	**(1.3)**	(6.2)
Basic and diluted losses per share attributable to the owners of the Company (€ cent)	19	**(1.2)**	(6.2)

* For comparative represented information refer to Note 2.41.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018 €000	2017 €000
Loss for the year		**(104,397)**	(554,332)
Other comprehensive income (OCI)			
OCI that may be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)		**(9,968)**	-
Transfer to the consolidated income statement on disposal		**(19,484)**	-
		(29,452)	-
Foreign currency translation reserve			
Profit on translation of net investments in foreign branches and subsidiaries		**9,938**	742
Loss on hedging of net investments in foreign branches and subsidiaries	22	**(9,760)**	(1,166)
Transfer to the consolidated income statement on dissolution/disposal of foreign branches and subsidiaries		**(20,125)**	(104)
		(19,947)	(528)
Available-for-sale investments			
Net gains from fair value changes before tax		**-**	46,506
Share of net gains from fair value changes of associates		**-**	1,709
Transfer to the consolidated income statement on impairment		**-**	(37)
Transfer to the consolidated income statement on disposal		**-**	(606)
		-	47,572
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		**(49,399)**	47,044
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (equity instruments)			
Share of net losses from fair value changes of associates		**(3,835)**	-
Net gains on investments in equity instruments designated at FVOCI		**2,720**	-
		(1,115)	-
Property revaluation			
Fair value gain before tax	26	**-**	9,319
Share of net gain from fair value changes of associates		**70**	11
Tax	18	**579**	(522)
		649	8,808
Actuarial (losses)/gains on the defined benefit plans			
Remeasurement (losses)/gains on defined benefit plans	15	**(912)**	10,819
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**(1,378)**	19,627
Other comprehensive (loss)/income for the year net of taxation		**(50,777)**	66,671
Total comprehensive loss for the year		**(155,174)**	(487,661)
Attributable to:			
Owners of the Company		**(156,648)**	(485,602)
Non-controlling interests		**1,474**	(2,059)
Total comprehensive loss for the year		**(155,174)**	(487,661)

	Notes	2018 €000	2017 €000
Assets			
Cash and balances with central banks	20	**4,610,491**	3,393,934
Loans and advances to banks	20	**472,532**	1,192,633
Derivative financial assets	22	**24,754**	18,027
Investments	21	**777,104**	830,483
Investments pledged as collateral	21	**737,587**	290,129
Loans and advances to customers	24	**10,921,786**	14,602,454
Life insurance business assets attributable to policyholders	25	**402,565**	429,890
Prepayments, accrued income and other assets	29	**255,916**	225,919
Stock of property	28	**1,530,388**	1,641,422
Investment properties	23	**24,475**	19,646
Property and equipment	26	**260,723**	279,814
Intangible assets	27	**170,411**	165,952
Investments in associates and joint venture	54	**114,637**	118,113
Deferred tax assets	18	**301,778**	383,498
Non-current assets and disposal groups held for sale	30	**1,470,038**	6,500
Total assets		**22,075,185**	23,598,414
Liabilities			
Deposits by banks		**431,942**	495,308
Funding from central banks	31	**830,000**	930,000
Repurchase agreements		**248,945**	257,322
Derivative financial liabilities	22	**38,983**	50,892
Customer deposits	32	**16,843,558**	17,850,062
Insurance liabilities	33	**591,057**	605,448
Accruals, deferred income and other liabilities	35	**285,310**	305,905
Pending litigation, claims, regulatory and other matters	40	**116,951**	138,375
Subordinated loan stock	34	**270,930**	302,288
Deferred tax liabilities	18	**44,282**	46,113
Non-current liabilities and disposal group held for sale	30	**5,812**	-
Total liabilities		**19,707,770**	20,981,713
Equity			
Share capital	36	**892,294**	892,294
Share premium	36	**552,618**	552,618
Revaluation and other reserves		**211,874**	295,171
Retained earnings	38	**464,631**	845,468
Equity attributable to the owners of the Company		**2,121,417**	2,585,551
Other equity instruments	36	**220,000**	-
Total equity excluding non-controlling interests		**2,341,417**	2,585,551
Non-controlling interests		**25,998**	31,150
Total equity		**2,367,415**	2,616,701
Total liabilities and equity		**22,075,185**	23,598,414

Prof. Dr. J. Ackermann Chairman

Mr. J. P. Hourican Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Finance Director

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Attributable to shareholders of the Company											
	Share capital (Note 36)	Share premium (Note 36)	Retained earnings / (accumulated losses) (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2018	892,294	552,618	845,468	92,878	54,485	6,059	105,651	36,098	**2,585,551**	-	31,150	**2,616,701**
Impact of adopting IFRS 9 at 1 January 2018 (Note 6)	-	-	(299,150)	-	(8,470)	-	-	-	**(307,620)**	-	-	**(307,620)**
Restated balance at 1 January 2018	**892,294**	**552,618**	**546,318**	**92,878**	**46,015**	**6,059**	**105,651**	**36,098**	**2,277,931**	**-**	**31,150**	**2,309,081**
(Loss)/profit for the year	-	-	(105,885)	-	-	-	-	-	**(105,885)**	-	1,488	**(104,397)**
Other comprehensive (loss)/income after tax for the year	-	-	(912)	649	(30,553)	-	-	(19,947)	**(50,763)**	-	(14)	**(50,777)**
Total comprehensive (loss)/income after tax for the year	-	-	(106,797)	649	(30,553)	-	-	(19,947)	**(156,648)**	-	1,474	**(155,174)**
Decrease in value of in-force life insurance business	-	-	5,314	-	-	-	(5,314)	-	**-**	-	-	**-**
Tax on decrease in value of in-force life insurance business	-	-	(664)	-	-	-	664	-	**-**	-	-	**-**
Transfer of realised profits on disposal of properties	-	-	4,143	(4,143)	-	-	-	-	**-**	-	-	**-**
Transfer of property revaluation reserve and other reserve of subsidiary to retained earnings (Note 52)	-	-	14,014	(7,955)	-	(6,059)	-	-	**-**	-	-	**-**
Disposal of subsidiary (Note 53.2.1)	-	-	1,996	(1,996)	-	-	-	-	**-**	-	-	**-**
Change of legal status of subsidiary to Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	298	-	-	-	-	-	**298**	-	(5,540)	**(5,242)**
Decrease in non-controlling interests due to change in the shareholding of subsidiary	-	-	(164)	-	-	-	-	-	**(164)**	-	164	**-**
Issue of other equity instruments (Note 36)	-	-	-	-	-	-	-	-	**-**	220,000	-	**220,000**
Elimination of share premium (Note 36)	-	-	-	-	-	-	-	-	**-**	-	-	**-**
Transfer of gain on disposal of FVOCI equity investments to retained earnings	-	-	173	-	(173)	-	-	-	**-**	-	-	**-**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	**-**	-	(1,250)	**(1,250)**
31 December 2018	**892,294**	**552,618**	**464,631**	**79,433**	**15,289**	**-**	**101,001**	**16,151**	**2,121,417**	**220,000**	**25,998**	**2,367,415**

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Attributable to shareholders of the Company												
	Share capital (Note 36)	Share premium (Note 36)	Capital reduction reserve (Note 36)	Treasury shares (Note 36)	Accumulated losses (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2017	**892,294**	**552,618**	**1,952,486**	**(25,333)**	**(544,930)**	**90,936**	**7,139**	**6,059**	**103,251**	**36,626**	**3,071,146**	**34,959**	**3,106,105**
Loss for the year	-	-	-	-	(551,859)	-	-	-	-	-	(551,859)	(2,473)	**(554,332)**
Other comprehensive income/(loss) after tax for the year	-	-	-	-	10,819	8,620	47,346	-	-	(528)	66,257	414	**66,671**
Total comprehensive (loss)/income for the year	-	-	-	-	(541,040)	8,620	47,346	-	-	(528)	(485,602)	(2,059)	**(487,661)**
Increase in value of in-force life insurance business	-	-	-	-	(2,743)	-	-	-	2,743	-	-	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	-	343	-	-	-	(343)	-	-	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	-	6,678	(6,678)	-	-	-	-	-	-	**-**
Cancellation of shares due to reorganisation	(892,294)	-	-	21,463	(21,463)	-	-	-	-	-	(892,294)	-	**(892,294)**
Issue of shares	892,294	-	-	-	-	-	-	-	-	-	892,294	-	**892,294**
Elimination of capital reduction reserve	-	-	(1,952,486)	-	1,952,486	-	-	-	-	-	**-**	-	**-**
Disposals of treasury shares	-	-	-	3,870	(3,863)	-	-	-	-	-	7	-	**7**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,750)	**(1,750)**
31 December 2017	**892,294**	**552,618**	**-**	**-**	**845,468**	**92,878**	**54,485**	**6,059**	**105,651**	**36,098**	**2,585,551**	**31,150**	**2,616,701**

	Notes	**2018** **€000**	2017 €000
Net cash flow from operating activities	*42*	**787,745**	1,993,266
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(709,101)**	(402,977)
Proceeds on disposal/redemption of investments:			
- debt securities		**294,494**	91,738
- equity securities		**5,458**	1,549
Interest received from debt securities		**27,279**	19,546
Dividend income from equity securities		**547**	683
Dividend income from associates		**774**	6,621
Proceeds on disposal of subsidiaries and associates		**64,606**	1,580
Net proceeds from disposal of UCITS Fund and investment fund units		**16,359**	-
Purchases of property and equipment	*26*	**(13,592)**	(10,299)
Purchases of intangible assets	*27*	**(27,006)**	(25,723)
Proceeds on disposals of property and equipment and intangible assets		**1,922**	91
Proceeds on disposals of investment properties and investment properties held for sale		**6,500**	14,568
Net cash used in investing activities		**(331,760)**	(302,623)
Cash flow from financing activities			
Net (repayment)/proceeds of funding from central banks		**(100,000)**	79,986
Net proceeds from the issue of other equity instruments		**220,000**	-
Net proceeds from the issue of subordinated loan stock		**-**	280,983
Interest on subordinated loan stock		**(24,476)**	-
Interest on funding from central banks		**(3)**	(28)
Proceeds from disposal of treasury shares		**-**	7
Dividend paid by subsidiaries to non-controlling interests		**(1,250)**	(1,750)
Net cash from financing activities		**94,271**	359,198
Net increase in cash and cash equivalents		**550,256**	2,049,841
Cash and cash equivalents			
1 January		**4,280,231**	2,231,028
Foreign exchange adjustments		**(25,643)**	(638)
Net increase in cash and cash equivalents		**550,256**	2,049,841
31 December	*43*	**4,804,844**	4,280,231

Details on the non-cash transactions are presented in Note 42.

1. Corporate information

Bank of Cyprus Public Company Ltd (the Company) is the holding company of the Bank of Cyprus Group (the Group). The principal activities of the Company and its subsidiary companies involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law.

The shares of the parent company Bank of Cyprus Holdings Public Limited Company (BOCH), a company incorporated in Ireland, are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The financial statements are available at the Bank of Cyprus Public Company Ltd registered office (51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the website www.bankofcyprus.com (Investor Relations).

The Annual Report of Bank of Cyprus Holdings Public Limited Company Group is available on the website www.bankofcyprus.com (Investor Relations).

The Consolidated Financial Statements of the Group are available at the registered office of Bank of Cyprus Public Company Ltd and on the Group's website www.bankofcyprus.com (Investor Relations).

Consolidated Financial Statements
The Consolidated Financial Statements of the Company for the year ended 31 December 2018 (the Consolidated Financial Statements) were authorised for issue by a resolution of the Board of Directors on 28 March 2019.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income, financial assets (including loans and advances to customers and investments) at fair value through profit or loss and derivative financial assets that have been measured at fair value, non-current assets held for sale measured at fair value less costs to sell and stock of property measured at net realisable value where this is lower than cost. 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.

The Group elected as a policy choice permitted under IFRS 9 to continue to apply hedge accounting in accordance with IAS 39.

Presentation of Consolidated Financial Statements
The Consolidated Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated. A comma is used to separate thousands and a dot is used to separate decimals.

The Group presents its balance sheet broadly in order of 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 45.

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

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures

The Consolidated Financial Statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements in Notes 2.4 to 2.41. As described in Note 2.2, the accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 below.

2.2.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments
The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The impact on adoption on the Consolidated Financial Statements is disclosed in Note 6. The new accounting policies are disclosed in Notes 2.14 to 2.19.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a five-step model that applies to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements applies to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Group's ordinary activities (e.g., sales of property, plant and equipment or intangibles). The new standard did not have a material impact on the Consolidated Financial Statements. The relevant accounting policy is disclosed in Note 2.10.

IFRS 15 Revenue from Contracts with Customers (clarifications)
The objective of the clarifications is to clarify the International Accounting Standards Board's (IASB) intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the 'separately identifiable' principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These clarifications did not have a material impact on the Consolidated Financial Statements.

IFRS 2 Classification and Measurement of Share based Payment Transactions (amendments)
These amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments did not have a material impact on the Consolidated Financial Statements.

IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)
These amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Since the insurance subsidiaries of the Group have adopted IFRS 9 on 1 January 2018, these amendments do not have any impact on the results and financial position of the Group.

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures (continued)

2.2.1 New and amended standards and interpretations (continued)

IAS 40 Transfers to Investment Property (amendments)
These amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. They state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments did not have a material impact on the Consolidated Financial Statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. This interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation did not have a material impact on the Consolidated Financial Statements.

Annual Improvements to IFRSs 2014–2016 Cycle
The IASB has issued the Annual Improvement to IFRSs 2014-2016 Cycle which is a collection of amendments to IFRSs. They did not have a material impact on the Group's results and financial position.

- IFRS 1 First-time Adoption of International Financial Reporting Standards: this improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- IAS 28 Investments in Associates and Joint Ventures: the amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2.3 Standards and Interpretations that are issued but not yet effective

2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU

IFRS 16: Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Agreement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal From of a Lease.

The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. IFRS 16 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The standard will affect primarily the accounting for the Group's operating leases.

2. Summary of significant accounting policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective (continued)

2.3.1 Standards and Interpretations issued by the IASB and adopted by the EU (continued)

As permitted by the standard, the Group intends to apply IFRS 16 on a retrospective basis but to take advantage of the option not to restate comparative periods by applying the modified retrospective approach. The Group intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments.
- Apply the recognition exception for leases with a term not exceeding 12 months and lease contracts for which the underlying asset is of low value.
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.
- Exclude initial direct costs from the measurement of the right of use asset.

Finally the Group decided to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with similar remaining lease term for similar class of underlying assets in a similar economic environment).

The Group will recognise new assets and liabilities for its operating leases of commercial properties such office buildings and branches. Subsequent to initial recognition, the Group will a) measure the right-of-use asset by applying the cost model and depreciate it on a straight line basis up to the end of the lease term and b) measure the lease liability by increasing and reducing the carrying amount to reflect interest on the lease liability and lease payments made, respectively.

The Group is in the process of finalising the assessment of the impact that the application of IFRS 16 will have on its financial statements in the period of initial application. The implementation is expected to increase the assets and financial liabilities by the same amount with no effect on equity or retained earnings of the Group.

IFRS 9: Prepayment features with negative compensation (amendment)
The amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The Group does not expect this amendment to have a material impact on its results and financial position.

IAS 28: Long-term Interests in Associates and Joint Ventures (amendments)
These amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. They relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The Group is in the process of assessing the impact of these amendments on its results and financial position.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments
This interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group is in the process of assessing the impact of this interpretation on its results and financial position.

2. Summary of significant accounting policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective (continued)

2.3.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The Group is in the process of assessing the impact of the standard on its results and financial position.

IFRS 3: Business Combinations (amendments)
The IASB issued amendments in Definition of a Business (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. These amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely, pending the outcome of its research project on the equity method of accounting. The Group does not expect this amendment to have a material impact on its results and financial position.

IAS 19: Plan Amendment, Curtailment or Settlement (amendments)
The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. They require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Group does not expect these amendments to have a material impact on its results and financial position.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. They clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group does not expect these amendments to have a material impact on its results and financial position.

2. Summary of significant accounting policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective (continued)

2.3.2 Standards and Interpretations issued by the IASB but not yet adopted by the EU (continued)

Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group does not expect this framework to have a material impact on its results and financial position.

Annual Improvements to IFRSs 2015-2017 Cycle
The IASB has issued the Annual Improvements to IFRSs 2015-2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Group does not expect these to have a material impact on its results and financial position.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: the amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.
- IAS 23 Borrowing Costs: the amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2.4 Basis of consolidation

The Consolidated Financial Statements comprise the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2018. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:
- power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including the contractual arrangement with the other vote holders, rights arising from other contractual arrangements, and the Group's voting and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts indicate that there are changes to any of the three elements of control.

Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the Consolidated Financial Statements from the date of acquisition or up to the date of disposal, respectively. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

All intra-group balances and transactions are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises nor any gain/loss is recognised in the consolidated income statement from such transactions. The foreign exchange differences which relate to the share of non-controlling interests being sold/acquired are reclassified between the foreign currency reserve and non-controlling interests.

2.5 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. Acquisition related costs are expensed as incurred and included in other operating expenses.

If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

2.6 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

2. Summary of significant accounting policies (continued)

2.6 Investments in associates and joint ventures (continued)

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

In the Consolidated Financial Statements, the Group's investments in associates and joint ventures are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate or joint venture. The Group's share of the results of the associate or joint venture is included in the consolidated income statement. Losses of the associate or joint venture in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate or joint venture. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortised.

Any excess of the Group's share of the net fair value of the associate's or joint venture's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate or a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss before tax. The associated tax charge is disclosed in income tax.

The Group recognises its share of any changes in the equity of the associate or the joint venture through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate or the joint venture are eliminated to the extent of the Group's interest in the associate or the joint venture.

The financial statements of the associates or joint ventures are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in associates or joint ventures.

2.7 Foreign currency translation

The Consolidated Financial Statements are presented in Euro (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

2.7.1 Transactions and balances

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 retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 'Net foreign exchange gains' in the consolidated income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investments in subsidiaries and overseas branches. These differences are recognised in other comprehensive income in the 'Foreign currency translation reserve' until the disposal or liquidation of the net investment, at which time the cumulative amount is reclassified to the consolidated income statement.

2. Summary of significant accounting policies (continued)

2.7 Foreign currency translation (continued)

2.7.1 Transactions and balances (continued)

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 is determined.

2.7.2 Subsidiary companies and branches

At the reporting date, the assets and liabilities of subsidiaries (including special purpose entities that the Group consolidates) and branches whose functional currency is other than the Group's presentation currency are translated into the Group's presentation currency at the rate of exchange ruling at the reporting date, and their income statements are translated using the average exchange rates for the year.

Foreign exchange differences arising on translation are recognised in other comprehensive income in the 'Foreign currency translation reserve'. On disposal or liquidation of a subsidiary or branch, the cumulative amount of the foreign exchange differences relating to that particular overseas operation, is reclassified to the consolidated income statement as part of the profit/loss on disposal/dissolution of subsidiaries.

2.8 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group of persons that allocate resources to and assess the performance of the operating segments.

The chief operating decision-maker is the Group Executive Committee.

2.9 Turnover

Group turnover comprises interest income, fee and commission income, foreign exchange gains, gross insurance premiums, gains/losses of investment properties and stock of properties, turnover of property and hotel and golf business and other income.

2.10 Revenue from contracts with customers

The Group recognises revenue when control of the promised goods or services are transferred to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The new revenue recognition model introduced, applies the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The performance obligation notion is new and in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Contract balances
A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

2. Summary of significant accounting policies (continued)

2.10 Revenue from contracts with customers (continued)

Receivables are recorded where the Group provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a prespecified period for an over time service. It is the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). The initial recognition and subsequent measurement of such receivables is disclosed in Notes 2.14 to 2.19.

Contract liabilities relate to payments received from customers where the Group is yet to satisfy its performance obligation. Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract assets and receivables are recorded within 'Prepayments, accrued income and other assets' and contract liabilities within 'Accruals, deferred income and other liabilities' in the consolidated balance sheet.

2.10.1 Fee and commission income

The Group earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories:

- fees earned from services that are provided over a certain period of time, such as asset or portfolio management, custody services and certain advisory services and
- fees earned from point in time services such as executing transactions and brokerage fees (e.g., securities and derivative execution and clearing).

Over time services
Fees earned from services that are provided over a certain period of time are recognised pro-rata over the service period provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of the Group. Costs to fulfill over time services are recorded in the income statement immediately because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

Point in time services
Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not subject to refund or another contingency beyond the control of the Group. Incremental costs to fulfill services provided at a point in time are typically incurred and recorded at the same time as the performance obligation is satisfied and revenue is earned, and are therefore not recognised as an asset, e.g., brokerage commissions.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

2.10.2 Rental income

Rental income from investment properties and stock of property is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

2.10.3 Gains from the disposal of investment property

Gains on disposal of investment property are recognised in the consolidated income statement in 'Net (losses)/gains from revaluation and disposal of investment properties' when the buyer accepts delivery and the control of the property is transferred to the buyer.

2. Summary of significant accounting policies (continued)

2.10 Revenue from contracts with customers (continued)

2.10.4 Gains on the disposal of stock of property

Net gains on disposal of stock of property are recognised in the consolidated income statement when the buyer accepts delivery and the control of the property is transferred to the buyer.

2.11 Recognition of interest income/expense and income/expense similar to interest

The Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired.

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group reverses the unwinding of the discount on the expected credit losses (ECL) through the 'Credit losses to cover credit risk on loans and advances to customers' line in the Consolidated Income Statement.

Interest income on purchased or originated credit-impaired (POCI) financial assets is recognised using the Credit Adjusted Effective Interest Rate (CAEIR) calculated at initial recognition. The CAEIR is applied on the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance.

Interest income from financial assets at amortised cost and financial assets at fair value through other comprehensive income (FVOCI) are presented within the caption 'Interest income', with interest income on financial instruments at FVPL presented within the caption 'Income similar to interest income' in the consolidated income statement. Interest expense on financial liabilities at amortised cost is presented within the caption 'Interest expense', with interest expense on financial instruments at FVPL presented within the caption 'Expense similar to interest expense' in the consolidated income statement. All form part of the 'Net Interest Income'.

The Group holds loans and advances to banks and central banks with negative interest rates. The Group classifies the interest on these assets within interest expense. Negative interest is disclosed in Note 9.

The effective interest rate method

Interest income and expense are recognised in the consolidated income statement by applying the effective interest rate (EIR) for all financial instruments measured at amortised cost and debt instruments at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

The EIR, and therefore the amortised cost of the asset, is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. Fees and incremental costs that are directly attributable to loans and advances to customers are also deferred and amortised as part of interest income using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the EIR, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

2. Summary of significant accounting policies (continued)

2.12 Retirement benefits

The Group operates both defined contribution and defined benefit retirement plans.

Defined contribution plans
The Group recognises obligations, in respect of the accounting period in the consolidated income statement. Any unpaid contributions at the reporting date are included as a liability.

Defined benefit plans
The cost of providing benefits for defined benefit plans is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

The defined benefit asset or liability comprises the present value of the defined benefit obligations (using a discount rate based on high quality corporate bonds), reduced by the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a funded plan or qualifying insurance policies. Any net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

The net charge to the consolidated income statement mainly comprises the service costs and the net interest on the net defined benefit asset or liability, and is presented in staff costs. Service costs comprise current service costs, past-service costs, gains and losses or curtailments and non-routine settlements. Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest), and the return on plan assets (excluding net interest), are recognised immediately on the consolidated balance sheet with a corresponding debit or credit in other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

2.13 Tax

Current income tax and deferred tax
Tax on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. Current income tax and deferred tax relating to items recognised directly in equity is recognised directly in equity.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the reporting date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 reporting 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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Summary of significant accounting policies (continued)

2.13 Tax (continued)

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the reporting date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

Indirect Tax Value Added Tax (VAT)
Expenses and assets are recognised net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case, the VAT suffered is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- when receivables and payables are stated with the amount of VAT charged. The amount of VAT recoverable from, or payable to the tax authorities, is included as part of receivables or payables in the consolidated balance sheet.

2.14 Financial instruments - initial recognition

2.14.1 Date of recognition

'Balances with central banks', 'Funding from central banks', 'Deposits by banks', 'Customer deposits', 'Loans and advances to banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers. All other financial assets and liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis.

2.14.2 Initial recognition and measurement of financial instruments

The classification of financial assets on initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.15.

All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described in Note 2.14.3 below.

2.14.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' caption. In the cases, where the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2.14.4 Measurement categories of financial assets and liabilities

Financial assets are measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

2. Summary of significant accounting policies (continued)

2.14 Financial instruments - initial recognition (continued)

2.14.4 Measurement categories of financial assets and liabilities (continued)

The Group classifies and measures its derivatives and trading portfolios at FVPL. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost or at FVPL when they are held for trading or relate to derivative instruments.

2.15 Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets depends on how these are managed as part of the Business Models the Group operates under and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)).

Business model assessment
The Group assesses the business model at a portfolio level. The portfolio level is determined at the aggregation level that reflects how the Group manages its financial assets and the business model is based on observable factors which include:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

On transition to IFRS 9, business models were determined on the date of initial application based on facts and circumstances that existed on 1 January 2018 and are re-assessed at each reporting date.

Contractual cash flows characteristics test (SPPI assessment)
The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding at origination (SPPI test).

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether contractual cash flows are SPPI, the Group applies judgment and considers the terms that could change the contractual cash flows so that they would not meet the condition for SPPI, and be inconsistent to a basic lending arrangement, including: (i) contingent and leverage features, (ii) interest rates which are beyond the control of the Group or variable interest rate consideration, (iii) features that could modify the time value of money, (iv) prepayment and extension options, (v) non-recourse arrangements and (vi) convertible features.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

Where the contractual terms of a financial asset introduce a more than de minimis exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

2.15.1 Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Net foreign exchange gains' in the case of currency derivatives and in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the case of all other derivatives. Interest income and expense are included in the 'Income similar to interest income' and 'Expense similar to interest expense' captions respectively in the consolidated income statement.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

For hybrid contracts where the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are based on the business model and SPPI assessment as described in the Classification of financial assets section of Note 2.15 and applied to the entire hybrid instrument.

Derivatives embedded in financial liabilities and non-financial host contracts, 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 measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the consolidated income statement. The host contract is accounted for in accordance with the relevant standards.

2.15.2 Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they meet both of the following conditions:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to cash and balances with central banks, loans and advances to banks, loans and advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets. These financial assets are measured at amortised cost using the EIR less allowances for expected credit losses (ECL).

After their initial recognition, financial instruments measured at amortised cost are measured at amortised cost using the effective interest method, less any provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers' in the case of loans and advances to customers and in 'Credit losses of other financial instruments' for all other financial instruments.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

2.15.3 Debt instruments measured at FVOCI

Financial assets are measured at FVOCI if they meet both of the following conditions:

- The financial asset is held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to debt securities held under the 'Hold to collect and sell' business model that pass the SPPI test.

FVOCI instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognised directly in other comprehensive income in the 'Net gains/(losses) on investments in debt instruments measured at FVOCI' caption. Upon derecognition of debt instruments, any accumulated balances in other comprehensive income are reclassified to the consolidated income statement and reported within 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' caption. The interest income, foreign exchange differences and ECL are recognised in the consolidated income statement in the respective lines.

2.15.4 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains on financial instrument transactions and loss on disposal/dissolution of subsidiaries and associates' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

This classification relates to debt and equity instruments that have been acquired principally for the purposes of selling or repurchase in the near term.

2.15.5 Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities, other than those held for trading, classified in this category are those that are designated by management on initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Management only designates an instrument at FVPL at initial recognition when one 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 liabilities are part of a group of financial liabilities or financial assets and financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or

(c) the liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

Such designation is determined on an instrument-by-instrument basis.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

2.15.5 Financial assets or financial liabilities at fair value through profit or loss (continued)

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains on financial instrument transactions and loss on disposal/dissolution of subsidiaries and associates' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively in the consolidated income statement according to the terms of the relevant contract. Dividend income is recognised in 'Other income' in the consolidated income statement when the right to receive payment has been established.

The main instruments designated at FVPL relate to debt that do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting.

In addition assets held under unit-linked insurance contracts and certain non-linked insurance contracts issued by insurance subsidiaries are designated at fair value through profit or loss.

Financial assets mandatorily classified at FVPL include certain loans and advances to customers, certain investment fund holdings and other securities for which the contractual cash flows do not meet the SPPI test, or the financial assets are part of a portfolio under a business model that is to manage and whose performance is evaluated on a fair value basis.

2.15.6 Equity instruments measured at FVOCI

At initial recognition, the Group can make an irrevocable election to classify an investment in equity instrument at FVOCI, when that meets the definition of Equity under IAS 32 Financial Instruments: Presentation, and is not held for trading. Such classification is determined on an instrument-by-instrument basis.

Fair value gains and losses on these equity instruments are recognised in OCI and are not recycled to profit or loss upon derecognition, but are transferred directly to retained earnings. Dividends on equity investments are recognised in the consolidated income statement and reported within 'Other Income' when the right to receive payment has been established. Equity instruments measured at FVOCI are not subject to an impairment assessment.

2.15.7 Subordinated loan stock

Subordinated loan stock 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 method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the subordinated loan stock.

Interest on subordinated loan stock is included in 'Interest expense' in the consolidated income statement.

2.15.8 Other financial liabilities

Other financial liabilities include 'Customer deposits', 'Deposits by banks', 'Funding from central banks' and other financial liabilities.

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers, funding from central banks and deposits by banks is at amortised cost, using the effective interest method.

2. Summary of significant accounting policies (continued)

2.16 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group changes its business model for managing financial assets and acquires, disposes of, or terminates a business line. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

Financial liabilities are never reclassified.

2.17 Derecognition of financial assets and financial liabilities

2.17.1 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 the contractual rights to the cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group transfers a financial asset if, and only if, either:

- The Group transfers its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but assumes an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A transfer only qualifies for derecognition if either:

- The Group transfers substantially all the risks and rewards of the asset; or
- The Group neither transfers nor retains substantially all the risks and rewards of the asset, but it transfers control of the asset.

2.17.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

2.18 Forborne and modified loans

The contractual terms of a financial asset may be modified due to various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. A derecognition of a financial asset (or part of a financial asset) and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows, including change in the currency, change in counterparty, introduction of substantial terms such as addition of equity conversion features, changes in the legal framework and other.

2. Summary of significant accounting policies (continued)

2.18 Forborne and modified loans (continued)

Where the modification does not result in derecognition, the Group recognises a modification gain or loss, based on the modified cash flows discounted at the original EIR and the existing gross carrying value of the financial asset. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired as defined in Note 2.19.2, are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer satisfies relative thresholds set to identify significant increases in credit risk, which are based on changes in its lifetime PD, days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

In the case of a new financial asset classified at amortised cost or FVOCI, an assessment is performed on whether it should be classified as Stage 1 or POCI for ECL measurement. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

2.19 Impairment of financial assets

2.19.1 Overview of ECL principle

The Group uses a forward looking ECL model, requiring judgement, estimates and assumptions in determining the level of ECLs. ECLs are recorded for all financial assets measured at amortised cost and FVOCI, lease receivables, loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), unless assets are deemed as POCI. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 2.19.3.

The Group groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Group defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. Changes in lifetime ECLs since initial recognition are recognised.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.1 Overview of ECL principle (continued)

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at FVOCI the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in 'Accruals, deferred income and other liabilities', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the period is recognised within the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers' for loans and advances to customers and loan commitments and financial guarantees and in 'Credit losses of other financial instruments' for all other financial instruments.

2.19.2 Credit impaired and definition of default

Loans and advances to customers, loan commitments and financial guarantees
The Group considers loans and advances to customers that meet the non-performing exposure (NPE) definition as per the European Banking Authority (EBA) standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
(iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing.

If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due.

The definitions of credit-impaired and default are aligned so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original EIR.

Exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:

i. The extension of forbearance measures does not lead to the recognition of impairment or default.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.2 Credit impaired and definition of default (continued)

ii. One year has passed since the forbearance measures were extended.
iii. Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
iv. No Unlikely-to-Pay criteria exist for the debtor.
v. The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds exist according to the facility type).

At the time an account exits Stage 3, the rating at origination is compared to the rating at the reporting date. If the rating at the reporting date is higher than or equal to the rating at the origination date then the loan is transferred to Stage 1, otherwise it is transferred to Stage 2. The reversal of the unwinding of the discount on loans and advances to customers that no longer meet Stage 3 criteria is presented in 'Credit losses to cover credit risk on loans and advances to customers'.

Debt securities, loans and advances to banks and balances with central banks
Debt securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal. Moody's ratings indicate these exposures with a grade C which is the lowest Moody's rating category. In addition, a number of other criteria are considered such as adverse changes in business, financial and economic conditions as well as external market indicators (credit spreads, credit default swap (CDS) prices) in determining whether there has been a significant deterioration in the financial position that could lead to unlikeliness to pay.

2.19.3 Significant increase in credit risk

IFRS 9 requires that in the event of a significant increase in credit risk since initial recognition, the calculation basis of the loss allowance would change from 12 month ECLs to lifetime ECLs.

The assessment of whether credit risk has increased significantly since initial recognition, is performed at each reporting period, by considering the change in the risk of default occurring over the remaining life of the financial instrument since initial recognition.

Significant credit risk increase for loans and advances to customers
Primarily, the Group uses the lifetime probability of default (PDs) as the quantitative metric in order to assess transition from Stage 1 to Stage 2 for all portfolios, by considering whether the lifetime PD at the reporting date exceeds the lifetime PD at origination by using an established relative threshold. The Group considers an exposure to have significant increase in credit risk (SICR) by comparing the PD at the reporting date with the PD at initial recognition to compute the increase in regards to the corresponding threshold. The threshold has been determined by using statistical analysis on historic information of credit migration exposures on the basis of days past due, for the different segments. The Group applies the thresholds presented in the table below to each portfolio/segment, based on the following characteristics: customer type, product type and rating at origination. The threshold is then assigned to each facility according to the facilities portfolio/segment.

For Retail and SME portfolios, the threshold applied varies depending on the original credit quality of the borrower. For instruments with lower default probabilities at inception due to good credit quality of the counterparty, the SICR threshold is set at a higher level than for instruments with higher default probabilities at inception. For the Corporate portfolio one threshold applies for all corporate exposures.

The SICR trigger, is activated based on the comparison of the ratio of Current Lifetime PD to the remaining Lifetime PD at origination (PD@O) to the pre-established threshold. If the resulting ratio is higher than the pre-established threshold then deterioration is assumed to have occurred and the exposure is transferred to Stage 2.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

The table below summarises the quantitative measure of the SICR trigger which varies depending on the credit quality at origination as follows, applied on 1 January 2018 and 31 December 2018:

Segment	Rating at origination	PD Deterioration thresholds applied at 1 January 2018	PD Deterioration threshold applied at 31 December 2018
Retail	1-3	1-6 X PD@O	1-29 X PD@O
	4-5	1-5 X PD@O	1-5 X PD@O
	6-7	1-5 X PD@O	1-5 X PD@O
SME	1-3	4 X PD@O	3-8 X PD@O
	4-5	4 X PD@O	4 X PD@O
	6-7	4 X PD@O	4 X PD@O
Corporate	1-7	2 X PD@O	2 X PD@O

At 1 January 2018 the threshold was determined by reference to the definition of default applied which was as per the Capital Requirements Regulation definition. The definition of default changed to that of the Non-Performing Exposures (NPEs) to be in line with the definition for the credit impaired loans and therefore the relevant thresholds were changed.

Exposures originated during the period but for which no rating exists at the reporting date are considered to have suffered a significant increase in credit risk and transition to Stage 2.

For exposures which are subject to individual impairment assessment, the following qualitative factors in addition to the ones incorporated in the PD calculation, are considered:
- significant change in collateral value or guarantee or financial support provided by shareholders/directors,
- significant adverse changes in business, financial and/or economic conditions in which the borrower operates.

The Group also considers, as a backstop criterion, that a significant increase in the credit risk occurs when contractual payments are more than 30 days past due (past due materiality is applied). Loans that meet this condition are classified in Stage 2. In cases where certain exposures are past due for more than 30 days if certain materiality limits are not met (such as arrears less than €500 or one instalment in arrears in the case of retail exposures and arrears less than €1,000 or greater than 10% of the funded balances on all exposures other than retail), then the transfer to Stage 2 does not take place. The materiality levels are set in accordance with the CBC Directives.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

Significant credit risk increase for financial instruments other than loans and advances to customers
Low credit risk simplification is adopted for debt security instruments, loans and advances to banks and balances with central banks with external credit ratings that are rated as investment grade. The assessment of low credit risk is based on both the external credit rating and the internal scoring (which considers latest available information on the instrument and issuer). The combination of the two provides an adjusted credit rating. An adjusted rating which remains investment grade is considered as having low credit risk.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

For debt securities, loans and advances to banks and balances with central banks which are below investment grade, the low credit risk exemption does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date. Significant deterioration in credit risk is considered to have occurred when the adjusted rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investments grade to speculative and then to highly speculative).

2.19.4 Measurement of ECLs

IFRS 9 ECL reflects an unbiased, probability-weighted estimate based on either loss expectations resulting from default events over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The Group calculates lifetime ECLs and 12-month ECLs either on an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group calculates ECLs based on three-weighted scenarios to measure the expected cash flows shortfalls, discounted at an approximation to the EIR as calculated at initial recognition. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows expected to be received.

The Group calculates ECL using the following three components:
- exposure at default (EAD),
- probability of default (PD), and
- loss given default (LGD).

EAD
EAD represents the expected exposure in the event of a default during the life of a financial instrument, considering expected repayments, interest payments and accruals. EAD methodology is differentiated for the following categories: revolving and non-revolving exposures.

For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In case of revolving exposures, the projected EAD is the carrying value plus the credit conversion factor applied on the undrawn amount. The credit conversion factor model is derived based on empirical data from the last 5 years.

In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date.

Probability of default (PD)
PD represents the probability an exposure defaults and is calculated based on statistical rating models, calculated per segment level and taking into consideration each individual's exposure rating as well as forward looking information based on macroeconomic inputs.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.4 Measurement of ECLs (continued)

For each exposure, lifetime PD represents the probability of default within the lifetime horizon and is based on the underlying models of marginal probability of default through the cycle (MPD TTC), MPD individual, MPD point in time and Marginal Probability of Paid-off (MPP). In particular, the first element, MPD TTC is constructed per segment, illustrating the probability of default status depending on number of months since the origination date. The PD for each month since the originated date is calculated under the condition that exposures survived until the prior month. The MPD individual is allocated to linked individual exposures through a scaling factor constructed based on the current individual risk assessment, which is represented by the Group's PD per rating grade. MPD is adjusted to reflect the current and forward looking information based on the macroeconomic inputs. Finally, the MPP Component is the curve that shows the probability of full payment of a particular exposure based on specific period in months since the open date of the exposure. MPP is estimated for each particular segment and depends on the contractual terms of the exposure. For revolving facilities where there is no contractual survival maturity, one curve per segment is developed. The combination of these four models gives rise to a PD value for each month for the lifetime of the exposure.

The Company's internal rating process is summarised in Note 46.

Loss given default (LGD)
LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. It takes into account parameters such as historical loss and/or recovery rates as well as the collateral value which is discounted to the present value determining the amount of the expected shortfall.

The structure of the LGD model considers the following:
- Curing where the probability of cure model was derived based on historical observations.
- Non-curing including cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated annually through backtesting against recent recoveries. These are repeated for each economic scenario as appropriate.

Individually assessed loans
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by Credit Risk Management. A risk based approach is used on the selection criteria of the individually assessed population such as NPE or forborne exposures above a certain amount, decrease of a certain percentage on the yearly credit turnover and decrease of a certain percentage on assigned collaterals.

The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process).

Collectively assessed loans
All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.5 Scenarios and scenarios weights

The Group uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, downside and upside and the output is the weighted average ECL based on the assigned probability of each scenario (Note 46).

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Using statistical analysis, the most significant macro-variables have been selected in order to predict accurately the expected default rates. In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (housing, commercial, industrial). In particular, for each collateral a forward looking projection of the realisable value is calculated before discounting back to reporting date to quantify the expected cash shortfall.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period, subsequently reverting to long-run averages. As the forecast horizon increases, the availability of information decreases and judgment increases.

In regards to the weights, these are determined/computed for each scenario by using the Cumulative Density Function (CDF) derived from past historical data (1980-2018) and severity analysis. All possible scenarios are depicted on the CDF with the 0th percentile scenario being the worst case and the 100th percentile scenario being the best case. The favourable scenario is defined as the 80th percentile and 20% probability. The baseline scenario is defined as the 50th percentile and 60% probability. The adverse scenario is defined as the 20th percentile and 20% probability. The final weights constitute the probabilities that the respective set of macroeconomic conditions will occur and represent best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights are determined by the Economic Research Department of the Company and take into account historical frequency, are updated on a quarterly basis, are proposed by the CRO and are endorsed by the Provisions Committee.

This process involves consideration of a variety of external actual and forecast information (International Monetary Fund (IMF), European Commission, Economist Intelligence Unit (EIU), Moody's Analytics) which is complemented by economic expert judgement.

Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets have been developed based on an analysis of historical data over the past 5 years.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date. Overlays performed are set out in Note 5.2 'Significant judgements, estimates and assumptions/calculation of expected credit losses'.

2.19.6 ECL measurement period

The period for which expected credit losses are determined (either for 12-month or lifetime ECL) is based on the contractual life of a financial instrument. For non-revolving exposures the expected lifetime is the period from the reporting date to the termination date of the facility. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.6 ECL measurement period (continued)

For revolving facilities, credit cards and corporate and retail overdrafts the Company has the right to cancel and/or reduce the facilities with two months' notice. The Company does not limit its exposure to credit losses to the contractual notice period, but instead the next review date is used for determining the measurement period over which to calculate ECLs which is annual for corporate exposures and every two to three years for retail exposures.

2.19.7 Purchased or originated credit impaired financial assets (POCI)

POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

2.20 Classification, measurement and derecognition (policy applicable before 1 January 2018)

2.20.1 Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Net foreign exchange gains' in the case of currency derivatives and in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries' in the case of all other derivatives. Interest income and expense are included in the corresponding captions in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, 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 measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries' in the consolidated income statement.

2.20.2 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

2. Summary of significant accounting policies (continued)

2.20 Classification, measurement and derecognition (policy applicable before 1 January 2018) (continued)

2.20.3 Financial assets or financial liabilities designated upon initial recognition at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when 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 their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting, as well as unlisted equities which are managed on a fair value basis.

Financial assets and financial liabilities designated upon initial recognition at fair value through profit or loss are recognised in the consolidated balance sheet at fair value. Changes in fair value are recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the consolidated income statement. Interest income and expense are included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

2.20.4 Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Impairment of other financial instruments' in the consolidated income statement. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for, accordingly.

2.20.5 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'. This accounting policy covers the captions 'Loans and advances to banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables' in the consolidated balance sheet. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances and other customer credit losses' in the case of loans and advances to customers and in 'Impairment of other financial instruments' for all other instruments.

2. Summary of significant accounting policies (continued)

2.20 Classification, measurement and derecognition (policy applicable before 1 January 2018) (continued)

2.20.6 Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify for classification as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in other comprehensive income in the 'Available-for-sale investments' caption. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries'.

Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded in 'Interest income' using the effective interest method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the consolidated income statement in 'Impairment of other financial instruments' caption.

2.20.7 Subordinated loan stock

Subordinated loan stock 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 method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the subordinated loan stock.

Interest on subordinated loan stock is included in 'Interest expense' in the consolidated income statement.

2.20.8 Other financial liabilities at amortised cost

Other financial liabilities include 'Customer deposits', 'Deposits by banks' and 'Funding from central banks'.

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers, funding from central banks and deposits by banks is at amortised cost, using the effective interest method.

2.20.9 Derecognition of financial assets and financial liabilities

2.20.9.1 Financial assets

A financial asset is derecognised when: (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Group has transferred its contractual rights to receive cash flows from the asset or (c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (i) 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.

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

2. Summary of significant accounting policies (continued)

2.20 Classification, measurement and derecognition (policy applicable before 1 January 2018) (continued)

2.20.9 Derecognition of financial assets and financial liabilities (continued)

2.20.9.2 Financial liabilities

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

2.21 Impairment of financial assets (policy applicable before 1 January 2018)

2.21.1 Loans and receivables

The Group assesses at each reporting 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) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. 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. There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due, according to the original contract terms.

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

Provisions for impairment of loans are determined using the incurred loss model as required by IFRSs, which requires recognition of impairment losses that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those events are.

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 including the cash flows which may arise from guarantees and tangible collaterals. 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.

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.

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

2. Summary of significant accounting policies (continued)

2.21 Impairment of financial assets (policy applicable before 1 January 2018) (continued)

2.21.1 Loans and receivables (continued)

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

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 consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances and other customer credit losses' in the consolidated income statement.

2.21.2 Investments classified as held-to-maturity and loans and receivables

For held-to-maturity investments and loans and receivables investments, the Group assesses at each reporting date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Impairment of other financial instruments' caption in the consolidated income statement.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Impairment of other financial instruments' caption in the consolidated income statement.

2.21.3 Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each reporting date. In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease, in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss–measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement–is deducted from the 'Revaluation reserve of available-for-sale investments' in other comprehensive income and recognised in 'Impairment of other financial instruments' caption in the consolidated income statement. Impairment losses on equity securities are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised in the 'Revaluation of available-for-sale investments' in other comprehensive income.

In the case of debt securities classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through 'Impairment of other financial instruments' caption in the consolidated income statement.

2. Summary of significant accounting policies (continued)

2.22 Write-offs

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full. Write-off refers to both contractual and non-contractual write offs. Write-offs and partial write-offs represent derecognition/partial derecognition events.

If the amount of write-offs is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries, in part or in full, of amounts previously written-off are credited to the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers'.

2.23 Financial guarantees, letters of credits and undrawn loan commitments

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value, and presented on the consolidated balance sheet within 'Accruals, deferred income and other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the amount of ECL provision.

ECL resulting from financial guarantees is recorded in 'Credit losses to cover credit risk on loans and advances to customers'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the consolidated income statement when the guarantee is fulfilled, cancelled or expired.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment the Group is required to provide a loan with pre-specified terms to the customer. From 1 January 2018 these contracts are in scope of the ECL requirements. Corresponding ECL are presented within 'Accruals, deferred income and other liabilities' on the Group's balance sheet except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL relating to these other loan commitments is recorded in 'Credit losses to cover credit risk on loans and advances to customers' in the consolidated income statement.

When a customer draws on a commitment, the resulting loan is presented within (i) financial assets at fair value held for trading, consistent with the associated derivative loan commitment, (ii) financial assets at fair value not held for trading, following loan commitments designated at fair value through profit or loss or (iii) loans and advances to customers, when the associated loan commitment is not fair valued through profit or loss.

2.24 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of either party.

2.25 Hedge accounting

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Group implements the amended IFRS 7 hedge disclosure requirements.

2. Summary of significant accounting policies (continued)

2.25 Hedge accounting (continued)

The Group uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks and in the case of the hedge of net investments, the Group uses also non-derivative financial liabilities. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group 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 both at the inception and at ongoing basis, of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship and at each hedge effectiveness assessment date, a formal assessment is undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of 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%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2.25.1 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 consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'. 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 consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'.

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 discontinued prospectively. 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 to the consolidated income statement, over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

2.25.2 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 other comprehensive income 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 and disposal/dissolution of subsidiaries and associates' in the consolidated income statement.

When the hedged cash flows affect the consolidated income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the consolidated income statement.

2.25.3 Hedges of net investments in foreign operations

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while gains or losses relating to the ineffective portion are recognised in 'Net foreign exchange gains' in the consolidated income statement.

On disposal or liquidation of an overseas branch or subsidiary, the cumulative gains or losses recognised in other comprehensive income are transferred in the consolidated income statement within profit/(loss) on disposal/dissolution of subsidiaries.

2. Summary of significant accounting policies (continued)

2.26 Cash and cash equivalents

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

2.27 Insurance business

The Group undertakes both life insurance and general insurance business and issues insurance and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Investment contracts are those contracts that transfer financial risk.

Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all of the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

2.27.1 Life insurance business

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

2.27.2 Life insurance in-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the reporting date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

2.27.3 General insurance business

Premiums are recognised in the consolidated income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the reporting date are deferred to subsequent reporting periods.

An increase in liabilities arising from claims is made for the estimated cost of claims notified but not settled and claims incurred but not notified at the reporting date. The increase in liabilities for the cost of claims notified but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the increase in liabilities for claims incurred but not notified at the reporting date.

2. Summary of significant accounting policies (continued)

2.27 Insurance business (continued)

2.27.4 Investment contracts

The Group offers deposit administration funds which provide a guaranteed investment return on members' contributions. Policies are written to employees of companies, which define the benefits to be received. Any shortfalls are covered by the companies which employ the staff being insured. The Group has no liability for any actuarial deficit.

2.27.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the consolidated income statement.

2.28 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repos) at a specific future date are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method. Repos outstanding at the reporting date relate to agreements with financial institutions. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated balance sheet to 'Investments pledged as collateral'.

Securities purchased under agreements to resell (reverse repos) at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

2.29 Finance leases - The Group as lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the consolidated income statement.

2.30 Operating leases

2.30.1 Group as lessee

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

2.30.2 Group as lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

2. Summary of significant accounting policies (continued)

2.31 Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is initially measured at cost and subsequently measured at fair value less accumulated depreciation and impairment. Valuations are carried out periodically between 3 to 5 years, depending on the property (but more frequent revaluations may be performed where there are significant and volatile movement in values), by independent, qualified valuers or by the internal qualified valuers of the Group applying a valuation model recommended by the International Valuation Standards Council. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Gain or losses from revaluations are recognised in other comprehensive income in 'Property revaluation'.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations which was subsequently transferred to 'Investment properties'. Useful life is in the range of 30 to 67 years. Freehold land is not depreciated. On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to 'Accumulated losses'.

The cost of adapting/improving leasehold property is amortised over 5 years.

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 5 to 10 years.

At the reporting date, when events or changes in circumstances indicate that the carrying value may not be recovered, property and equipment is assessed for impairment. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

2.32 Investment properties

Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement. Valuations are carried out by independent, qualified valuers or by the internal qualified valuers of the Group applying a valuation model recommended by the International Valuation Standards Council.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from owner-occupied property to investment property, the Group accounts for such property in accordance with the policy described in Note 2.31 'Property and equipment' up to the date of change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

2. Summary of significant accounting policies (continued)

2.33 Stock of property

The Group in its normal course of business acquires properties in exchange of debt, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognised in the Consolidated Financial Statements as 'Stock of property', reflecting the substance of these transactions.

Stock of property is initially measured at cost and subsequently measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs necessary to make the sale.

If net realisable value is below the cost of the stock of property, impairment is recognised in 'Impairment of non-financial instruments' in the consolidated income statement.

2.34 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use.

The condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Such non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' such as deferred taxes, financial instruments, investment properties measured at fair value, insurance contracts and assets and liabilities arising from employee benefits. These are measured in accordance with the Group's relevant accounting policies described elsewhere in this note.

Immediately before the initial classification as held for sale, the carrying amount of the asset (or assets and liabilities in the disposal group) is measured in accordance with applicable IFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of IFRS 5 are remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is determined.

If fair value less costs to sell of the disposal group is below the aggregate carrying amount of all of the assets and liabilities included in the disposal group, the disposal group is written down. The impairment loss is recognised in the income statement for the year. Where an impairment loss is recognised (or reversed) for a disposal group, it is allocated between the scoped-in non–current assets using the order of allocation set out in IAS 36 and no element of the adjustment is allocated to the other assets and liabilities of the disposal group. In case that the carrying amount of scoped-in non-current assets is less than the amount by which a disposal group's carrying amount exceeds its fair value less costs to sell, the excess is not recognised.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the consolidated balance sheet.

2. Summary of significant accounting policies (continued)

2.34 Non-current assets held for sale and discontinued operations (continued)

A disposal group qualifies as discontinued operation if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale. Net loss/profit from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax and gain or loss on measurement to fair value less cost to sell of a disposal group constituting a discontinued operation) and discontinued operations tax expense.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount, as profit or loss after tax from discontinued operations in the consolidated income statement.

2.35 Intangible assets

Intangible assets include among others computer software and acquired insurance portfolio customer lists. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. 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 3 to 8 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 2.27.2.

Intangible assets are reviewed for impairment when events relating to changes to 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.

2.36 Share capital

Ordinary shares are classified as equity.

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

2.37 Other equity instruments

An instrument is an equity instrument if the instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

Other equity instruments are recorded at their residual amount and are not subject to any re-measurement after initial recognition. The cost incurred attributable to the issue of other equity instruments is deducted from retained earnings. Any subsequent write-down or write-up results to a credit or debit in retained earnings respectively. Coupon payments are recorded directly in retained earnings.

2.38 Treasury shares

Own equity instruments which are acquired by the Company or by any of its subsidiaries are presented as treasury shares at their acquisition cost. Treasury shares are deducted from equity until they are cancelled or reissued. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity shares.

2. Summary of significant accounting policies (continued)

2.39 Provisions

2.39.1 Provisions for pending litigation, claims and regulatory matters

Provisions for pending litigation, claims and regulatory matters against the Group 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.

2.39.2 Provisions for undrawn loan commitments (policy applicable before 1 January 2018)

Provisions are made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

2.40 Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised in the Consolidated Financial Statements at fair value, in 'Accruals, deferred income and other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the consolidated income statement when the guarantee is fulfilled, cancelled or expired.

2.41 Comparative information

Reclassifications to comparative information were made to conform to current year presentation as follows:

- Provisions for pending litigation, claims, regulatory and other matters were reclassified from other 'Accruals, deferred income and other liabilities' to the face of the Consolidated balance sheet.
- Investments previously classified in 'Life insurance business assets attributable to policyholders' totalling €91,190 thousand were reclassified to 'Investments' and an amount of €2,402 thousand was reclassified from 'Prepayments, accrued income and other assets' to 'Life insurance assets attributable to policyholders'.
- The results of the discontinued operations in the UK were represented as discontinued operations. For the amounts involved refer to Note 7.
- Interest income and interest expense relating to financial instruments classified at FVPL have been reclassified to 'Income similar to interest income' and 'Expense similar to interest expense' respectively, in order to be consistent with the presentation requirements for the interest income calculated using the effective interest rate method, on financial instruments measured at amortised cost and financial assets measured at FVOCI following the adoption of IFRS 9 (Note 2.11).

The above reclassifications and representations did not have an impact on the results for the year or the equity of the Group.

2. Summary of significant accounting policies (continued)

2.41 Comparative information (continued)

The Group has not restated comparative information for 2017 for financial instruments within the scope of IFRS 9. Additionally, the recognition and measurement of credit losses under IFRS 9 differs from that under IAS 39. Therefore, the comparative information for 2017, which is reported under IAS 39 is not comparable to the information presented for 2018, which is reported under IFRS 9. New or amended disclosures are presented for the current period according to IFRS 9, where applicable, whereas comparative period disclosures are consistent with those made in the prior periods. Adjustments arising from the adoption of IFRS 9 have been recognised directly in equity as at 1 January 2018, as disclosed in Note 6.

3. Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Directors believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

In making this assessment, the Directors considered the significant transactions during 2018 which have had a positive impact on the capital position of the Group, including the disposal of Bank of Cyprus UK Ltd, the agreement for the sale of non-performing loans and the issuance of €220 million Additional Tier 1 Capital Securities. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC), the Group's Financial and Capital Plan and the developments in the operating environment in Cyprus (Note 4).

The Group has developed a Financial and Capital Plan (the 'Plan'), which has been approved by the Board in February 2019. One of the most important objectives of the Plan was to ensure that the Group has sufficient resources and capital in order to continue the balance sheet de-risking and further deal with the residual NPEs. The IFRS 9 impact on a fully phased-in basis has been considered within the Group's Plan. Despite the implementation risk associated with the outcome of future events outlined in the Plan at the reporting date, the Directors believe that there is sufficient capital throughout the period of assessment to meet regulatory capital requirements. The Group will continue its de-risking strategy and remains focused to implement the actions contemplated in the Plan.

The Directors, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Non-Performing Exposures

- The continued organic reduction (now achieved for fifteen consecutive quarters) of the Group's NPEs which have decreased from €8,804 million in December 2017 to €7,518 million at 31 December 2018 and are further reduced to €4,768 million pro forma for Project Helix (Note 4.2.2); and
- The reduction of NPE's has been a regulatory focus for a number of years and will continue to be so. The Group is currently preparing an updated NPE strategy plan for the years 2019-2021 which will be submitted to the ECB by end of June 2019. The Directors believe that the reduction of NPEs is a significant factor with regard to the future viability of the Group as a pillar bank in Cyprus.

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% and 15.2% respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1)

Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased-in CET1 ratio and Total Capital ratio remain unchanged, when ignoring the phasing in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

3. Going concern (continued)

The projected capital ratios of the Group indicate that there will be sufficient capital throughout the period of assessment when considered in conjunction with the following items:

- The phase-in of IFRS 9. The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the total impact on adoption of IFRS 9 of €308,511 thousand, on 1 January 2018 and any subsequent increase allowed by the regulation for phasing-in (i.e. increase in Stage 1 and Stage 2 allowance), will impact the capital ratios over a period of five years. The impact on the regulatory capital is being phased-in based on a weighting factor until it is fully absorbed at the end of the five years. The initial impact of IFRS 9 was phased in by 5% on 1 January 2018 regulatory capital and increases to 15% (cumulative) on 1 January 2019;
- The enactment of the Income Tax Amendment Law 28 (1) of 2019 by the Cypriot parliament in March 2019, allowing for the conversion of the Group’s deferred tax assets into deferred tax credits. This result in a more capital efficient tax asset. The law will result in improved regulatory capital treatment under CRR and will increase CET1 by c. 170 bps on a transitional basis as at 31 December 2018. This improvement includes the impact from a reversal of impairment of the related deferred tax asset of approximately €108 million recognised during 2017 and 2018, which will be reversed in 2019 Income Statement of the Group; and
- The regulatory capital position of the Group will strengthen further, upon completion of the sale of loans and advances to customers (the ‘Helix Portfolio’ or the ‘Transaction’), largely NPEs, classified as held for sale (Note 30). A significant step towards completion of the Transaction was the ECB approval of the Significant Risk Transfer (the ‘SRT’) for regulatory capital purposes. The Company has received the SRT approval in March 2019. The completion of the Transaction remains subject to various other conditions precedent. On completion, the derecognition of the Helix portfolio will have a positive impact on the Group CET1 ratio, of 160 basis points, resulting from the release of risk weighted assets. Completion is currently expected to occur in early second quarter of 2019.

Funding and liquidity

- The Group has made a significant improvement in its liquidity position and ratios; and
- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Notes 4.2.3 and 48).

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

4. Operating environment

4.1 Cyprus

Economic recovery became more deeply rooted with real Gross Domestic Product (GDP) rising by 3.9% in 2018 following increases of 4.5% and 4.8% in the preceding two years (Cyprus Statistical Service). GDP growth in 2018 was underpinned by robust expansion in private consumption and services exports particularly tourism. Fixed investments particularly construction activity also made an important contribution. On a sectoral basis growth was mainly driven by tourism, trade and transport, construction and professional and business services. The outlook for 2019-2020 remains positive with real GDP expected to rise by 3.3% and 2.7% respectively according to the European Commission (European Economic Forecast, Winter 2019, Interim).

Employment increased by 5.6% in 2018, compared with an increase of 4.6% in 2017 (Cyprus Statistical Service). As a result the unemployment rate dropped to an average of 8.4% in 2018 from 11% in 2017 and contributed to strong private consumption growth (Cyprus Statistical Service).

4. Operating environment (continued)

4.1 Cyprus (continued)

Exports of goods and services continued to grow robustly in 2018 rising by 3.3% in real terms, (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery, but Cyprus might also be impacted negatively by the exit of the UK from the EU (Brexit). Cyprus has close trade and investment links with the UK, making its economy vulnerable to the impact of Brexit on the UK economy. Tourist arrivals from the UK accounted for about 34% of total arrivals in 2017-2018. A possible decline in tourist arrivals from the UK and a drop in their spending will need to be mitigated by increasing arrivals and revenues from other countries.

Regarding prices, consumer inflation accelerated modestly in 2018 to 1.4% from 0.5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

The budget turned to a surplus of 1.8% of GDP in 2017. The budget surplus is estimated at 2.8% of GDP in 2018, according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018), excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus will also remain sizable in 2019-2020 according to the European Commission. The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme - a State-supported scheme to aid the loan repayment of vulnerable groups with non-performing exposures (NPEs) backed by primary residences - will be relatively low and its impact on the budget balance will be marginal.

Gross Government debt is estimated at 105% of GDP in 2018 according to the European Commission, up from 96% in 2017. This followed the placement of €3.2 billion Government bonds in the CyCB to facilitate the sale of the good assets of CyCB. However, its underlying dynamics remain stable and it is expected to decline significantly in coming years. The debt ratio will decline to 98.4% in 2019 and to 91% in 2020 according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018).

In the banking sector, the stock of NPEs declined significantly. For the first eleven months of 2018 NPEs dropped by 46% or by €9.6 billion to €11.2 billion, after the CyCB transaction and the sale of a package of NPEs by Bank of Cyprus, according to data by the Central Bank of Cyprus (CBC). The ratio of NPEs to gross loans dropped to 32% at the end of November 2018 from 42.5% at the end of December 2017. The ratio of total impairments to total NPEs was 52.2% at the end of November 2018.

In July 2018, the Cyprus government took additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs.

The sovereign risk ratings of the Cyprus government improved considerably. In October 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector, and the successful implementation of the economic adjustment programme.

4.2 The Group

4.2.1 Regulatory capital ratios (unaudited)

The CET1 ratio of the Group at 31 December 2018 stands at 12.1% and the total capital at 15.2% on a transitional basis.

4. Operating environment (continued)

4.2 The Group (continued)

4.2.1 Regulatory capital ratios (unaudited) (continued)

The minimum Pillar I total capital ratio requirement is 8.0% and may be met, in addition to the 4.5% CET1 requirement, with up to 1.5% of Additional Tier 1 capital and with up to 2.0% of Tier 2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons).

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased-in CET1 capital ratio and Total capital ratio remain unchanged when ignoring the phasing-in of the Capital Conservation Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

The Group's phased-in CET1 capital ratio requirement will be 10.5% (2018: 9.375%), comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (2018: 1.875%) and the Other Systemically Important Institution Buffer of 0.5% (2018: Nil).

The Group's Total capital ratio requirement will be 14.0% (2018: 12.875%), comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (2018: 1.875%) and the Other Systemically Important Institution Buffer of 0.5% (2018: Nil).

The above minimum ratios apply for both, the Company and the Group. The Company is 100% subsidiary of the Bank of Cyprus Holdings Public Limited Company and its principal activities are the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

The capital position of the Group and the Company at 31 December 2018 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The Group has developed a Plan, which has been approved by the Board in February 2019 (Note 3).

4.2.2 Asset quality

The Group NPEs, as defined by EBA, including loans and advances to customers which have been classified as non-current assets held for sale totalled €7,518 million at 31 December 2018 and accounted for 47% of gross loans before fair value adjustment on initial recognition. The provisioning coverage ratio of NPEs totalled 47% at 31 December 2018 compared to 48% at 31 December 2017.

The Group addresses the asset quality challenge through the operation of the Restructuring and Recoveries Division which is actively seeking to find innovative solutions to manage distressed exposures. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. At 31 December 2018, NPEs have decreased by 50% since their peak of €15,175 million at 31 March 2015.

The Group has prepared a detailed NPE Strategy Plan for the three year period 2018-2020 as requested by the ECB. The Group is currently preparing an updated NPE strategy plan for the years 2019-2021 which will be submitted to the ECB by end of June 2019.

4.2.3 Liquidity (unaudited)

Group customer deposits totalled €16,844 million at 31 December 2018 compared to €17,850 million at 31 December 2017. At 31 December 2018 all deposits were in Cyprus (2017: € 15,983 million). Group customer deposits accounted for 76% of total assets as at 31 December 2018 (2017: 76% and a low of 48% at 31 March 2014).

4. Operating environment (continued)

4.2 The Group (continued)

4.2.3 Liquidity (unaudited) (continued)

The Group focused on measures to improve its liquidity position in order to comply with the regulatory liquidity requirements. As at 31 December 2018, the Group was in compliance with all regulatory liquidity requirements. As at 31 December 2018 the LCR stood at 231% for the Group (compared to 190% at 31 December 2017) and was in compliance with the minimum regulatory requirement of 100% applicable as from 1 January 2018. As at 31 December 2018 the Group's NSFR, on the basis of the Basel III standards, was 119% (compared to 111% at 31 December 2017).

On 1 January 2018, the local regulatory requirements, set by the CBC, were abolished as per Article 412(5) of EU Regulation No 575/2013.

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR of the Company and which became effective on 1 January 2018. The objective of the measure was to ensure that there would be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that are not subject to any outflow rates under the LCR. The measure was implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018.

The second stage required more relaxed outflow and inflow rates compared to the initial ones, and were applicable from 1 July 2018 until 31 December 2018. Specifically, there was a reduction of 50% of the LCR add-on rates as from 1 July 2018.

The additional liquidity requirement was applicable up to 31 December 2018 and was abolished from 1 January 2019. As at 31 December 2018, the Group and the Company were in compliance with both the LCR and the LCR add-on.

4.2.4 Pending litigation, claims, regulatory and other matters

The management has considered the potential impact of pending litigation and claims, investigations, regulatory and other matters against the Group which include the bail-in of depositors and the absorption of losses by the holders of equity and debt instrument of the Company. The Group has obtained legal advice in respect of these claims.

Despite the novelty of many of the said claims based on the information available at present and on the basis of the law as it currently stands, management considers that the said claims are considered unlikely to have a material adverse impact on the financial position and capital adequacy of the Group. Additional information on pending litigation, claims, regulatory and other matters is provided in Note 40.

5. Significant and other judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements requires the Company's Board of Directors and management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the Consolidated Financial Statements and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

5. Significant and other judgements, estimates and assumptions (continued)

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant judgements, estimates and assumptions relate to classification of financial instruments and calculation of expected credit losses, tax, estimation of the net realisable value of stock of property and provisions which are presented in Notes 5.1 to 5.5 below. Other significant judgements, estimates and assumptions are disclosed further below in Notes 5.6 to 5.14.

5.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. In general, the assessment is performed at the level of each business line. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows. Furthermore, judgment is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

5.2 Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

Elements of ECL models that are considered accounting judgements and estimates include:

Assessment of significant increase of credit risk
IFRS 9 does not include a definition of significant increase in credit risk. The Group assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated on a yearly basis by the Risk Management division and endorsed by the Group Provisions Committee.

Determining the PD at initial recognition requires management estimates. In the case of exposures existing prior to the adoption of IFRS 9, a retrospective calculation of the PD is made in order to quantify the risk of each exposure at the time of the initial recognition. In certain cases estimates about the date of initial recognition might be required.

For the retail portfolio, the Group uses a PD at origination driven by behavioural information (score cards) whereas, for the corporate portfolio, the Group uses the internal credit rating information. In determining the relevant PDs, management estimates are required with respect to the life-time of revolving facilities. For revolving facilities, the origination date is the date when a credit review has taken place instead of the contractual date.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors
The Group determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are monitored by the Economic Research Unit and are based on external market data supplemented by expert judgement.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Risk Management Division and endorsed by the Group Provisions Committee. Qualitative adjustments or overlays made as at the reporting date relate to the positive future property value cap to 0% for all scenarios.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's ECL as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective.

The Group uses three different economic scenarios.

The table below indicates the most significant macroeconomic variables as well as the scenarios used by the Group as at 31 December 2018 and 1 January 2018 respectively. The Group has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 20-60-20 structure derived using the method described in Note 2.19.5. The pace of expansion of the economy is expected to decline towards 2%, in the medium and longer terms. Additionally the heightened uncertainties of the economy in 2019 and beyond relating to Brexit, trade disputes between the US and the China and between the US and the EU, and economic fragility in southern Europe amidst a slowing global economy, increase the risk of a financial crisis. These factors display a relatively high volatility, which the management considered that may not be fully captured in the weights as calculated using the method described in Note 2.19.5 and hence the management has decided to increase the weight of the adverse scenario.

31 December 2018

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2019	Adverse	30.0	-1.3	10.0	-0.2	1.4
	Baseline	50.0	3.1	7.6	1.7	4.4
	Favourable	20.0	4.3	7.2	2.5	5.5
2020	Adverse	30.0	-1.3	12.2	0.3	-1.7
	Baseline	50.0	2.6	7.3	1.7	2.7
	Favourable	20.0	3.4	6.8	2.6	4.1
2021	Adverse	30.0	3.0	12.4	2.1	0.7
	Baseline	50.0	2.4	6.9	2.0	2.9
	Favourable	20.0	2.6	6.5	2.4	3.6
2022	Adverse	30.0	4.1	11.1	2.4	3.1
	Baseline	50.0	2.5	6.5	2.0	3.1
	Favourable	20.0	2.6	6.1	2.6	3.7
2023	Adverse	30.0	3.9	10.0	2.5	4.7
	Baseline	50.0	2.3	6.3	2.1	3.8
	Favourable	20.0	2.3	5.8	2.6	4.0

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

1 January 2018

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2018	Adverse	30.0	-1.6	12.4	-1.2	-0.8
	Baseline	50.0	2.8	9.9	0.7	3.0
	Favourable	20.0	3.9	9.5	1.8	4.2
2019	Adverse	30.0	-1.5	14.0	0.2	0.7
	Baseline	50.0	2.4	9.0	1.6	4.5
	Favourable	20.0	2.7	8.5	2.3	5.3
2020	Adverse	30.0	2.8	14.1	1.9	2.2
	Baseline	50.0	2.4	8.5	1.7	3.6
	Favourable	20.0	2.2	8.1	1.7	4.0
2021	Adverse	30.0	3.8	12.8	2.0	2.2
	Baseline	50.0	2.2	8.2	1.6	1.7
	Favourable	20.0	2.2	7.8	1.5	2.7
2022	Adverse	30.0	3.8	11.6	2.1	3.6
	Baseline	50.0	2.2	7.9	1.7	2.2
	Favourable	20.0	2.2	7.4	1.6	2.8

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are primarily determined by GDP growth but with a lag. Thus property prices will initially adjust less steeply than GDP, and will start to accelerate after the recovery in GDP has been entrenched. After this point, properly prices will accelerate and will match and surpass the pace in the baseline scenario, before finally converging.

Since 1 January 2018, the Group has reassessed the key economic indicators used in the ECL models and using actual performance ratios of the economy as revised by the Cyprus statistical service for 2016 and 2017 and the forecast upgrades by the IMF and the European Commission. The favourable and adverse scenarios were adjusted to reflect tourist sector performance, construction activity, unemployment rates, consumer price index and house prices.

The RICS indices, which are considered for the purposes of determining the real estate collateral value on realisation date are capped at the reporting date value, in case of any projected increase, whereas any projected decrease is taken into account. As a result the indexed value for all collaterals is less or equal to their corresponding open market value as of the reporting date.

For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios: base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario, whereas under the favourable scenario applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

For collectively assessed customers the calculation is the weighted average of three scenarios: base, adverse and favourable.

Expected lifetime of revolving facilities
Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The determination of the expected life for the revolving portfolio is sensitive to changes in contractual maturities resulting from business decisions. The Group exercises judgement in determining the period over which ECL should be computed.

Assessment of loss given default
A factor for the estimation of LGD is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

At 31 December 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers excluding those classified as held for sale is c.32% under the baseline scenario.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers other than those classified as held for sale has been estimated to be on average seven years under the baseline scenario.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. Judgement may also be exercised over staging during the individual assessment.

Any positive cumulative average future change in property values forecasted was capped to zero for the year ended 31 December 2018. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue the Group maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses of loans and advances.

Modelling adjustments
Forward looking models have been developed for ECL parameters (PD, EAD, LGD) for all portfolios and segments sharing similar characteristics. Model validation is performed by the independent validation unit within the Risk Management Division on an annual basis and involves monitoring of model performance and stability, review of model relationships and back testing. In certain cases, judgment may be exercised in the form of management overlay by applying adjustments on the modelled parameters. Governance of these models lies with the Risk Management Division. Any management overlays are approved by the Risk Management Division and endorsed by the Provisions Committee.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated based on the relevant ECL model.

Portfolio segmentation
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary.

In addition to individually assessed assets the Group also assesses assets collectively. The collectively assessed portfolio includes all loans which are not individually assessed. The Group categorises the exposures into sufficiently granular portfolios segments with shared risk characteristics. The granularity is based on different levels of segmentation. In determining the level of granularity of such portfolios, as well as assessing that these share similar risk characteristics, management's judgment is required.

Further details on impairment allowances and related credit information are set out in Note 46.

5.3 Tax

The Group operates in and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the consolidated 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.

Deferred tax assets are recognised by the Group 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. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets.

The assumptions with greater influence on deferred tax are disclosed in Note 18.

5.4 Stock of property - estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined through valuation techniques, requiring significant judgement, which take into account all available reference points such as, expert valuation reports, current market conditions, the holding period of the asset applying an appropriate illiquidity discount and any other relevant parameters. Selling expenses are always considered and deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainty due to the relatively low level of market activity.

More details on the stock of property are presented in Note 28.

5. Significant and other judgements, estimates and assumptions (continued)

5.5 Provisions

The accounting policy for provisions is described in Note 2.39. Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims, regulatory and other matters usually require a higher degree of judgement than other types of provisions. It is expected that the Group will continue to have a material exposure to litigation and regulatory proceedings and investigations relating to legacy issues in the medium term. The matters for which the Group determines that the probability of a future loss is more than remote will change from time to time, as will the matters as to which a reliable estimate can be made and the estimated possible loss for such matters. Actual results may prove to be significantly higher or lower than the estimate of possible loss in those matters, where an estimate was made. In addition, loss may be incurred in matters with respect to which the Group believed the probability of loss was remote.

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 40.

5.6 Fair value of investments and derivatives

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high.

However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group only uses models with unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm’s length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further details on the fair value of assets and liabilities are disclosed in Note 23.

5. Significant and other judgements, estimates and assumptions (continued)

5.7 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Group's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Group's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

Further details on retirement benefits are disclosed in Note 15.

5.8 General insurance business

The Group is engaged in the provision of general insurance services. Risks under these policies usually cover a period of 12 months.

The liabilities for outstanding claims arising from insurance contracts issued by the Group are calculated based on case estimates by loss adjusters and facts known at the reporting date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends, and take into consideration claim handling costs. Other external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are also taken into consideration.

Provision is also made for claims incurred but not reported (IBNR) by the reporting date. Past experience as to the number and amount of claims reported after the reporting date is taken into consideration in estimating the IBNR provision.

Insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of certain court cases, are very difficult to quantify. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty existing at the reporting date.

Further information on general insurance business is disclosed in Note 13.

5.9 Life insurance business

The Group is engaged in the provision of life insurance services. Whole life insurance plans (life plans) are unit-linked contracts associated with assets where the amount payable in the case of death is the greater of the sum insured and the value of investment units. Simple insurance or temporary term plans (term plans) relate to fixed term duration plans for protection against death. In case of death within the coverage period, the insured sum will be paid. Endowment insurance (investment plans/mortgage plans/horizon plans) refer to specific duration plans linked to investments, to create capital through systematic investment in association with death insurance coverage whereby the higher of the sum insured and the value of investment units is payable on death within the contract term.

Further information on life insurance business is disclosed in Note 13.

5. Significant and other judgements, estimates and assumptions (continued)

5.9 Life insurance business (continued)

5.9.1 Value of in-force business

The value of the in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets.

The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 31 December 2018, are set out in Note 25.

5.9.2 Insurance liabilities

The calculation of liabilities and the choice of assumptions regarding insurance contracts require the management of the Group to make significant estimates.

The assumptions underlying the estimates for each claim are based on past experience, internal factors and conditions, as well as external factors which reflect current market prices and other published information. The assumptions and judgements are determined at the date of valuation of liabilities and are assessed systematically so that the reliability and realistic position can be ensured.

Estimates for insurance contracts are made in two stages. Initially, at the start of the contract, the Group determines the assumptions regarding future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, at each reporting date, an actuarial valuation is performed which assesses whether liabilities are adequate according to the most recent estimates.

The assumptions with the greatest influence on the valuation of insurance liabilities are presented below:

Mortality and morbidity rates
Assumptions are based on standard international tables of mortality and morbidity, according to the type of contract. In addition, a study is performed based on the actual experience (actual deaths) of the insurance company for comparison purposes and if sufficient evidence exists which is statistically reliable, the results are incorporated in these tables. An increase in mortality rates will lead to a larger expected number of claims (or claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for shareholders.

Investment return and discount rate
The weighted average rate of return is derived based on assets that are assumed to back liabilities, consistent with the long-term investment strategy of the Group. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment returns would lead to an increase in profits for shareholders.

Management expenses
Assumptions are made for management fees and contract maintenance as well as for general expenses, and are based on the actual costs of the Group. An assumption is also made for the rate of increase in expenses in relation to the annual inflation rate. An increase in the level of expenses would reduce profits for shareholders.

Lapses
Each year an analysis of contract termination rates is performed, using actual data from the insurance company incorporation until the immediate preceding year. Rates vary according to the type and duration of the plan. According to the insurance legislation of Cyprus, no assumption is made for policy termination rates in the actuarial valuation.

Further details on insurance liabilities are disclosed in Note 33.

5. Significant and other judgements, estimates and assumptions (continued)

5.10 Exercise of significant influence

The Group determines whether it exercises significant influence on companies in which it has shareholdings of less than 20% if other factors exist that demonstrate significant influence. In performing this assessment it considers its representation in the Board of Directors which gives rise to voting rights of more than 20% and participation in policy-making processes, including participation in decisions about dividends and other distributions.

5.11 Classification of properties

The Group determines whether a property is classified as investment property or stock of property as follows:

- Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013.

5.12 Fair value of properties held for own use and investment properties

The Group's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value. In the case of property held for own use, valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties, the fair value is established at each reporting date. Valuations are carried out by qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

In arriving at their estimates of the fair values of properties, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Further information on inputs used is disclosed in Note 23.

5.13 Provision for impairment of loans and advances to customers (applicable before 1 January 2018)

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and the calculation of the impairment allowance involves the use of judgement. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

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 consolidated income statement. Loans together with the associated provisions are written-off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.

5. Significant and other judgements, estimates and assumptions (continued)

5.13 Provision for impairment of loans and advances to customers (applicable before 1 January 2018) (continued)

The Group may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of loans changes from period to period.

A very important factor for the estimation of provisions is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. During 2017, the Group, following a reconsideration of its strategy to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking, has modified certain of its provisioning assumptions and estimates.

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34%.

The timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average six years.

For the calculation of specific provisions, the timing of recovery of collaterals as well as the haircuts used were based on the specific facts and circumstances of each case.

In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero.

The above assumptions are also influenced by the ongoing regulatory dialogue the Company maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

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

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (e.g the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate) and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

5. Significant and other judgements, estimates and assumptions (continued)

5.13 Provision for impairment of loans and advances to customers (applicable before 1 January 2018) (continued)

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

Impairment assessment also includes off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows; otherwise the provision is calculated on a collective basis, taking into account the probability of loss for the portfolio in which the customer is included for on-balance sheet exposures impairment assessment. The Group may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of off-balance sheet exposure changes from period to period.

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 reporting 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 fully reflected. 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 total amount of the Group's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due and are treated as up to date loans for measurement purposes. Loans subject to collective impairment assessment whose terms have been renegotiated are taken into account in determining the inputs for collective impairment calculation. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification in accordance with the rules of the relevant EBA technical standard.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's loan impairment provisions as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

Further details on impairment allowances and related credit information are set out in Note 46.

5. Significant and other judgements, estimates and assumptions (continued)

5.14 Impairment of available-for-sale investments (applicable before 1 January 2018)

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. The determination of what is significant or prolonged requires judgement by management. Management has assessed that a loss of 25% or more is considered significant, except in the cases of investment companies where higher limits are set. Prolonged has been assessed by management to be a period of 12 months or more. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the event (or events) has an impact on the estimated future cash flows of the investment. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgement, as well as changes in the fair value of individual instruments such as when their fair value at the reporting date falls below 90% of the instruments' amortised cost.

Further details on impairment of available-for-sale investments are presented in Notes 17 and 21.

6. Transition disclosures

6.1 Transitional Consolidated Balance Sheet on adoption of IFRS 9

	31 December 2017 (IAS 39 presentation)	Reclassifications and remeasurements	1 January 2018 (revised for IFRS 9 adoption)
	€000	€000	€000
Assets			
Cash and balances with central banks	3,393,934	(5,872)	3,388,062
Loans and advances to banks	1,192,633	(20)	1,192,613
Derivative financial assets	18,027	-	18,027
Investments	830,483	(1,861)	828,622
Investments pledged as collateral	290,129	-	290,129
Loans and advances to customers	14,602,454	(318,211)	14,284,243
Life insurance business assets attributable to policyholders	429,890	-	429,890
Prepayments, accrued income and other assets	225,919	(576)	225,343
Stock of property	1,641,422	-	1,641,422
Investment properties	19,646	-	19,646
Property and equipment	279,814	-	279,814
Intangible assets	165,952	-	165,952
Investments in associates and joint venture	118,113	-	118,113
Deferred tax assets	383,498	-	383,498
Non-current assets held for sale	6,500	-	6,500
Total assets	23,598,414	(326,540)	23,271,874
Liabilities			
Deposits by banks	495,308	-	495,308
Funding from central banks	930,000	-	930,000
Repurchase agreements	257,322	-	257,322
Derivative financial liabilities	50,892	-	50,892
Customer deposits	17,850,062	-	17,850,062
Insurance liabilities	605,448	-	605,448
Accruals, deferred income and other liabilities	305,905	(18,920)	286,985
Pending litigation, claims, regulatory and other matters	138,375	-	138,375
Subordinated loan stock	302,288	-	302,288
Deferred tax liabilities	46,113	-	46,113
Total liabilities	20,981,713	(18,920)	20,962,793
Equity			
Share capital	892,294	-	892,294
Share premium	552,618	-	552,618
Revaluation and other reserves	295,171	(8,470)	286,701
Accumulated losses	845,468	(299,150)	546,318
Equity attributable to the owners of the Company	2,585,551	(307,620)	2,277,931
Non-controlling interests	31,150	-	31,150
Total equity	2,616,701	(307,620)	2,309,081
Total liabilities and equity	23,598,414	(326,540)	23,271,874

6. Transition disclosures (continued)

6.1. Transitional Consolidated Balance Sheet on adoption of IFRS 9 (continued)

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. As permitted by IFRS 9 the Group has not restated comparative periods. The impact on the adoption date on 1 January 2018, was therefore recognised through the consolidated statement of changes in equity in the opening retained earnings and other components of equity, as appropriate.

6.2 Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		€000		€000
Cash and balances with central banks	Loans and receivables (amortised cost)	3,393,934	Amortised cost	3,388,062
Loans and advances to banks	Loans and receivables (amortised cost)	1,192,633	Amortised cost	1,192,613
Derivative financial assets	FVPL	18,027	FVPL (mandatory)	18,027
Investments (including investments pledged as collateral)	Available-for-sale	929,297	FVOCI	932,105
	Loans and receivables (amortised cost)	48,658	Amortised cost	46,815
	FVPL	142,657	FVPL	139,831
Loans and advances to customers	Loans and receivables (amortised cost)	14,602,454	Amortised cost	13,894,381
			FVPL (mandatory)	389,862
Life insurance business assets attributable to policyholders	FVPL (designated)	416,060	FVPL (designated)	416,060
Other financial assets (included in 'Prepayments, accrued income and other assets' in balance sheet)	Loans and receivables (amortised cost)	105,474	Amortised cost	98,743
			FVPL (mandatory)	6,425

Financial liabilities				
Other financial liabilities and provisions for financial guarantees and commitments	n/a	228,244	n/a	209,324

There were no other changes to the classification and measurement of financial liabilities, namely deposits by bank, funding from central banks, repurchase agreements, derivative financial liabilities, customer deposits, subordinated loan stock and other financial liabilities included in 'Accruals, deferred income and other liabilities'. The carrying amount of these financial liabilities under IAS 39 and IFRS 9 is the same.

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9

For the adoption of IFRS 9 on 1 January 2018, the Group performed an assessment of its business models for managing financial assets and analysis of their cash flow characteristics, to determine their classification and measurement category. On the basis of the result of their classification and measurement category the Group has proceeded with the measurement of those financial assets under the new measurement requirements of IFRS 9.

6. Transition disclosures (continued)

6.3. Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Ref	IAS 39 carrying amount 31 December 2017	Re-classifications	ECL Re-measurements	Other Re-measurements	IFRS 9 carrying amount 1 January 2018
Financial assets		**€000**	**€000**	**€000**	**€000**	**€000**
Amortised cost under IFRS 9						
Cash and balances with central banks						
Carrying amount under IAS 39		3,393,934				
Re-measurement: ECL allowance				(5,872)		
Carrying amount under IFRS 9						**3,388,062**
Loans and advances to banks						
Carrying amount under IAS 39		1,192,633				
Re-measurement: ECL allowance				(20)		
Carrying amount under IFRS 9						**1,192,613**
Investments (debt instruments)						
Carrying amount under IAS 39		48,658				
Re-measurement: ECL allowance				(1,843)		
Carrying amount under IFRS 9						**46,815**
Loans and advances to customers						
Carrying amount under IAS 39		14,602,454				
Reclassification: To FVPL (mandatory)	A		(388,971)			
Re-measurement: ECL allowance				(319,102)		
Carrying amount under IFRS 9						**13,894,381**
Other assets						
Carrying amount under IAS 39		105,474				
Reclassification: To FVPL (mandatory)			(6,425)			
Re-measurement: ECL allowance				(576)		
Carrying amount under IFRS 9						**98,473**
Total financial assets measured at amortised cost		19,343,153	(395,396)	(327,413)	-	**18,620,344**
Fair value through profit or loss (FVPL) under IFRS 9						
Derivative financial assets						
Carrying amount under IAS 39 and under IFRS 9 (FVPL mandatory)		18,027				**18,027**
Investments – FVPL (debt instruments and mutual funds) (mandatory)						
Carrying amount under IAS 39		135,472				
Reclassification: From available-for-sale	B		12,115			
Reclassification: To FVOCI (debt instruments)	D		(14,041)			
Carrying amount under IFRS 9						**133,546**
Investments – FVPL (equity instruments)						
Carrying amount under IAS 39		7,185				
Reclassification: From available-for-sale	C		324			
Reclassification: To FVOCI (equity instruments)	C		(1,224)			
Carrying amount under IFRS 9						**6,285**
Total investments at FVPL		142,657	(2,826)	-	-	**139,831**
Loans and advances to customers (mandatory FVPL)						
Carrying amount under IAS 39		-				
Reclassification: From loans and receivables (amortised cost)	A		388,971			
Re-measurement: Fair value					891	

6. Transition disclosures (continued)

6.3. Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount 31 December 2017	Re-classifications	ECL Re-measurements	Other Re-measurements	IFRS 9 carrying amount 1 January 2018
Financial assets (continued)		**€000**	**€000**	**€000**	**€000**	**€000**
Carrying amount under IFRS 9						**389,862**
Life insurance business assets attributable to policyholders						
Carrying amount under IAS 39 and under IFRS 9 (FVPL designated)	G	416,060				**416,060**
Other assets (mandatory FVPL)						
Carrying amount under IAS 39		-				
Reclassification: From amortised cost			6,425			
Carrying amount under IFRS 9						**6,425**
Total financial assets measured at FVPL		576,744	392,570	-	891	**970,205**
Fair value through other comprehensive income (FVOCI) under IFRS 9						
Investments – FVOCI (debt instruments)						
Carrying amount under IAS 39		n/a				
Reclassification: From available for sale	E		901,234			
Reclassification: From FVPL	D		14,041			
Re-measurement: ECL allowance				(18)		
Carrying amount under IFRS 9						**915,257**
Investments – FVOCI (equity instruments)						
Carrying amount under IAS 39		n/a				
Reclassification: From available for sale	C		15,624			
Reclassification: From FVPL	C		1,224			
Carrying amount under IFRS 9						**16,848**
Total financial assets measured at FVOCI		-	932,123	(18)	-	**932,105**
Investments – Available-for-sale financial assets						
Carrying amount under IAS 39		929,297				
Reclassification: To FVPL – debt instruments (mandatory)	B		(12,115)			
Reclassification: To FVPL – equity instruments	C		(324)			
Reclassification: To FVOCI – equity instruments	C		(15,624)			
Reclassification: To FVOCI – debt instruments	E		(901,234)			
Carrying amount under IFRS 9						**n/a**
		929,297	(929,297)	-	-	**-**

Financial liabilities						
Other liabilities						
Carrying amount under IAS 39		228,244				
Re-measurement: ECL allowance				(18,920)		
Carrying amount under IFRS 9						**209,324**
		228,244	-	(18,920)	-	**209,324**

A. Loans and advances to customers carried at amortised cost under IAS 39 of a carrying amount of €388,971 thousand as at 31 December 2017, failed to meet the SPPI criteria and, as a result, have been classified at FVPL on 1 January 2018 and re-measured then at fair value with an initial application impact of €891 thousand. The Group did not voluntarily designate any loans previously measured at amortised cost as financial assets at FVPL.

6. Transition disclosures (continued)

6.3. Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

B. The Group has classified certain debt and non-equity instruments of a carrying value of €12,115 thousand that were previously classified as available-for-sale under IAS 39 as investments at FVPL as these instruments failed to meet the SPPI criteria.

C. The Group has made an irrevocable election to classify the majority of its equity investments of a carrying value of €15,624 thousand that were classified as available-for-sale under IAS 39 as equity instruments at FVOCI on transition to IFRS 9. The Group has also elected to classify at FVOCI under IFRS 9, equity investments which were classified at FVPL under IAS 39 of an amount of €1,224 thousand, as they were not held for trading on 1 January 2018. Equity investments of a carrying amount of €1,420 thousand that were held for trading e.g. acquired principally for the purpose of selling or repurchasing in the near term will continue to be measured at FVPL under IFRS 9.

D. The Group holds debt instruments of €14,041 thousand which were classified at FVPL as they were held for trading under IAS 39. As of 1 January 2018, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, since these instruments pass the SPPI criteria, the Group classified these investments as debt instruments measured at FVOCI.

E. Debt instruments that were classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9 since they meet the SPPI criteria and the Group concluded that apart from a small portion (refer to B above) these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets and have therefore been classified at FVOCI.

F. There is no impact on deferred tax on adoption of IFRS 9.

G. The Life insurance business assets attributable to policyholders are designated at FVPL because they eliminate inconsistent treatment that would otherwise arise from measuring such assets on a different basis to the liabilities such assets fund.

6.4 Impact on transition to IFRS 9: Financial instruments fair value reserve and accumulated losses

The impact on transition to IFRS 9 on financial instruments fair value reserve and accumulated losses is as follows:

	Accumulated losses	Financial instruments fair value reserve
	€000	**€000**
Balance under IAS 39 (31 December 2017)	(527,128)	54,485
Recognition of IFRS 9 ECL including those measured of FVOCI (Note 6.5)	(308,511)	-
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	891	-
Debt instruments from FVPL to FVOCI	(807)	807
Debt instruments from available-for-sale to FVOCI	(854)	854
Debt instruments from available-for-sale to FVPL	3,419	(3,419)
Equity securities from available-for-sale to FVOCI	6,487	(6,487)
Equity securities from FVPL to FVOCI	225	(225)
Restated balance at 1 January 2018	**(826,278)**	**46,015**

6. Transition disclosures (continued)

6.5 Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9

The following table reconciles the opening loss provision allowances under IAS 39 and provisions for financial guarantees and commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Note 46.

	Provision under IAS 39/Provision under IAS 37	**Re-classification**	**Re-measurement**	**ECLs under IFRS 9 at 1 January 2018**
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)	**€000**	**€000**	**€000**	**€000**
Cash and balances with central banks	-	-	5,872	**5,872**
Loans and advances to banks	24,998	-	20	**25,018**
Investments (debt securities) – amortised cost	-	-	1,843	**1,843**
Loans and advances to customers	3,483,776	(30,926)	319,102	**3,771,952**
Other assets	1,198	-	576	**1,774**
	3,509,972	(30,926)	327,413	**3,806,459**
Available for sale (IAS 39)/ Financial assets at FVOCI (IFRS 9)				
Investments (debt securities)	-	-	18	**18**
Provisions for financial guarantees and commitments				
Financial guarantees	48,300	-	(15,233)	**33,067**
Other commitments	3,687	-	(3,687)	**-**
	51,987	-	(18,920)	**33,067**
Total	**3,561,959**	**(30,926)**	**308,511**	**3,839,544**

Reclassification of an amount €30,926 thousand from loans and advances to customers relates to loan loss provisions under IAS 39 as at 31 December 2017 on loans and advances to customers which failed the SPPI criteria and, as a result, have been classified at FVPL.

As at 1 January 2018 the expected credit loss allowance on the other commitments is presented together with the loss allowance for expected credit losses on the associated loans and advances to customers since the expected credit losses related to the on and off balance sheet components cannot be separately identified.

7. Segmental analysis

Following the sale of its 100% subsidiaries, Bank of Cyprus UK Limited and Bank of Cyprus Financial Services Ltd, the Group's activities are mainly concentrated in Cyprus. Cyprus operations are organised into operating segments based on the line of business. In this respect, the Group has changed its primary segmental analysis including comparative information from analysis by geography to analysis by business line. In previous reporting periods, analysis by business line was presented as secondary segmental reporting analysis. The operating segments are analysed below:

The Corporate, Small and medium-sized enterprises and Retail business lines are managing loans and advances to customers as detailed in 'Credit risk concentration of loans and advances to customers' (Note 46).

7. Segmental analysis (continued)

Restructuring and recoveries is the specialised unit which was set up to tackle the Group's loan portfolio quality and manages exposures to borrowers in distress situation through innovative solutions.

International banking services specialises in the offering of banking services to the international corporate and non-resident individuals, particularly international business companies whose ownership and business activities lie outside Cyprus.

Wealth management oversees the provision of institutional wealth private banking, global markets, brokerage, asset management, investment banking and depository services.

The Real Estate Management Unit manages properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, and executes exit strategies in order to monetise these assets.

Treasury is responsible for liquidity management and for overseeing operations to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. As from the period ended 30 June 2018, Treasury represents a separate business line. Previously Treasury was disclosed within the business line 'Other'. Comparatives are not represented since the necessary information is not readily available and can only be obtained through a cumbersome manual process which could lead to inaccurate results with high development cost.

The Insurance business line is involved in both life and general insurance business.

The business line 'Other' includes head office functions such as finance, risk management, compliance, legal, corporate affairs and human resources. For 2017 business line 'Other' includes also Treasury. Head office functions provide services to the operating segments.

Overseas activities include Greece, Romania, UK and Russia which are separate operating segments for which information is provided to management but, due to their size, have been grouped for disclosure purposes into one segment, namely 'Overseas'.

The results of the UK subsidiary, disposed of during 2018, are presented as discontinued operations. Comparatives are represented accordingly. The results of the remaining operations in the United Kingdom being the management of a small portfolio of loans, are presented within continuing operations within overseas.

Management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis.

Operating segment disclosures are provided as presented to the Group Executive Committee.

7. Segmental analysis (continued)

Income and expenses directly associated with each business line are included in determining the line's performance. Transfer pricing methodologies are applied between the business lines to present their results on an arm's length basis. Total other operating income includes net foreign exchange gains, net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates, insurance income net of claims and commissions, net (losses)/gains from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income. Total other operating income, staff costs and other operating expenses incurred directly by the business lines are allocated to the business lines as incurred. As from the year ended 31 December 2018 indirect other operating income and indirect other operating expenses are re-allocated from the head office function to the business lines. For the year ended 31 December 2017, these items were allocated to the head office function. Comparatives were not represented since the necessary information is not available and any attempt to develop it could lead to inaccurate results with high development costs and delays. Management monitors the profit/(loss) before tax of each business line. Additionally, for the purposes of the Cyprus analysis by business line, notional tax at the 12.5% Cyprus tax rate is charged/credited on profit or loss before tax of each business line and therefore any taxable and non-taxable items are excluded from this notional charge/credit.

The loans and advances to customers, the customer deposits and the related income and expense are generally included in the segment where the business is originated, instead of the segment where the transaction is recorded. Loans and advances to customers which are originated in countries where the Group does not have operating entities are included in the country where they are managed.

7. Segmental analysis (continued)

Analysis by business line

Continuing operations

2018	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total continuing operations**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Net interest income/(expense)	99,643	38,932	181,335	57,708	50,634	8,106	(16,741)	208	19,514	(11,580)	**427,759**	(8,684)	**419,075**
Net fee and commission income/(expense)	14,998	9,833	46,102	13,309	62,982	2,330	-	(6,134)	1,763	20,946	**166,129**	357	**166,486**
Net foreign exchange gains	892	649	3,427	274	7,515	3,250	-	-	17,353	3,192	**36,552**	1,136	**37,688**
Net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	2,380	-	-	13,745	-	70	-	(469)	21,755	41,000	**78,481**	(31,811)	**46,670**
Insurance income net of claims and commissions	-	-	-	-	-	-	-	51,101	-	-	**51,101**	1,811	**52,912**
Net losses from revaluation and disposal of investment properties	-	-	-	-	-	-	(15,544)	35	-	3,875	**(11,634)**	(1,641)	**(13,275)**
Net gains on disposal of stock of property	-	-	-	-	-	-	31,043	-	-	62	**31,105**	762	**31,867**
Total other income	67	12	117	19	4	64	16,418	718	-	6,503	**23,922**	1,682	**25,604**
	117,980	49,426	230,981	85,055	121,135	13,820	15,176	45,459	60,385	63,998	**803,415**	(36,388)	**767,027**
Staff costs	(7,902)	(5,641)	(69,949)	(23,857)	(15,501)	(3,761)	(2,033)	(9,709)	(1,581)	(75,821)	**(215,755)**	(985)	**(216,740)**
Other operating expenses (excluding advisory and other restructuring costs)	(23,394)	(14,161)	(104,749)	(41,134)	(27,709)	(3,509)	(4,149)	(9,058)	(7,677)	54,374	**(181,166)**	(16,273)	**(197,439)**
Special levy on deposits on credit institutions and contribution to Single Resolution Fund	-	-	-	-	-	-	-	-	-	(25,095)	**(25,095)**	-	**(25,095)**
Other operating expenses - advisory and other restructuring costs	(32)	(6)	(59)	(39,192)	(13)	(6)	(3,792)	-	-	(7,389)	**(50,489)**	(564)	**(51,053)**
	86,652	29,618	56,224	(19,128)	77,912	6,544	5,202	26,692	51,127	10,067	**330,910**	(54,210)	**276,700**
Net gains on derecognition of financial assets measured at amortised cost	7,701	2,305	9,835	6,913	901	26	-	-	90	-	**27,771**	54	**27,825**
Credit (losses)/gains to cover credit risk on loans and advances to customers	(4,275)	436	(12,498)	(308,856)	(22,350)	(395)	-	-	-	2,896	**(345,042)**	15,959	**(329,083)**
Credit (losses)/gains of other financial instruments	-	-	-	-	-	-	-	(330)	4,988	(2,139)	**2,519**	(4,129)	**(1,610)**
Impairment of non-financial instruments	-	-	-	-	-	-	(11,457)	-	-	(1,379)	**(12,836)**	(5,815)	**(18,651)**
Share of profit from associates	-	-	-	-	-	-	-	-	-	9,095	**9,095**	-	**9,095**
Profit/(loss) before tax	90,078	32,359	53,561	(321,071)	56,463	6,175	(6,255)	26,362	56,205	18,540	**12,417**	(48,141)	**(35,724)**
Income tax	(11,260)	(4,045)	(6,695)	40,134	(7,058)	(772)	782	(3,295)	(7,026)	(80,578)	**(79,813)**	3,897	**(75,916)**
Profit/(loss) after tax	78,818	28,314	46,866	(280,937)	49,405	5,403	(5,473)	23,067	49,179	(62,038)	**(67,396)**	(44,244)	**(111,640)**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	(1,488)	**(1,488)**	-	**(1,488)**
Profit/(loss) after tax attributable to the owners of the Company	**78,818**	**28,314**	**46,866**	**(280,937)**	**49,405**	**5,403**	**(5,473)**	**23,067**	**49,179**	**(63,526)**	**(68,884)**	**(44,244)**	**(113,128)**

7. Segmental analysis (continued)

2017	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	**Total Cyprus**	Overseas	**Total continuing operations**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Net interest income/(expense)	100,471	50,175	213,909	130,780	66,174	9,728	(17,944)	428	(6,627)	**547,094**	(3,161)	**543,933**
Net fee and commission income/(expense)	13,740	9,875	49,589	13,085	66,746	2,526	-	(4,929)	21,854	**172,486**	1,055	**173,541**
Net foreign exchange gains/(losses)	705	619	4,525	334	7,417	3,301	-	-	29,030	**45,931**	(869)	**45,062**
Net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	-	-	-	-	-	-	-	45	2,975	**3,020**	(12)	**3,008**
Insurance income net of claims and commissions	-	-	-	-	-	-	-	48,760	-	**48,760**	1,641	**50,401**
Net losses from revaluation and disposal of investment properties	-	-	-	-	-	-	(1,625)	-	(862)	**(2,487)**	(1,574)	**(4,061)**
Net gains/(losses) on disposal of stock of property	-	-	-	-	-	-	31,232	-	280	**31,512**	(1,065)	**30,447**
Other income	8	10	429	26	(5)	33	3,762	430	12,687	**17,380**	1,689	**19,069**
	114,924	60,679	268,452	144,225	140,332	15,588	15,425	44,734	59,337	**863,696**	(2,296)	**861,400**
Staff costs (excluding voluntary exit plans and other termination benefits)	(7,235)	(5,345)	(66,509)	(22,198)	(14,151)	(3,044)	(1,742)	(9,090)	(73,806)	**(203,120)**	(2,224)	**(205,344)**
Staff costs-voluntary exit plans and other termination benefits	-	-	-	-	-	-	-	(206)	(338)	**(544)**	-	**(544)**
Special levy on deposits on credit institutions and contribution to Single Resolution Fund	-	-	-	-	-	-	-	-	(22,846)	**(22,846)**	-	**(22,846)**
Other operating expenses (excluding advisory and other restructuring costs)	(4,408)	(5,744)	(45,095)	(12,173)	(11,200)	(1,277)	(5,953)	(8,776)	(104,508)	**(199,134)**	(47,442)	**(246,576)**
Other operating expenses - advisory and other restructuring costs	-	-	-	(16,903)	-	(2)	(6,294)	-	(5,068)	**(28,267)**	(533)	**(28,800)**
	103,281	49,590	156,848	92,951	114,981	11,265	1,436	26,662	(147,229)	**409,785**	(52,495)	**357,290**
Net gain on derecognition of financial assets measured at amortised cost	15,825	4,428	13,323	136,268	935	39	-	-	2,595	**173,413**	30	**173,443**
Credit (losses)/gains to cover credit risk on loans and advances to customers	(20,940)	(13,512)	(48,032)	(841,480)	(10,666)	(486)	-	-	448	**(934,668)**	(18,830)	**(953,498)**
Credit (losses)/gains of other financial instruments	-	-	-	-	-	-	-	-	(11,956)	**(11,956)**	5,497	**(6,459)**
Impairment of non-financial instruments	-	-	-	-	-	-	(21,588)	(62)	(617)	**(22,267)**	(36,705)	**(58,972)**
Share of profit from associates	-	-	-	-	-	-	-	-	8,957	**8,957**	-	**8,957**
Profit/(loss) before tax	98,166	40,506	122,139	(612,261)	105,250	10,818	(20,152)	26,600	(147,802)	**(376,736)**	(102,503)	**(479,239)**
Income tax	(12,271)	(5,063)	(15,267)	76,533	(13,156)	(1,352)	2,519	(1,400)	(103,059)	**(72,516)**	(3,057)	**(75,573)**
Profit/(loss) after tax	85,895	35,443	106,872	(535,728)	92,094	9,466	(17,633)	25,200	(250,861)	**(449,252)**	(105,560)	**(554,812)**
Non-controlling interests-loss	-	-	-	-	-	-	-	-	2,473	**2,473**	-	**2,473**
Profit/(loss) after tax attributable to the owners of the Company	**85,895**	**35,443**	**106,872**	**(535,728)**	**92,094**	**9,466**	**(17,633)**	**25,200**	**(248,388)**	**(446,779)**	**(105,560)**	**(552,339)**

7. Segmental analysis (continued)

Discontinued operations

	2018 €000	2017 €000
Net interest income	**34,764**	38,831
Net fee and commission income	**5,063**	6,857
Net foreign exchange gains	**250**	346
Net losses on financial instrument transactions	**(57)**	(44)
Other income	**-**	10
	40,020	46,000
Staff costs	**(17,624)**	(22,324)
Other operating expenses	**(14,094)**	(22,661)
	8,302	1,015
Credit gains to cover credit risk on loans and advances to customers	**624**	572
Profit before tax	**8,926**	1,587
Income tax	**(1,683)**	(1,107)
Profit after tax	**7,243**	480

Further information on the disposal of Bank of Cyprus UK Limited is disclosed in Note 53.2.1.

7. Segmental analysis (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains/(losses) on disposal of stock of property and other income.

Continuing operations

2018	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total continuing operations**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Total revenue from third parties	138,267	53,669	116,012	233,260	68,574	4,323	31,917	50,561	39,760	58,470	**794,813**	(27,786)	**767,027**
Inter-segment revenue/(expense)	(20,287)	(4,243)	114,969	(148,205)	52,561	9,497	(16,741)	(5,102)	20,625	(3,074)	**-**	-	**-**
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	-	8,602	**8,602**	(8,602)	**-**
Total revenue	**117,980**	**49,426**	**230,981**	**85,055**	**121,135**	**13,820**	**15,176**	**45,459**	**60,385**	**63,998**	**803,415**	**(36,388)**	**767,027**

2017	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	**Total Cyprus**	Overseas	**Total continuing operations**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Total revenue from third parties	124,291	64,737	131,630	315,161	74,718	23	33,369	48,549	62,926	**855,404**	5,996	**861,400**
Inter-segment revenue/(expense)	(9,367)	(4,058)	136,822	(170,936)	65,614	15,565	(17,944)	(3,815)	(11,881)	**-**	-	**-**
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	8,292	**8,292**	(8,292)	**-**
Total revenue	**114,924**	**60,679**	**268,452**	**144,225**	**140,332**	**15,588**	**15,425**	**44,734**	**59,337**	**863,696**	**(2,296)**	**861,400**

The revenue from Overseas mainly relates to banking and financial services for 2018 and 2017.

7. Segmental analysis (continued)

Analysis of assets and liabilities

2018	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Assets													
Assets	3,524,412	1,150,640	3,699,397	2,229,146	178,627	98,851	1,658,982	816,336	6,396,620	2,581,300	**22,334,311**	254,988	**22,589,299**
Inter-segment assets	-	-	-	-	-	-	-	(39,642)	-	(59,133)	**(98,775)**	-	**(98,775)**
	3,524,412	**1,150,640**	**3,699,397**	**2,229,146**	**178,627**	**98,851**	**1,658,982**	**776,694**	**6,396,620**	**2,522,167**	**22,235,536**	**254,988**	**22,490,524**
Assets between Cyprus and overseas operations													**(415,339)**
Total assets													**22,075,185**

2017	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	**Total Cyprus**	Overseas	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Assets												
Assets	3,142,341	1,183,151	3,932,956	4,380,174	235,184	45,438	1,417,420	831,698	6,589,324	**21,757,686**	2,553,519	**24,311,205**
Inter-segment assets	-	-	-	-	-	-	-	(45,391)	-	**(45,391)**	-	**(45,391)**
	3,142,341	**1,183,151**	**3,932,956**	**4,380,174**	**235,184**	**45,438**	**1,417,420**	**786,307**	**6,589,324**	**21,712,295**	**2,553,519**	**24,265,814**
Assets between Cyprus and overseas operations												**(667,400)**
Total assets												**23,598,414**

7. Segmental analysis (continued)

2018	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Liabilities												
Liabilities	1,750,517	800,671	10,032,047	121,744	3,707,713	430,866	632,308	1,877,549	452,535	**19,805,950**	417,159	**20,223,109**
Inter-segment liabilities	-	-	-	-	-	-	-	(98,775)	-	**(98,775)**	-	**(98,775)**
	1,750,517	**800,671**	**10,032,047**	**121,744**	**3,707,713**	**430,866**	**632,308**	**1,778,774**	**452,535**	**19,707,175**	**417,159**	**20,124,334**
Liabilities between Cyprus and overseas operations												**(416,564)**
Total liabilities												**19,707,770**

2017	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	**Total Cyprus**	Overseas	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Liabilities											
Liabilities	1,529,521	665,940	8,670,625	192,442	4,163,384	760,993	641,922	2,355,551	**18,980,378**	2,716,667	**21,697,045**
Inter-segment liabilities	-	-	-	-	-	-	-	(45,391)	**(45,391)**	-	**(45,391)**
	1,529,521	**665,940**	**8,670,625**	**192,442**	**4,163,384**	**760,993**	**641,922**	**2,310,160**	**18,934,987**	**2,716,667**	**21,651,654**
Liabilities between Cyprus and overseas operations											**(669,941)**
Total liabilities											**20,981,713**

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 32, 46.2 and 46.7, respectively.

8. Interest income and income similar to interest income

Interest income

	2018	2017 (represented)
	€000	€000
Financial assets at amortised cost:		
- Loans and advances to customers	**526,490**	689,578
- Loans and advances to banks and central banks	**5,179**	11,101
- Debt securities	**5,445**	-
Debt securities at FVOCI	**19,973**	-
Investments available-for-sale	**-**	19,883
Investments classified as loans and receivables	**-**	2,706
	557,087	723,268

Income similar to interest income

	2018	2017 (represented)
	€000	€000
Loans and advances to customers at FVPL	**16,562**	-
Derivative financial instruments	**35,478**	31,798
Trading investments	**-**	14
Other investments at FVPL	**-**	66
Investments mandatorily classified at FVPL	**14**	-
	52,054	31,878

9. Interest expense and expense similar to interest expense

Interest expense

	2018	2017 (represented)
Financial liabilities at amortised cost:	**€000**	€000
Customer deposits	**93,457**	125,036
Funding from central banks and deposits by banks	**2,902**	2,648
Subordinated loan stock	**23,325**	22,176
Repurchase agreements	**10,198**	10,207
Negative interest on loans and advances to banks and central banks	**14,142**	7,132
	144,024	167,199

Expense similar to interest expense

	2018	2017 (represented)
	€000	€000
Derivative financial instruments	**46,042**	44,014

10. Fee and commission income and expense

Fee and commission income

	2018	2017 (represented)
	€000	€000
Credit-related fees and commissions	**58,228**	68,329
Other banking commissions	**97,705**	94,673
Mutual funds and asset management fees	**2,934**	2,777
Brokerage commissions	**757**	951
Other commissions	**19,283**	17,022
	178,907	183,752

Mutual funds and asset management fees relate to fiduciary and other similar activities.

Other banking commissions include commissions from credit card arrangements amounting to €36,593 thousand (2017: €41,016 thousand).

Fee and commission expense

	2018	2017 (represented)
	€000	€000
Banking commissions	**11,999**	9,860
Mutual funds and asset management fees	**283**	244
Brokerage commissions	**139**	107
	12,421	10,211

11. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

12. Net gains on financial instrument transactions and on disposal/dissolution of subsidiaries and associates

	2018	2017 (represented)
Trading portfolio:	**€000**	€000
- equity securities	**-**	229
- debt securities	**-**	62
- derivative financial instruments	**115**	460
Other investments at FVPL:		
- debt securities	**359**	(57)
- equity securities	**1,872**	660
Net gains on disposal of FVOCI debt securities	**19,484**	-
Net gains on disposal of available-for-sale investments:		
- equity securities	**-**	1,520
- debt securities	**-**	2,104
Net gains on loans and advances to customers at FVPL	**16,125**	-
Realised losses on disposal of loans	**-**	(12)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments (Note 22)	**(10,028)**	13,020
- hedged items (Note 22)	**11,103**	(12,791)
Net gain on financial liabilities at FVPL	**1,435**	-
Gain/(loss) on disposal/dissolution of subsidiaries and associates	**6,205**	(2,187)
	46,670	3,008

The gain on disposal/dissolution of subsidiaries for 2018 primarily relates to gain on disposal of Bank of Cyprus UK Limited (Note 53.2.1) and gain on dissolution of the branch in Romania (Note 52). The loss on disposal of subsidiaries for 2017, primarily relates to loss on disposal of Hotel New Montana SRL.

13. Insurance income net of claims and commissions

	2018			2017		
	Income	**Claims and commissions**	**Insurance income net of claims and commissions**	Income	Claims and commissions	Insurance income net of claims and commissions
	€000	**€000**	**€000**	€000	€000	€000
Life insurance business	**65,824**	**(37,404)**	**28,420**	102,259	(74,110)	28,149
General insurance business	**48,875**	**(24,383)**	**24,492**	44,789	(22,537)	22,252
	114,699	**(61,787)**	**52,912**	147,048	(96,647)	50,401

13. Insurance income net of claims and commissions (continued)

	2018		2017	
	Life insurance	**General insurance**	Life insurance	General insurance
Income	**€000**	**€000**	€000	€000
Gross premiums	**90,721**	**72,912**	86,277	65,701
Reinsurance premiums	**(14,917)**	**(32,128)**	(14,842)	(29,246)
Net premiums	**75,804**	**40,784**	71,435	36,455
Change in provision for unearned premiums	**-**	**(1,215)**	-	(1,187)
Total net earned premiums	**75,804**	**39,569**	71,435	35,268
Investment income and other income	**(11,302)**	**12**	22,157	10
Commissions from reinsurers and other income	**6,636**	**9,294**	5,924	9,511
	71,138	**48,875**	99,516	44,789
Change in value of in-force business before tax (Note 27)	**(5,314)**	**-**	2,743	-
	65,824	**48,875**	102,259	44,789

Claims and commissions				
Gross payments to policyholders	**(47,030)**	**(34,516)**	(54,515)	(27,017)
Reinsurers' share of payments to policyholders	**5,158**	**14,735**	7,837	13,643
Gross change in insurance contract liabilities	**15,221**	**935**	(16,812)	(3,177)
Reinsurers' share of gross change in insurance contract liabilities	**(7)**	**(241)**	(771)	(1,476)
Commissions paid to agents and other direct selling costs	**(10,746)**	**(5,316)**	(9,849)	(4,509)
Changes in equalisation reserve	**-**	**20**	-	(1)
	(37,404)	**(24,383)**	(74,110)	(22,537)

In addition to the above, the following income and expense items related to the insurance operations have been recognised in the consolidated income statement:

	2018		2017	
	Life insurance	**General insurance**	Life insurance	General insurance
	€000	**€000**	€000	€000
Net expense from non-linked insurance business assets	**(71)**	**(90)**	(66)	79
Net (losses)/profits on financial instrument transactions and other non-linked insurance business income	**(505)**	**(737)**	(192)	96
Staff costs	**(5,385)**	**(4,509)**	(5,162)	(4,127)
Staff costs – restructuring costs	**-**	**-**	(206)	-
Other operating expenses	**(6,177)**	**(5,761)**	(6,021)	(2,683)

14. Other income

	2018	2017 (represented)
	€000	€000
Dividend income	**547**	683
Profit/(loss) on sale and write-off of property and equipment and intangible assets	**99**	(208)
Rental income from investment properties	**10,883**	2,219
Rental income from stock of property	**2,625**	7,981
Profit from hotel and golf activities	**5,727**	3,581
Other income	**5,723**	4,813
	25,604	19,069

Dividend income relates to Cyprus operations.

The profit from hotel and golf activities primarily relates to activities of subsidiaries acquired in debt satisfaction as part of loan restructuring activity.

15. Staff costs

	2018	2017 (represented)
	€000	€000
Salaries	**176,624**	166,436
Employer's contributions to state social insurance	**24,610**	23,080
Retirement benefit plan costs	**15,506**	15,828
	216,740	205,344
Restructuring costs - voluntary exit plans and other termination benefits	**-**	544
	216,740	205,888

During 2017 a small number of employees left the Group under the same terms of the voluntary exit plan which took place during 2016. The cost of this exit amounted to €544 thousand.

The number of persons employed by the Group as at 31 December 2018 was 4,146 (2017: 4,355).

The following table shows the average number of employees (full-time equivalents) based on their geographical location:

	2018	2017
Cyprus	**4,116**	4,034
United Kingdom	**196**	249
Other countries	**29**	31
	4,341	4,314

15. Staff costs (continued)

The following table shows the business line analysis of average employees in Cyprus for 2018 and 2017 and the Group's other geographical locations as follows:

	2018	2017
Corporate	**153**	143
Small and medium-sized enterprises	**110**	108
Retail	**1,510**	1,407
Restructuring and recoveries	**441**	442
International banking services	**334**	329
Wealth management	**59**	54
Treasury	**36**	37
REMU	**40**	28
Insurance	**208**	192
Other (primarily head office functions)	**1,225**	1,294
Total Cyprus	**4,116**	4,034
United Kingdom	**196**	249
Other countries	**29**	31
	4,341	4,314

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance, the Group operates plans for the provision of additional retirement benefits as described below:

	2018	2017
	€000	€000
Defined benefit plans	**824**	1,897
Defined contribution plans	**14,682**	13,931
	15,506	15,828

Cyprus
The main retirement plan for the Group's permanent employees in Cyprus (89% of total Group employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2017: 9%) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded with assets backing the obligations held in separate legal vehicles.

Greece
After the disposal of the Greek operations in 2013, a small number of employees of the Group's Greek subsidiaries and the Greek branch of the Company continue to be members of the defined benefit plans.

15. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom
Prior to the sale of UK subsidiary, the Group's employees in the United Kingdom were covered by a defined contribution plan for all employees which provided for employee contributions of 0%-7.5% on the employees' gross salaries and employer contributions of 7.5% plus matching contributions by the employer of up to 7.5% depending on the employee contributions. In addition, a defined benefit plan (which was closed in December 2008 to future accrual of benefits) remains for active members.

Other countries
The Group does not operate any retirement benefit plans in Romania and Russia.

Analysis of the results of the actuarial valuations for the defined benefit plans

Amounts recognised in the consolidated balance sheet	**2018 €000**	2017 €000
Liabilities (Note 35)	**8,777**	10,037

One of the plans has a funded status surplus of €7,694 thousand (2017: €13,814 thousand) that is not recognised as an asset on the basis that the Group has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

The amounts recognised in the consolidated balance sheet and the movements in the net defined benefit obligation over the years are presented below:

15. Staff costs (continued)

Retirement benefit plan costs (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ as set ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2018	82,900	(86,677)	(3,777)	13,814	**10,037**
Current service cost	429	-	429	-	**429**
Loss on curtailment and settlement	48	-	48	-	**48**
Net interest expense/(income)	1,941	(1,948)	(7)	-	**(7)**
Past service cost arising over last year	354	-	354	-	**354**
Total amount recognised in the consolidated income statement	2,772	(1,948)	824	-	**824**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	6,732	6,732	-	**6,732**
Actuarial loss from changes in financial assumptions	(4,523)	-	(4,523)	-	**(4,523)**
Demographic assumptions	(560)	-	(560)	-	**(560)**
Experience adjustments	383	-	383	-	**383**
Change in asset ceiling	-	-	-	(6,120)	**(6,120)**
Asset adjustment	-	5,000	5,000	-	**5,000**
Total amount recognised in the consolidated OCI	(4,700)	11,732	7,032	(6,120)	**912**
Exchange differences	(713)	629	(84)	-	**(84)**
Contributions:					
Employer	-	(2,912)	(2,912)	-	**(2,912)**
Plan participants	185	(185)	-	-	**-**
Benefits paid from the plans	(3,995)	3,995	-	-	**-**
31 December 2018	**76,449**	**(75,366)**	**1,083**	**7,694**	**8,777**

15. Staff costs (continued)

Retirement benefit plan costs (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2017	102,955	(94,846)	8,109	13,999	**22,108**
Current service cost	408	-	408	-	**408**
Loss on curtailment and settlement	1,150	-	1,150	-	**1,150**
Net interest expense/(income)	2,458	(2,119)	339	-	**339**
Total amount recognised in the consolidated income statement	4,016	(2,119)	1,897	-	**1,897**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	(5,209)	(5,209)	-	**(5,209)**
Actuarial loss from changes in financial assumptions	566	-	566	-	**566**
Demographic assumptions	(2,041)	-	(2,041)	-	**(2,041)**
Experience adjustments	(3,950)	-	(3,950)	-	**(3,950)**
Change in asset ceiling	-	-	-	(185)	**(185)**
Total amount recognised in the consolidated OCI	(5,425)	(5,209)	(10,634)	(185)	**(10,819)**
Exchange differences	(2,551)	1,849	(702)	-	**(702)**
Contributions:					
Employer	-	(2,447)	(2,447)	-	**(2,447)**
Plan participants	176	(176)	-	-	**-**
Benefits paid from the plans	(16,271)	16,271	-	-	**-**
31 December 2017	**82,900**	**(86,677)**	**(3,777)**	**13,814**	**10,037**

15. Staff costs (continued)

Retirement benefit plan costs (continued)

The actual return on plan assets for year 2018 was a loss of €4,784 thousand (2017: gain of €7,328 thousand).

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Group is exposed to a number of risks as outlined below:

Interest rate risk	The Group is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Group faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2018	2017
Equity securities	**47%**	48%
Debt securities	**43%**	42%
Loans and advances to banks	**10%**	10%
	100%	100%

The assets held by the funded plans include equity securities issued by Bank of Cyprus Holdings Public Limited Company, the fair value of which is as at 31 December 2018 €1,347 thousand (2017: €2,137 thousand).

The Group expects to make additional contributions to defined benefit plans of €3,105 thousand during 2019.

At the end of the reporting period, the average duration of the defined benefit obligation was 18.0 years (2017: 19.3 years).

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations
The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Group during 2018 and 2017 are set out below:

2018	**Cyprus**	**Greece**	**UK**
Discount rate	**1.79%-1.98%**	**1.40%-2.10%**	**2.90%**
Inflation rate	**1.75%**	**1.75%**	**3.20%**
Future salary increases	**2.25%**	**2.00%**	**n/a**
Rate of pension increase	**2.00%**	**n/a**	**3.05%**
Life expectancy for pensioners at age 60	**23.5 years M 29.6 years F**	**n/a**	**n/a**
Life expectancy for pensioners at age 65	**n/a**	**n/a**	**22.7 years M 25.3 years F**
2017			
Discount rate	1.58%-1.68%	1.30%-1.90%	2.55%
Inflation rate	1.75%	1.75%	3.20%
Future salary increases	2.25%	2.00%	n/a
Rate of pension increase	2.00%	n/a	3.00%
Life expectancy for pensioners at age 60	23.5 years M 29.6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23.0 years M 24.5 years F

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 19% of the defined benefit obligations, the Group adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Group's plan in the UK which comprises 81% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

15. Staff costs (continued)

Retirement benefit plan costs (continued)

The impact of significant assumptions' fluctuations on the defined benefit obligation as at 31 December 2018 and 2017 is presented below:

Variable	**2018**		2017	
	Change +0.5%	**Change -0.5%**	Change +0.5%	Change -0.5%
Discount rate	**-8.2%**	**8.9%**	-11.4%	12.3%
Inflation growth rate	**4.7%**	**-4.6%**	9.6%	-8.9%
Salary growth rate	**1.2%**	**-1.1%**	1.1%	-1.0%
Pension growth rate	**0.1%**	**-0.1%**	0.1%	-0.1%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-4.3%**	**4.3%**	-1.5%	1.9%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the consolidated balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

16. Other operating expenses

	2018	2017
	€000	€000
Repairs and maintenance of property and equipment	**23,513**	19,383
Other property-related costs	**13,802**	17,241
Operating lease rentals for property and equipment	**9,833**	9,407
Consultancy and other professional services fees	**18,118**	17,203
Insurance	**7,043**	7,906
Advertising and marketing	**15,355**	18,270
Depreciation of property and equipment (Note 26)	**11,112**	10,857
Amortisation of intangible assets (Note 27)	**13,217**	8,743
Communication expenses	**8,832**	8,337
Provisions and settlements of litigations, claims and provisions for regulatory matters (Note 40.3)	**26,370**	92,939
Printing and stationery	**2,204**	2,677
Local cash transfer expenses	**2,991**	3,056
Other operating expenses	**45,049**	30,557
	197,439	246,576
Advisory and other restructuring costs	**51,053**	28,800
	248,492	275,376

Advisory and other restructuring costs comprise mainly fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate, (ii) the listing on the London Stock Exchange (relevant to 2017) and (iii) disposal of operations and non-core assets.

Within the total other operating expenses an amount of €1,319 thousand (2017: nil) relates to investment property that generated rental income.

16. Other operating expenses (continued)

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge.

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Group, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2018	2017
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**2,029**	2,416
Other audit-related services	**416**	407
Tax services	**473**	462
Services related to the listing on the London Stock Exchange	**-**	114
Other services	**561**	499
	3,479	3,898
Continuing operations	**3,442**	3,474
Discontinued operations	**37**	424
	3,479	3,898

17. Credit losses of financial instruments and impairment of non-financial instruments

	2018	2017 (represented)
	€000	€000
Credit losses to cover credit risk on loans and advances to customers		
Impairment loss net of reversals on loans and advances to customers (Note 46.9)	**512,956**	938,511
Recoveries of loans and advances to customers previously written off	**(140,735)**	-
Changes in expected cash flows	**(37,756)**	-
Financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	**(5,382)**	14,987
	329,083	953,498

Credit losses/(gains) of other financial instruments		
Amortised cost debt securities	**(1,011)**	-
FVOCI debt securities	**(274)**	-
Available-for-sale equity securities	**-**	63
Loans and advances to banks	**711**	7,775
Loans and advances to central banks	**(5,872)**	-
Other financial assets (Note 29)	**8,056**	(1,379)
	1,610	6,459

Impairment of non-financial instruments		
Stock of property (Note 28)	**17,272**	50,502
Property held for own use (Note 26)	**-**	8,470
Equipment (Note 26)	**11**	-
Other non-financial assets	**1,368**	-
	18,651	58,972

18. Income tax

	2018	2017 (represented)
	€000	€000
Current tax:		
- Cyprus	**3,488**	3,174
- overseas	**399**	769
Cyprus special defence contribution	**347**	175
Deferred tax	**81,436**	67,108
Prior years' tax adjustments	**(7,076)**	2,917
Other tax (credits)/charges	**(2,678)**	1,430
	75,916	75,573

The Group's share of income tax charge from associates for 2018 amounts to €1,170 thousand (2017: €1,129 thousand).

The reconciliation between the income tax expense and the loss before tax as estimated using the current income tax rates is set out below:

18. Income tax (continued)

	2018	2017
	€000	€000
Loss before tax from continuing operations	**(35,724)**	(479,239)
Income tax at the normal tax rates in Cyprus	**(4,118)**	(59,529)
Income tax effect of:		
- expenses not deductible for income tax purposes	**8,503**	22,054
- income not subject to income tax	**(15,047)**	(10,825)
- differences between overseas income tax rates and Cyprus income tax rates	**8,207**	9,105
- reversal of previously recognised deferred tax	**81,720**	66,858
- losses on which deferred tax was not recognised	**6,405**	43,563
	85,670	71,226
Prior years' tax adjustments	**(7,076)**	2,917
Other tax (credit)/charges	**(2,678)**	1,430
	75,916	75,573

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2017: 12.5%).

For life insurance business there is a minimum income tax charge of 1.5% on gross premiums. Special defence contribution is payable on rental income at a rate of 3% (2017: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2017: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2018 were: Greece 29% (2017: 29%), Romania 16% (2017: 16%), Russia 20% (2017: 20%), UK 19% (2017: 20% until 31 March 2017 and 19% thereafter).

The Group is subject to income taxes in the various jurisdictions it operates and the calculation of the Group's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters, which are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

18. Income tax (continued)

The accumulated income tax losses are presented in the table below:

	Total income tax losses	Income tax losses for which a deferred tax asset was recognised	Income tax losses for which no deferred tax asset was recognised
2018	**€000**	**€000**	**€000**
Expiring within 5 years	**950,084**	**-**	**950,084**
Expiring by the end of 2028	**7,378,801**	**2,414,176**	**4,964,625**
	8,328,885	**2,414,176**	**5,914,709**
2017			
Expiring within 5 years	2,761,640	-	2,761,640
Expiring by the end of 2028	7,378,801	3,067,936	4,310,865
	10,140,441	3,067,936	7,072,505

The deferred tax asset relates to the Laiki Bank income tax losses transferred to the Company as a result of the acquisition of certain operations on 29 March 2013. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Company's acquisition of certain operations of Laiki Bank, these tax losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of the Company by 2028 at the applicable income tax rate, currently at 12.5%.

Recognition of deferred tax assets on unutilised income tax losses is supported by management's business forecasts, taking into account available information and making various assumptions on future growth rates of customer loans, deposits, funding evolution, loan impairment and pricing, and considering the recoverability of the deferred tax assets within their expiry period.

The assessment of the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Group performed its assessment for the recoverability of its deferred tax asset as at 31 December 2018 taking into account a range of both positive and negative evidence, including the Group's actual and historic performance, the key objectives of the Group's strategy as well as the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business and capital plan, approved by the Board, up to the end of 2022 and projections which have been extrapolated beyond 2022 until the tax losses expiry date end of 2028.

The positive evidence, among others, includes:

- The Company's strong branch network in Cyprus.
- The continuous improvement of the Cyprus economy and sovereign rating.

The negative evidence, among others, includes:

- The absolute level of the DTA compared to the Group's equity (c. 13%) and the level of future profitability required for its utilisation.
- The level of forecasting over the remaining 10 years of the tax losses expiry date.
- Impact of Brexit and instability in the Eurozone.
- Legislative changes and the likelihood of future developments and their impact on profitability.

18. Income tax (continued)

The financial projections have taken into account the key objectives of the Group's strategy which are set out below:

- Materially reduce the level of NPEs loans
- Further improve the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

The key assumptions and factors taken into consideration, amongst others, include the following:

- Reduction of NPEs
- Increase in new loan originations and loan repayments
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost, management of liquidity surplus and evolution of interest rate curves/forecasts
- Diversified income streams mainly due to increase in fee and commission income which is an area that the Group is intensifying its efforts
- Reduction in the level of operating expenses mainly due to the implementation of digital transformation program underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time
- Decrease in the cost of risk, supported by the asset quality improvement and the recovery of the economy

The above assumptions are based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts. There were no changes in the key assumptions during the year 2018, compared to those of 2017.

The internal key variables include, amongst others, the Bank's strategy, plans and planned actions for (i) expansion of certain business lines and other income streams, (ii) capital and liquidity management, (iii) cost management, (iv) loan restructuring activity and NPE portfolio sales, (v) cost of funding and (vi) pricing of deposits and loans.

External key variables mainly include the interest rate evolution which impacts the local and international business activity of the Group, the Eurozone and Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework.

The recoverability assessment performed at 31 December 2018 resulted in an impairment of €79,000 thousand. For the remaining amount of the deferred tax asset of €301,772 thousand as at 31 December 2018, management has concluded that it is probable that there will be sufficient taxable profits in the future to recover the deferred tax asset by the end of 2028.
The Group's financial and capital plan used for the purposes of the 2018 recoverability assessment has been conservatively prepared and various assumptions and variables used are already stressed. The use of alternative assumptions/sensitivity analysis representing reasonably possible alternative outcomes, could impact the recognition of the deferred tax asset of the Group and the recovery period.

The Group has performed sensitivity analysis on the following key assumptions of DTA recoverability assessment for years 2019-2028. The table below shows the impact on DTA carrying value:

18. Income tax (continued)

	Increase/(decrease) of DTA carrying value	
	2018	**2017**
Key assumption	**€million**	**€million**
Reduction of yield on customer loans and advances by 10 bps	(14)	-
Increase in cost of customer deposits by 10 bps	(18)	-
Increase of ECL cost by 10 bps on gross loans	(11)	-
Increase of yield on customer loans and advances by 10 bps	13	21
Lower new loan origination by 10% of the forecasted growth	(12)	-
Slower pace of NPE decrease by 5% of the forecasted drop	(28)	-
Higher net commission income by 5% on average than the forecasted growth	10	15
Higher average Cost/Income ratio by 100 bps than the forecasted ratio	(8)	-

For the year end 2018, the sensitivity results that indicate a decrease in the carrying value of the DTA would not result in any increase in the recoverable period as the loss expiry date is 31 December 2028, which is the considered recoverable period. At the same time, the sensitivity results that indicate an increase in the carrying value of the DTA are not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

The recoverability assesment for year end 2017 indicated the recoverable period for deferred tax asset to be 31 December 2027, a year earlier than the expiry date of losses. As a result, the sensitivity results that indicated a decrease in the carrying value of the DTA did not have a material impact on its carrying value considering also that the recoverability assessment has shown sufficient headroom over and above the negative sensitivity impacts. The sensitivity results that indicated an increase in the carrying value of the DTA were not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of deferred tax assets into deferred tax credits. The law amendment covers the income tax losses transferred from Laiki Bank to the Company in March 2013. The law amendment, which entered into force on 15 March 2019, applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'. The legislation enacted on 1 March 2019 has not been taken into account for the purpose of the year end recoverability assessment. Further information is disclosed in Note 56.

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Deferred tax

The net deferred tax assets arises from:

	2018	2017
	€000	€000
Difference between capital allowances and depreciation	**(8,728)**	(7,938)
Property revaluation	**(16,063)**	(17,545)
Investment revaluation and stock of property	**(2,847)**	(3,807)
Unutilised income tax losses carried forward	**301,772**	383,492
Value of in-force life insurance business	**(14,429)**	(15,093)
Other temporary differences	**(2,209)**	(1,724)
Net deferred tax assets	**257,496**	337,385

18. Income tax (continued)

Deferred tax (continued)

	2018 €000	2017 €000
Deferred tax assets	**301,778**	383,498
Deferred tax liabilities	**(44,282)**	(46,113)
Net deferred tax assets	**257,496**	337,385

The deferred tax assets relate to Cyprus operations.

The movement of the net deferred tax assets is set out below:

	2018 €000	2017 €000
1 January	**337,385**	405,066
Deferred tax recognised in the consolidated income statement - continuing operations	**(81,436)**	(67,108)
Deferred tax recognised in the consolidated income statement - discontinued operations	**-**	(50)
Deferred tax recognised in the consolidated statement of comprehensive income	**579**	(522)
Disposal of subsidiary	**967**	-
Foreign exchange adjustments	**1**	(1)
31 December	**257,496**	337,385

The Group offsets income tax assets and liabilities if and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities.

The analysis of the net deferred tax expense recognised in the consolidated income statement is set out below:

	2018 €000	2017 €000
Difference between capital allowances and depreciation	**855**	100
Reversal of previously recognised deferred tax assets	**81,720**	66,858
Value of in-force life insurance business	**(664)**	343
Investment revaluation and stock of property	**(960)**	-
Other temporary differences	**485**	(193)
	81,436	67,108

The analysis of the net deferred tax recognised in other comprehensive income in the consolidated statement of comprehensive income is set out below:

	2018 €000	2017 €000
Timing differences on property revaluation - income/(expense)	**579**	(522)

19. Earnings per share

Basic and diluted losses per share attributable to the owners of the Company	2018	2017
Loss for the year attributable to the owners of the Company (€ thousand)	(105,885)	(551,859)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	8,922,945	8,922,945
Basic and diluted losses per share (€ cent)	(1.2)	(6.2)

Basic and diluted losses per share attributable to the owners of the Company-continuing operations		
Loss for the year attributable to the owners of the Company-continuing operations (€ thousand)	(113,128)	(552,339)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	8,922,945	8,922,945
Basic and diluted losses per share-continuing operations (€ cent)	(1.3)	(6.2)

Basic and diluted earnings per share attributable to the owners of the Company-discontinued operations		
Profit for the year attributable to the owners of the Company-discontinued operations (€ thousand)	7,243	480
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	8,922,945	8,922,945
Basic and diluted earnings per share-discontinued operations (€ cent)	0.1	-

20. Cash, balances with central banks and loans and advances to banks

	2018 €000	2017 €000
Cash	153,723	143,905
Balances with central banks	4,456,768	3,250,029
	4,610,491	3,393,934

Loans and advances to banks	473,263	1,192,633
Allowance for expected credit losses	(731)	-
	472,532	1,192,633

An analysis of the movement of the gross carrying amount and ECL of balances with central banks is presented in the table below:

2018	Gross carrying amount Stage 1 €000	ECL Stage 1 €000
1 January	3,250,029	(5,872)
Net increase	1,483,635	-
Changes to models and inputs used for ECL calculation	-	5,872
Disposal of subsidiary	(277,811)	-
Foreign exchange adjustments	915	-
31 December	4,456,768	-

20. Cash, balances with central banks and loans and advances to banks (continued)

An analysis of the movement of the gross carrying amount of loans and advances to banks is presented in the table below:

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
1 January	1,159,629	-	58,002	**1,217,631**
Net decrease	(642,995)	-	(58,002)	**(700,997)**
Disposal of subsidiary	(42,974)	-	-	**(42,974)**
Foreign exchange adjustments	(397)	-	-	**(397)**
31 December	**473,263**	**-**	**-**	**473,263**

An analysis of the movement of the change on the ECL of the above financial assets is presented in the table below:

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
1 January	-	-	(24,998)	**(24,998)**
Impact of adopting IFRS 9 at 1 January 2018	(20)	-	-	**(20)**
Restated balance at 1 January	(20)	-	(24,998)	**(25,018)**
Changes to models and inputs used for ECL calculation	(711)	-	-	**(711)**
Decrease	-	-	24,998	**24,998**
31 December	**(731)**	**-**	**-**	**(731)**

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2018 which amount to €162,675 thousand (2017: €153,733 thousand) in Note 43.

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 46.13.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

21. Investments

Investments	**2018 €000**	2017 €000
Investments mandatorily measured at FVPL	**152,473**	103,165
Other investments at FVPL	**-**	39,492
Investments at FVOCI	**231,548**	-
Investments at amortised cost	**393,083**	-
Investments available-for-sale	**-**	639,168
Investments classified as loans and receivables	**-**	48,658
	777,104	830,483

21. Investments (continued)

The amounts pledged as collateral under repurchase agreements with banks are shown below:

Investments pledged as collateral	2018 €000	2017 €000
Investments at FVOCI	**600,291**	-
Investments at amortised cost	**137,296**	-
Investments available-for-sale	**-**	290,129
	737,587	290,129

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

The maximum exposure to credit risk for debt securities is disclosed Note 46.1 and the debt securities' price risk sensitivity analysis is disclosed in Note 47.

There were no reclassifications of investments during the year.

The credit rating analysis of investments is disclosed in Note 46.13.

Investments at fair value through profit or loss

	Investments mandatorily measured at FVPL		Other investments at FVPL		Total	
	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000
Debt securities	**14,616**	14,577	**-**	-	**14,616**	14,577
Equity securities	**3,775**	2,644	**-**	4,541	**3,775**	7,185
Mutual funds	**134,082**	85,944	**-**	34,951	**134,082**	120,895
	152,473	103,165	**-**	39,492	**152,473**	142,657
Debt securities						
Cyprus government	**547**	14,577	**-**	-	**547**	14,577
Banks and other corporations	**14,069**	-	**-**	-	**14,069**	-
	14,616	14,577	**-**	-	**14,616**	14,577
Listed on other stock exchanges	**547**	14,577	**-**	-	**547**	14,577
Unlisted	**14,069**	**-**	**-**	**-**	**14,069**	-
	14,616	14,577	**-**	-	**14,616**	14,577
Equity securities						
Listed on the Cyprus Stock Exchange	**2,294**	1,965	**-**	3,945	**2,294**	5,910
Listed on other stock exchanges	**972**	679	**-**	-	**972**	679
Unlisted	**509**	-	**-**	596	**509**	596
	3,775	2,644	**-**	4,541	**3,775**	7,185

21. Investments (continued)

	Investments mandatorily measured at FVPL		Other investments at FVPL		Total	
	2018	2017	**2018**	2017	**2018**	2017
	€000	€000	**€000**	€000	**€000**	€000
Mutual funds						
Listed on other stock exchanges	**94,679**	85,944	**-**	-	**94,679**	85,944
Unlisted	**39,403**	-	**-**	34,951	**39,403**	34,951
	134,082	85,944	**-**	34,951	**134,082**	120,895

The investments classified as mandatorily measured at FVPL are classified as such since they failed to meet the SPPI criteria.

The majority of the unlisted mutual funds relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 1 hierarchy in Note 23.

Investments at FVOCI

	2018	2017
	€000	€000
Debt securities	**819,748**	-
Equity securities (including preference shares)	**11,534**	-
Mutual funds	**557**	-
	831,839	-

	2018	2017
Debt securities	**€000**	€000
Cyprus government	**322,021**	-
Other governments	**299,876**	-
Banks and other corporations	**197,851**	-
	819,748	-
Listed on the Cyprus Stock Exchange	**5,977**	-
Listed on other stock exchanges	**813,771**	-
	819,748	-
Geographic dispersion by country of issuer		
Cyprus	**322,021**	-
France	**282,691**	-
Other European countries	**83,085**	-
Supranational organisations	**20,049**	-
Other countries	**111,902**	-
	819,748	-

21. Investments (continued)

Equity securities		
Listed on the Cyprus Stock Exchange	**1,498**	-
Listed on other stock exchanges	**167**	-
Unlisted	**9,869**	-
	11,534	-

An analysis of the movement of debt instruments before ECL is presented in the table below:

2018	**Stage 1 €000**
1 January	916,129
New assets acquired in the year	186,605
Assets derecognised and redeemed in the year	(251,498)
Interest accrued	(4,428)
Foreign exchange adjustments	7,765
Change in fair value	(34,227)
31 December	**820,346**

An analysis of changes on the ECL is presented in the table below:

2018	**Stage 1 €000**
1 January	(872)
Changes to models and inputs used for ECL calculation	274
31 December	**(598)**

At 1 January 2018 the Group irrevocably made the election to classify its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value included in the table above amounts to €11,534 thousand at 31 December 2018 and is equal to their fair value. The dividend income amounts to €197 thousand for year 2018 and has been recognised in the income statement.

During the year 2018 an amount of €5,458 thousand of equity investments measured at FVOCI have been disposed of as part of the Group's strategy to dispose of its non-core assets. The cumulative gain transferred to retained earnings amounts to €173 thousand. There were no other transfers from OCI to retained earnings during the year.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €13,764 thousand at 31 December 2018. The fair value loss that would have been recognised in the consolidated income statement if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €186 thousand. The effective interest rate of these instruments is 1.6%-5.0% per annum and the respective interest income during 2018 amounts to €398 thousand.

21. Investments (continued)

Investments at amortised cost

	2018	2017
	€000	€000
Debt securities	**530,379**	-
Cyprus government	**119,189**	-
Other governments	**123,799**	-
Banks and other corporations	**103,457**	-
European Financial Stability Facility and European Investment Fund	**183,934**	-
	530,379	-
Listed on the Cyprus Stock Exchange	**48,292**	-
Listed on other stock exchanges	**482,087**	-
	530,379	-
Geographic dispersion by country of issuer		
Cyprus	**119,189**	-
Germany	**64,184**	-
Other European countries	**69,814**	-
Other countries	**80,190**	-
UK	**13,068**	-
Supranational organisations	**183,934**	-
	530,379	-

An analysis of changes in the gross carrying amount (before ECL) is presented in the table below:

	Stage 1	Stage 2	**Total**
2018	€000	€000	**€000**
1 January	-	48,658	**48,658**
New assets acquired in the year	522,398	-	**522,398**
Assets derecognised and redeemed in the year	(43,000)	-	**(43,000)**
Fair value due to hedging relationship	58	530	**588**
Accrued interest	2,773	(206)	**2,567**
31 December	**482,229**	**48,982**	**531,211**

An analysis of changes on the ECL is presented in the table below:

	Stage 1	Stage 2	**Total**
2018	€000	€000	**€000**
1 January	-	(1,843)	**(1,843)**
Change to models and inputs used for ECL calculation	(142)	1,153	**1,011**
31 December	**(142)**	**(690)**	**(832)**

21. Investments (continued)

Investments available-for-sale

	2018 €000	2017 €000
Debt securities	-	901,734
Equity securities (including preference shares)	-	27,176
Mutual funds	-	387
	-	929,297

Debt securities		
Cyprus government	-	451,071
French government	-	281,979
Other governments	-	22,462
Banks and other corporations	-	146,222
	-	901,734
Listed on the Cyprus Stock Exchange	-	451,071
Listed on other stock exchanges	-	450,163
Unlisted	-	500
	-	901,734
Geographic dispersion by country of issuer		
Cyprus	-	451,571
France	-	281,979
Other European Union countries	-	75,573
European Financial Stability Facility and European Investment Fund	-	11,443
Supranational organisations	-	9,058
Other countries	-	72,110
	-	901,734

Equity securities		
Listed on the Cyprus Stock Exchange	-	5,750
Listed on other stock exchanges	-	546
Unlisted	-	20,880
	-	27,176

At 31 December 2017 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Available-for-sale mutual funds were mainly unlisted and issued in other countries.

Investment classified as loans and receivables

At 31 December 2017 investments classified as loans and receivables amounted to €48,658 thousand. They were issued by the Cyprus government and they were listed on the CSE.

22. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2018			2017		
		Fair value			Fair value	
	Contract amount	**Assets**	**Liabilities**	Contract amount	Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**17,114**	**240**	**192**	33,259	99	114
Currency swaps	**1,219,749**	**3,405**	**6,342**	1,419,915	1,103	14,082
Interest rate swaps	**57,652**	**471**	**422**	69,022	216	873
Currency options	**12,704**	**8**	**382**	396	18	402
Interest rate caps/floors	**1,650,000**	**462**	**-**	-	-	-
	2,957,219	**4,586**	**7,338**	1,522,592	1,436	15,471
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,016,083**	**20,137**	**29,029**	1,171,424	16,315	35,420
Net investments - forward exchange rate contracts and currency swaps	**74,973**	**31**	**2,616**	61,012	276	1
	1,091,056	**20,168**	**31,645**	1,232,436	16,591	35,421
Total	**4,048,275**	**24,754**	**38,983**	2,755,028	18,027	50,892

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a small portion of the derivatives' notional amount (positive market value of the derivative contract) compared to the total notional amount of the derivative contracts. In order to manage credit risk, the Group sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

Interest rate risk is explained in Note 47. The interest rate risk is managed through the use of plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Group converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Group converts floating rate assets/liabilities to fixed.

22. Derivative financial instruments (continued)

Currency risk is explained in Note 47. In order to eliminate the risk, the Group hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

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.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

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.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either buy or sell the underlying values at a specified price or level on or before a specified date.

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

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

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

Hedge accounting

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Group implements the amended IFRS 7 hedge disclosure requirements.

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates, exchange rates or other risks) 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 consolidated income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

22. Derivative financial instruments (continued)

Fair value hedges
The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI and fixed rate customer loans and deposits.

Hedges of net investments
The Group's consolidated balance sheet is affected by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches and other foreign operations. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches, as well as overseas associates and joint ventures and forward exchange rate contracts.

As at 31 December 2018, deposits, and forward and swap exchange rate contracts amounting to €9,843 thousand and €74,973 thousand respectively (2017: €142,273 thousand and €61,012 thousand respectively) have been designated as hedging instruments and have given rise to a loss of €9,760 thousand (2017: loss of €1,166 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

2018	Gains/(losses) attributable to hedged risk		Hedged in-effectiveness
	Hedged items	Hedging instrument	
Derivatives qualifying for hedge accounting	**€000**	**€000**	**€000**
Fair value hedges			
-interest rate swaps	11,103	(10,028)	(1,075)
Net investments			
-forward exchange rate contracts	9,775	(9,775)	-
Total	**20,878**	**(19,803)**	**(1,075)**

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

2018	Carrying amount of hedged items		Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	**€000**	**€000**	**€000**	**€000**
Fair value hedges - interest rate swaps				
-debt securities	770,768	-	11,657	-
-subordinated loan stock	-	270,930	-	(555)
Net investments - forward and swap exchange rate contracts				
Net assets	74,973	-	-	2,585
Total	**845,741**	**270,930**	**11,657**	**2,030**

For assets hedged using fair value hedges the fixed rate is 3.08% and the floating rate is 1.65%. For liabilities hedged using fair value hedges, the fixed rate is 9.25% and the floating rate 8.86%.

The maturity of the Group's contract amount of the derivatives is presented in the table below:

22. Derivative financial instruments (continued)

2018	**On demand and up to one month**	**Between one and three months**	**Between three months and one year**	**Between one and five years**	**Over five years**	**Total contract amount**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Trading derivatives						
Forward exchange rate contracts	6,405	10,263	446	-	-	**17,114**
Currency swaps	1,179,201	40,102	446	-	-	**1,219,749**
Interest rate swaps	-	-	-	57,652	-	**57,652**
Currency options	12,704	-	-	-	-	**12,704**
Interest rate caps/floors	-	-	-	1,650,000	-	**1,650,000**
	1,198,310	**50,365**	**892**	**1,707,652**	**-**	**2,957,219**
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	-	-	77,619	729,702	208,762	**1,016,083**
Net investments - forward and swap exchange rate contracts	74,973	-	-	-	-	**74,973**
	74,973	**-**	**77,619**	**729,702**	**208,762**	**1,091,056**
Total	**1,273,283**	**50,365**	**78,511**	**2,437,354**	**208,762**	**4,048,275**

23. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**4,610,491**	**4,610,491**	3,393,934	3,393,934
Loans and advances to banks	**472,532**	**467,026**	1,192,633	1,191,617
Investments mandatorily measured at FVPL	**152,473**	**152,473**	103,165	103,165
Other investments measured at FVPL	**-**	**-**	39,492	39,492
Investments at FVOCI	**831,839**	**831,839**	-	-
Investments at amortised cost	**530,379**	**538,631**	-	-
Investments available-for-sale	**-**	**-**	929,297	929,297
Investments classified as loans and receivables	**-**	**-**	48,658	55,104
Derivative financial assets	**24,754**	**24,754**	18,027	18,027
Loans and advances to customers	**10,921,786**	**10,788,446**	14,602,454	15,385,385
Life insurance business assets attributable to policyholders	**388,745**	**388,745**	416,060	416,060
Financial assets classified as held for sale	**1,154,108**	**1,154,108**	**-**	**-**
Other financial assets	**144,381**	**144,381**	105,473	105,473
	19,231,488	**19,100,894**	20,849,193	21,637,554
Financial liabilities				
Obligations to central banks and deposits by banks	**1,261,942**	**1,261,942**	1,425,308	1,425,308
Repurchase agreements	**248,945**	**263,511**	257,322	281,951
Derivative financial liabilities	**38,983**	**38,983**	50,892	50,892
Customer deposits	**16,843,558**	**16,849,222**	17,850,062	17,875,239
Subordinated loan stock	**270,930**	**276,527**	302,288	334,783
Other financial liabilities	**188,339**	**188,339**	176,257	176,257
	18,852,697	**18,878,524**	20,062,129	20,144,430

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

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

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

For assets and liabilities that are recognised in the Consolidated Financial Statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

23. Fair value measurement (continued)

The following is a description of the determination of fair value for financial instruments and non-financial assets which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments and non-financial assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and the Company's own credit quality respectively.

The Group calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard LGD assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments at FVPL, investments at FVOCI and investments at amortised cost
Investments which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

Loans and advances to customers
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan.

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Repurchase agreements
Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Group is greater than the amount borrowed, the fair value calculation of these repurchase agreements only takes into account the time value of money.

23. Fair value measurement (continued)

Loans and advances to banks
Loans and advances to banks with maturity over one year are discounted using an appropriate risk free rate plus the credit spread of each counterparty. For short-term lending, the fair value is approximated by the carrying value.

Deposits by banks
Since almost all deposits by banks are very short-term, the fair value is an approximation of the carrying value.

Subordinated loan stock
The current issue of the Company is liquid with quoted prices in an active market.

Investment properties
The fair value of investment properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

23. Fair value measurement (continued)

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

2018	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Assets measured at fair value				
Investment properties				
Residential	-	-	1,041	**1,041**
Offices and other commercial properties	-	-	2,002	**2,002**
Manufacturing and industrial properties	-	-	452	**452**
Hotels	-	-	2,465	**2,465**
Land (fields and plots)	-	-	18,515	**18,515**
	-	-	24,475	**24,475**
Investment properties held for sale				
Offices and other commercial properties	-	-	152,348	**152,348**
	-	-	152,348	**152,348**
Freehold property				
Offices and other commercial properties	-	-	236,405	**236,405**
Freehold property held for sale				
Offices and other commercial properties	-	-	88,022	**88,022**
Loans and advances to customers measured at FVPL	-	-	395,572	**395,572**
Trading derivatives				
Forward exchange rate contracts	-	240	-	**240**
Currency swaps	-	3,405	-	**3,405**
Interest rate swaps	-	471	-	**471**
Currency options	-	8	-	**8**
Interest rate caps/floors	-	462	-	**462**
	-	4,586	-	**4,586**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	20,137	-	**20,137**
Net investments-forward exchange rate contracts and currency swaps	-	31	-	**31**
	-	20,168	-	**20,168**
Investments mandatorily measured at FVPL	137,093	394	14,986	**152,473**
Investments at FVOCI	822,628	1,051	8,160	**831,839**
	959,721	26,199	919,968	**1,905,888**
Other financial assets not measured at fair value				
Loans and advances to banks	-	467,026	-	**467,026**
Investments at amortised cost	484,417	54,214	-	**538,631**
Loans and advances to customers	-	-	10,788,446	**10,788,446**
	484,417	**521,240**	**10,788,446**	**11,794,103**

23. Fair value measurement (continued)

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €12,134 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €5,263 thousand in their fair value. For investments mandatorily measured at fair value through profit and loss categorised as Level 3, for one investment with a carrying amount of €13,569 thousand, a change in the conversion factor by 10% would result in a change in the value of the debt securities by €1,357 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 47.

2018	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	192	-	**192**
Currency swaps	-	6,342	-	**6,342**
Interest rate swaps	-	422	-	**422**
Currency options	-	382	-	**382**
	-	7,338	-	**7,338**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	29,029	-	**29,029**
Net investments-forward exchange rate contracts	-	2,616	-	**2,616**
	-	31,645	-	**31,645**
	-	38,983	-	**38,983**
Other financial liabilities not measured at fair value				
Deposits by banks	-	431,942	-	**431,942**
Repurchase agreements	-	263,511	-	**263,511**
Customer deposits	-	-	16,849,222	**16,849,222**
Subordinated loan stock	276,527	-	-	**276,527**
	276,527	695,453	16,849,222	**17,821,202**

23. Fair value measurement (continued)

2017	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Assets measured at fair value				
Investment properties				
Residential	-	-	338	**338**
Offices and other commercial properties	-	-	2,752	**2,752**
Manufacturing and industrial properties	-	-	477	**477**
Hotels	-	-	2,124	**2,124**
Land (fields and plots)	-	-	13,955	**13,955**
	-	-	19,646	**19,646**
Investment properties held for sale				
Offices and other commercial properties	-	-	6,500	**6,500**
Freehold property				
Offices and other commercial properties	-	16,332	239,559	**255,891**
Trading derivatives				
Forward exchange rate contracts	-	99	-	**99**
Currency swaps	-	1,103	-	**1,103**
Interest rate swaps	-	216	-	**216**
Currency options	-	18	-	**18**
	-	1,436	-	**1,436**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	16,315	-	**16,315**
Net investments-forward exchange rate contracts	-	276	-	**276**
	-	16,591	-	**16,591**
Investments at fair value through profit or loss				
Trading investments	102,535	-	630	**103,165**
Other investments at fair value through profit or loss	37,823	1,573	96	**39,492**
	140,358	1,573	726	**142,657**
Investments available-for-sale	907,360	42	21,895	**929,297**
	1,047,718	35,974	288,326	**1,372,018**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1,191,617	-	**1,191,617**
Investments classified as loans and receivables	-	55,104	-	**55,104**
Loans and advances to customers	-	-	15,385,385	**15,385,385**
	-	1,246,721	15,385,385	**16,632,106**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €11,228 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €1,123 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 47.

23. Fair value measurement (continued)

2017	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	114	-	**114**
Currency swaps	-	14,082	-	**14,082**
Interest rate swaps	-	873	-	**873**
Currency options	-	402	-	**402**
	-	15,471	-	**15,471**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	35,420	-	**35,420**
Net investments-forward exchange rate contracts	-	1	-	**1**
	-	35,421	-	**35,421**
	-	50,892	-	**50,892**
Other financial liabilities not measured at fair value				
Deposits by banks	-	495,308	-	**495,308**
Repurchase agreements	-	281,951	-	**281,951**
Customer deposits	-	-	17,875,382	**17,875,382**
Subordinated loan stock	300,980	33,803	-	**334,783**
	300,980	811,062	17,875,382	**18,987,424**

The cash and balances with central banks and the funding from central banks are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently and they are categorised as Level 2. The carrying value of other assets and other liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3. The other assets and other liabilities are of a financial nature.

During the years 2018 and 2017 there were no significant transfers between Level 1 and Level 2.

23. Fair value measurement (continued)

Movements in Level 3 assets measured at fair value

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 assets which are measured at fair value is presented below:

	2018						2017				
	Investment properties	**Investment properties held for sale**	**Own use properties**	**Own use properties held for sale**	**Loans and advances to customers**	**Financial instruments**	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
1 January	**19,646**	**6,500**	**239,559**	**-**	**389,862**	**22,621**	38,059	11,065	246,215	-	17,479
Additions	**4,522**	**-**	**2,739**	**-**	**35,601**	**-**	4,273	-	1,280	-	724
Disposals	**-**	**(6,500)**	**-**	**-**	**-**	**-**	(12,248)	(10,864)	-	-	(689)
Transfers from investment properties to own use properties	**-**	**-**	**-**	**-**	**-**	**-**	(395)	-	395	-	-
Transfers from/(to) stock of property (Note 28)	**166,572**	**-**	**84,744**	**-**	**-**	**-**	-	-	129	-	-
Transfers to non-current assets and disposal group held for sale	**(152,298)**	**152,298**	**(88,022)**	**88,022**	**-**	**-**	(6,500)	6,500	-	-	-
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	**-**	**-**	**-**	**-**	**-**	**525**	-	-	2,740	-	5,738
Depreciation charge for the year	**-**	**-**	**(2,614)**	**-**	**-**	**-**	-	-	(2,652)	-	-
Impairment charge for the year (Note 17)	**-**	**-**	**-**	**-**	**-**	**-**	-	-	(8,470)	-	-
Fair value (losses)/gains	**(13,325)**	**50**	**-**	**-**	**-**	**-**	(3,309)	-	-	-	-
Net gains on loans and advances to customers measured at FVPL	**-**	**-**	**-**	**-**	**16,125**	**-**	-	-	-	-	-
Repayments of loans	**-**	**-**	**-**	**-**	**(62,809)**	**-**	-	-	-	-	-
Interest on loans	**-**	**-**	**-**	**-**	**16,793**	**-**	-	-	-	-	-
Foreign exchange adjustments	**(642)**	**-**	**(1)**	**-**	**-**	**-**	(234)	(201)	(78)	-	(631)
31 December	**24,475**	**152,348**	**236,405**	**88,022**	**395,572**	**23,146**	19,646	6,500	239,559	-	22,621

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis

Investment properties, investment properties held for sale and own use properties

The valuation technique mainly applied by the Group is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Group also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below.

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2018	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Residential	**€000**							**m²**	**m²**	**Years**
Russia	1,041	n/a	n/a	€196-€2,020	n/a	€45-€2,020	€8-€114	800-6,087	102-719	8
Offices and other commercial properties										
Cyprus	153,667	n/a	n/a	n/a	5%-6.3%	€471-€4,653	n/a	798-20,026	214-24,094	n/a
Russia	683	n/a	n/a	€175-€485	n/a	€47-€198	€26-€161	256-3,498	154-1,644	n/a
	154,350									
Manufacturing and industrial										
Russia	452	n/a	n/a	€64-€153	n/a	€12-€153	€3-€21	5,220-29,538	304-8,874	9-35
Hotels										
Russia	2,465	n/a	n/a	€318	n/a	€318	n/a	n/a	7,436	13
Land (fields and plots)										
Cyprus	17,780	n/a	n/a	n/a	n/a	n/a	€370-€1,028	2,316-21,053	n/a	n/a
Russia	735	n/a	n/a	n/a	n/a	€1-€33	€1-€33	300-58,600	n/a	n/a
	18,515									
Total	176,823									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties and own use properties held for sale

Type and country	2018	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	324,427	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-31,000	1-78
Total	324,427									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2017	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Residential	**€000**							**m^2**	**m^2**	**Years**
Russia	338	n/a	n/a	€225-€2,326	n/a	€51-€2,326	€9-€11	570-1,573	102-384	7
Offices and other commercial properties										
Cyprus	8,830	€54-€353	n/a	n/a	4%-6%	€1,339-€7,059	€1,053	1,591	68-4,788	14-34
Russia	422	n/a	n/a	€210-€410	n/a	€88-€124	€9-€73	2,588-2,773	649-1,644	8
	9,252									
Manufacturing and industrial										
Russia	477	n/a	n/a	€20-€176	n/a	€7-€176	€5-€24	5,220-29,538	304-8,874	8-29
Hotels										
Russia	2,124	n/a	n/a	€361	n/a	€361	n/a	n/a	5,946	12
Land (fields and plots)										
Cyprus	13,955	n/a	n/a	€1,000-€1,200	n/a	n/a	€279-€1,028	2,316-21,053	n/a	n/a
Total	26,146									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties and own use properties held for sale

Type and country	2017	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	236,268	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-11,109	11-77
Romania	3,291	n/a	n/a	n/a	9%	n/a	n/a	660	2,284	10
UK	16,332	€214-€777	0%-6%	n/a	5%-7%	€3,260-€16,959	n/a	173-1,740	173-1,689	Refurnished in 2009
Total	255,891									

Sensitivity analysis
Most of the Group's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach would result in a significantly higher/lower fair value of the properties.

24. Loans and advances to customers

	2018	2017
	€000	€000
Gross loans and advances to customers at amortised cost	**12,430,367**	18,086,230
Allowance for ECL/provisions for impairment of loans and advances to customers (Note 46)	**(1,904,153)**	(3,483,776)
Loans and advances to customers measured at amortised cost	**10,526,214**	14,602,454
Loans and advances to customers measured at FVPL	**395,572**	-
	10,921,786	14,602,454

Loans and advances to customers pledged as collateral are disclosed in Note 48.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL and of the provisions for impairment of loans and advances to customers are set out in Note 46.

25. Life insurance business assets attributable to policyholders

	2018	2017
	€000	€000
Equity securities	**1,025**	1,171
Debt securities	**43,952**	46,806
Mutual funds	**311,892**	325,091
Bank deposits	**31,876**	42,992
	388,745	416,060
Property	**13,820**	13,830
	402,565	429,890

Financial assets of life insurance business attributable to policyholders are classified as investments at FVPL.

In addition to the above assets, the life insurance subsidiary of the Group holds shares of the Company, as part of the assets attributable to policyholders with a carrying value as at 31 December 2018 of €215 thousand (2017: €350 thousand). Such shares are presented in the consolidated financial statements as treasury shares (Note 36).

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level, is presented below:

	Level 1	**Level 2**	**Level 3**	**Total**
2018	**€000**	**€000**	**€000**	**€000**
Equity securities	**1,025**	**-**	**-**	**1,025**
Debt securities	**19,065**	**24,887**	**-**	**43,952**
Mutual funds	**311,619**	**-**	**273**	**311,892**
	331,709	**24,887**	**273**	**356,869**
2017				
Equity securities	1,171	-	-	1,171
Debt securities	21,314	25,492	-	46,806
Mutual funds	324,235	-	856	325,091
	346,720	25,492	856	373,068

25. Life insurance business assets attributable to policyholders (continued)

Bank deposits are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

The movement of financial assets classified as Level 3 is presented below:

	2018	2017
	€000	€000
1 January	**856**	1,208
Unrealised losses recognised in the consolidated income statement	**(583)**	(352)
31 December	**273**	856

During years 2018 and 2017 there were no significant transfers between Level 1 and Level 2.

26. Property and equipment

	Property	Equipment	**Total**
2018	€000	€000	**€000**
Net book value at 1 January	257,360	22,454	**279,814**
Additions	4,460	9,132	**13,592**
Transfers from stock of property (Note 28)	84,744	-	**84,744**
Transfers to non-current assets and disposal group held for sale	(88,022)	(110)	**(88,132)**
Disposals and write-offs	-	(37)	**(37)**
Disposal of subsidiary (Note 53.2.1)	(16,073)	(1,151)	**(17,224)**
Depreciation charge for the year - continuing operations (Note 16)	(3,320)	(7,792)	**(11,112)**
Depreciation charge for the year - discontinued operations	(252)	(652)	**(904)**
Impairment charge for the year (Note 17)	-	(11)	**(11)**
Foreign exchange adjustments	(8)	1	**(7)**
Net book value at 31 December	**238,889**	**21,834**	**260,723**

1 January 2018			
Cost or valuation	293,664	149,263	**442,927**
Accumulated depreciation	(36,304)	(126,809)	**(163,113)**
Net book value	**257,360**	**22,454**	**279,814**

31 December 2018			
Cost or valuation	277,206	138,767	**415,973**
Accumulated depreciation	(38,317)	(116,933)	**(155,250)**
Net book value	**238,889**	**21,834**	**260,723**

26. Property and equipment (continued)

2017	Property €000	Equipment €000	**Total €000**
Net book value at 1 January	258,552	22,341	**280,893**
Additions	1,843	8,456	**10,299**
Revaluation	9,319	-	**9,319**
Transfers from investment properties (Note 23)	395	-	**395**
Transfers from stock of property (Note 28)	129	-	**129**
Disposals and write-offs	(35)	(242)	**(277)**
Depreciation charge for the year - continuing operations (Note 16)	(3,707)	(7,150)	**(10,857)**
Depreciation charge for the year - discontinued operations	(276)	(797)	**(1,073)**
Impairment charge for the year (Note 17)	(8,470)	-	**(8,470)**
Foreign exchange adjustments	(390)	(154)	**(544)**
Net book value at 31 December	**257,360**	**22,454**	**279,814**

1 January 2017			
Cost or valuation	298,743	152,838	**451,581**
Accumulated depreciation	(40,191)	(130,497)	**(170,688)**
Net book value	**258,552**	**22,341**	**280,893**

31 December 2017			
Cost or valuation	293,664	149,263	**442,927**
Accumulated depreciation	(36,304)	(126,809)	**(163,113)**
Net book value	**257,360**	**22,454**	**279,814**

The net book value of the Group's property comprises:

	2018 €000	2017 €000
Freehold property	**236,405**	255,891
Improvements on leasehold property	**2,484**	1,469
Total	**238,889**	257,360

Freehold property includes land amounting to €92,471 thousand (2017: €92,471 thousand) for which no depreciation is charged.

The Group's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The Group performed revaluations as at 31 December 2017. As a result, a net gain on revaluation of €9,319 thousand was recognised in the consolidated statement of comprehensive income and an impairment loss of €8,470 thousand was recognised in the consolidated income statement for the year ended 31 December 2017. The valuations at year end were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 23.

As at 31 December 2018 and 2017 there are charges against freehold property of the Group with carrying value €20,711 thousand (2017: €20,850 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2018 would have amounted to €180,340 thousand (2017: €194,446 thousand).

27. Intangible assets

	Computer software	In-force life insurance business	**Total**
2018	€000	€000	**€000**
Net book value at 1 January	45,205	120,747	**165,952**
Additions	27,006	-	**27,006**
Transfers to non-current assets and disposal group held for sale	(20)	-	**(20)**
Decrease in value of in-force life insurance business (Note 13)	-	(5,314)	**(5,314)**
Disposals and write-offs	(1,784)	-	**(1,784)**
Disposal of subsidiaries (Note 53.2.1)	(1,883)	-	**(1,883)**
Amortisation charge for the year - continuing operations (Note 16)	(13,217)	-	**(13,217)**
Amortisation charge for the year - discontinuing operations	(325)	-	**(325)**
Foreign exchange adjustments	(4)	-	**(4)**
Net book value at 31 December	**54,978**	**115,433**	**170,411**

1 January 2018			
Cost	169,612	120,747	**290,359**
Accumulated amortisation and impairment	(124,407)	-	**(124,407)**
Net book value	**45,205**	**120,747**	**165,952**

31 December 2018			
Cost	186,196	115,433	**301,629**
Accumulated amortisation and impairment	(131,218)	-	**(131,218)**
Net book value	**54,978**	**115,433**	**170,411**

27. Intangible assets (continued)

	Computer software	In-force life insurance business	**Total**
2017	€000	€000	**€000**
Net book value at 1 January	28,959	118,004	**146,963**
Additions	25,723	-	**25,723**
Increase in value of in-force life insurance business (Note 13)	-	2,743	**2,743**
Disposals and write-offs	(22)	-	**(22)**
Amortisation charge for the year - continuing operations (Note 16)	(8,743)	-	**(8,743)**
Amortisation charge for the year - discontinuing operations	(661)	-	**(661)**
Foreign exchange adjustments	(51)	-	**(51)**
Net book value at 31 December	**45,205**	**120,747**	**165,952**

1 January 2017			
Cost	144,898	118,004	**262,902**
Accumulated amortisation and impairment	(115,939)	-	**(115,939)**
Net book value	**28,959**	**118,004**	**146,963**

31 December 2017			
Cost	169,612	120,747	**290,359**
Accumulated amortisation and impairment	(124,407)	-	**(124,407)**
Net book value	**45,205**	**120,747**	**165,952**

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance business relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force business are:

	2018	2017
Discount rate (after tax)	**10.0%**	10.0%
Return on investments	**5.0%**	5.0%
Expense inflation	**3.5%**	4.0%

28. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2018 an impairment loss of €17,272 thousand was recognised in 'Impairment of non-financial instruments' in the consolidated income statement (2017: €50,502 thousand). At 31 December 2018, stock of €387,085 thousand (2017: €418,559 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

28. Stock of property (continued)

The carrying value of the stock of property is analysed in the tables below:

	2018	2017
	€000	€000
Net book value at 1 January	**1,641,422**	1,427,272
Additions	**427,828**	523,061
Disposals	**(196,358)**	(257,662)
Transfers to investment properties (Note 23)	**(166,572)**	-
Transfers to own use properties (Note 26)	**(84,744)**	(129)
Transfers to disposal group 1 (Note 30)	**(73,899)**	-
Impairment (Note 17)	**(17,272)**	(50,502)
Foreign exchange adjustments	**(17)**	(618)
Net book value at 31 December	**1,530,388**	1,641,422

Additions during 2018 include costs of construction of €31,860 thousand (2017: €3,404 thousand).

The Group has transferred to the Cyreit Variable Capital Investments Company PLC (Cyreit), following its set-up in March 2018 (Note 52), a diversified portfolio of commercial real estate assets acquired as part of loan restructuring activity, which are to be managed and used in accordance with the investment objective of the Cyreit that is to generate and grow medium to long term income, both in terms of rental income as well as capital appreciation. The Group assessed that there was a change in use of these properties upon transfer to Cyreit and has therefore reclassified them from stock of property to investment properties.

The table below shows the result on the disposal of stock of property in the year:

	2018	2017
	€000	€000
Net proceeds	**228,225**	280,365
Carrying value of stock of property disposed of (excluding stock of property held by subsidiary disposed of)	**(196,358)**	(249,918)
Net gains on disposal of stock of property	**31,867**	30,447

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2018	**€000**	**€000**	**€000**	**€000**
Residential properties	163,988	24,538	313	**188,839**
Offices and other commercial properties	226,999	44,347	7,401	**278,747**
Manufacturing and industrial properties	79,691	38,434	498	**118,623**
Hotels	34,840	484	-	**35,324**
Land (fields and plots)	897,020	7,546	3,611	**908,177**
Properties under construction	678	-	-	**678**
Total	**1,403,216**	**115,349**	**11,823**	**1,530,388**

28. Stock of property (continued)

Analysis by type and country 2017	**Cyprus €000**	**Greece €000**	**Romania €000**	**Total €000**
Residential properties	146,214	29,057	189	**175,460**
Offices and other commercial properties	288,282	38,882	9,138	**336,302**
Manufacturing and industrial properties	112,890	33,427	498	**146,815**
Hotels	77,820	493	-	**78,313**
Land (fields and plots)	836,543	6,402	4,595	**847,540**
Properties under construction	56,992	-	-	**56,992**
Total	**1,518,741**	**108,261**	**14,420**	**1,641,422**

29. Prepayments, accrued income and other assets

	2018 €000	2017 €000
Receivables relating to disposal of operations	**85,606**	36,282
Reinsurers' share of insurance contract liabilities (Note 33)	**48,348**	48,000
Taxes refundable	**14,637**	25,647
Debtors	**30,671**	24,121
Prepaid expenses	**8,658**	1,391
Other assets	**67,996**	90,478
	255,916	225,919

An analysis of changes in the gross carrying amount of the financial asset included in prepayments, accrued income and other assets is presented in the table below:

2018	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Simplified method €000**	**Total €000**
1 January	25,032	36,282	38,173	14,485	**113,972**
New assets acquired	54,760	-	-	-	**54,760**
Net increase/(decrease)	1,073	(5,436)	(6,850)	371	**(10,842)**
31 December	**80,865**	**30,846**	**31,323**	**14,856**	**157,890**

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

2018	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Simplified method €000**	**Total €000**
1 January	-	-	14,923	-	**14,923**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	576	**576**
Restated balance at 1 January	-	-	14,923	576	**15,499**
Changes to models and inputs used for ECL calculations	-	-	4,099	336	**4,435**
31 December	**-**	**-**	**19,022**	**912**	**19,934**

29. Prepayments, accrued income and other assets (continued)

As at 31 December 2018, the receivable relating to the disposal of operations in the UK amounts to €54,760 thousand. Half of the consideration was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 53.2.1). The receivable relating to the disposal of the Ukrainian operations in 2014, amounted to €30,846 thousand and the deferred consideration is due to be paid to the Company under a repayment programme which has been extended from June 2019 to December 2022. The receivable is fully secured.

During 2018, credit losses of €8,056 thousand were recognised in relation to other assets of which €4,435 thousand relate to ECL for the year and the remaining €3,621 thousand relate to write-offs (2017: reversal of impairment of €1,379 thousand) (Note 17).

30. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups held for sale
The following non-current assets and disposal groups were classified as held for sale as at 31 December 2018 and 2017:

	2018	2017
	€000	€000
Gross loans and advances to customers at amortised cost (Note 46.7)	**2,711,960**	-
Allowance for ECL	**(1,557,852)**	-
	1,154,108	-
Stock of property (Note 28)	**73,899**	-
Disposal group 1	**1,228,007**	-
Disposal group 2	**151,248**	-
Disposal group 3	**89,683**	-
Investment properties held for sale	**1,100**	6,500
	1,470,038	6,500

Non-current labilities and disposal groups held for sale
The liabilities amounting to €5,812 thousand relate to disposal group 3 and represent other liabilities.

Disposal group 1
Disposal group 1 comprises loans and advances to customers and stock of property of Projects Helix and Velocity as further analysed below. The disposal group has been classified as held for sale as management is committed to sell it and has proceeded with an active programme to complete this plan. The plan is expected to be completed within 12 months from the classification date.

During 2018, the Group has reached an agreement for the sale of a portfolio (the 'Portfolio') of loans and advances to customers (known as 'Project Helix', or the 'Transaction'). The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by the Company. The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC, together with its consolidated subsidiaries 'Apollo', the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio.

As at 31 December 2018, the Portfolio including stock of property, had a net book value of €1.2 billion. At completion, the Company will receive a gross cash consideration of c.€1.4 billion. The Company will participate in the senior debt in relation to such financing in an amount which has been syndicted down to €50 million, from the initial level of €450 million.

In March 2019, the Company received approval from the ECB for the Significant Risk Transfer (SRT) benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. Completion is currently expected to occur in early in the second quarter 2019.

30. Non-current assets and disposal groups held for sale (continued)

In addition, the Group has entered into an agreement for the sale of a portfolio of loans and advances to customers of a gross book value of €33 million (carrying value: €6 million) known as project 'Velocity'. The sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2019.

Further analysis of the loans and advances to customers portfolio, which is included in this disposal group, is disclosed in Note 46.7.

Disposal group 2
As at 31 December 2018, the disposal group 2 relates to the subsidiary Cyreit, which is the holding company of a group of companies which holds and manages investment properties. Management is committed to sell Cyreit and has proceeded with an active programme to complete this plan. In November 2018, the Company signed an agreement for the disposal of its entire holding of the investment shares of Cyreit and the disposal is expected in the second quarter of 2019.

The investment properties held within the disposal group are measured at fair value. The results of the fair value changes are presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment since the investment properties are in Cyprus.

Disposal group 3
As at 31 December 2018, the disposal group 3 relates to the subsidiary Nicosia Mall Holdings (NMH) Limited and its subsidiaries (NMH group) which are involved in the management of the Nicosia Mall. Management is committed to sell NMH group and has proceeded with an active programme to complete this plan. The disposal is expected to be completed within the next 12 months from the classification date. Disposal group 3 includes stock of property amounting to €88,022 thousand and other assets of €1,661 thousand.

Investment properties
The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment since these investment properties are in Cyprus.

31. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations, as set out in the table below:

	2018	2017
	€000	€000
Main Refinancing Operations (MRO)	**-**	100,000
Targeted Longer-Term Refinancing Operations (TLTRO II)	**830,000**	830,000
	830,000	930,000

As at 31 December 2018, ECB funding was at €830 million that was borrowed from the 4-year TLTRO II.

The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. The interest rate applicable to the amount borrowed by the Company under the TLTRO II transactions will be 0% as eligible net lending in the pre-specified period did not exceed the benchmark.

31. Funding from central banks (continued)

In addition to TLTRO as at 31 December 2017 funding from central banks also included an amount of €100 million borrowed through the MRO. In January 2018, the Company raised an additional €10 million through the MRO, bringing the funding from the MRO to €110 million. The total amount borrowed from the MRO was fully repaid during April 2018.

Details on encumbered assets related to the above funding facilities are disclosed in Note 48.

32. Customer deposits

	2018	2017
	€000	€000
By type of deposit		
Demand	**6,708,852**	6,313,387
Savings	**1,352,452**	1,536,576
Time or notice	**8,782,254**	10,000,099
	16,843,558	17,850,062
By geographical area		
Cyprus	**16,843,558**	15,983,048
United Kingdom	**-**	1,867,014
	16,843,558	17,850,062
By currency		
Euro	**14,961,025**	13,830,134
US Dollar	**1,482,867**	1,743,513
British Pound	**292,640**	2,110,265
Russian Rouble	**25,529**	49,788
Romanian Lei	**443**	42
Swiss Franc	**7,994**	14,943
Other currencies	**73,060**	101,377
	16,843,558	17,850,062

By customer sector	Cyprus	United Kingdom	**Total**
2018	€000	€000	**€000**
Corporate	1,750,517	-	**1,750,517**
SMEs	800,671	-	**800,671**
Retail	10,032,047	-	**10,032,047**
Restructuring			
– Corporate	69,180	-	**69,180**
– SMEs	29,299	-	**29,299**
– Retail other	16,773	-	**16,773**
Recoveries			
– Corporate	6,492	-	**6,492**
International banking services	3,707,713	-	**3,707,713**
Wealth management	430,866	-	**430,866**
	16,843,558	**-**	**16,843,558**

32. Customer deposits (continued)

By customer sector	Cyprus	United Kingdom	**Total**
2017	€000	€000	**€000**
Corporate	1,529,664	29,742	**1,559,406**
SMEs	665,940	201,536	**867,476**
Retail	8,670,625	1,635,736	**10,306,361**
Restructuring			
– Corporate	145,084	-	**145,084**
– SMEs	40,743	-	**40,743**
Recoveries	-	-	**-**
– Corporate	6,615	-	**6,615**
International banking services	4,163,384	-	**4,163,384**
Wealth management	760,993	-	**760,993**
	15,983,048	1,867,014	**17,850,062**

Deposits by geographical area are based on the originator country of the deposit.

Customer deposits at 31 December 2017 include balances between the Company and its parent undertaking Bank of Cyprus Holdings Public Limited Company of €143 thousand. Further information is disclosed in Note 51.

33. Insurance liabilities

Life insurance	**2018**			2017		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
Life insurance contract liabilities	**531,640**	**(27,601)**	**504,039**	546,887	(27,608)	519,279
General insurance						
Provision for unearned premiums	**25,962**	**(9,475)**	**16,487**	24,151	(8,879)	15,272
Other liabilities						
Claims outstanding	**33,397**	**(11,272)**	**22,125**	34,076	(11,513)	22,563
Unexpired risks reserve	**58**	**-**	**58**	314	-	314
Equalisation reserve	**-**	**-**	**-**	20	-	20
General insurance contract liabilities	**59,417**	**(20,747)**	**38,670**	58,561	(20,392)	38,169
	591,057	**(48,348)**	**542,709**	605,448	(48,000)	557,448

Reinsurers' share of insurance contract liabilities and other reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 29).

33. **Insurance liabilities** (continued)

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

	2018			2017		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
1 January	**546,887**	**(27,608)**	**519,279**	530,075	(28,379)	501,696
New business	**13,633**	**(1,275)**	**12,358**	9,367	(1,173)	8,194
Change in existing business	**(28,880)**	**1,282**	**(27,598)**	7,445	1,944	9,389
31 December	**531,640**	**(27,601)**	**504,039**	546,887	(27,608)	519,279

General insurance contract liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

	2018			2017		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Liabilities for unearned premium	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**24,151**	**(8,879)**	**15,272**	22,690	(8,605)	14,085
Premium income	**72,912**	**(32,128)**	**40,784**	65,701	(29,246)	36,455
Earned premiums	**(71,101)**	**31,532**	**(39,569)**	(64,240)	28,972	(35,268)
31 December	**25,962**	**(9,475)**	**16,487**	24,151	(8,879)	15,272

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relate to risks that have not yet expired at the reporting date.

33. Insurance liabilities (continued)

	2018			2017		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Claims outstanding	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**34,076**	**(11,513)**	**22,563**	31,009	(12,989)	18,020
Amount paid for claims settled in the year	**(34,516)**	**14,735**	**(19,781)**	(27,017)	13,643	(13,374)
Increase in liabilities arising from claims	**33,837**	**(14,494)**	**19,343**	30,084	(12,167)	17,917
31 December	**33,397**	**(11,272)**	**22,125**	34,076	(11,513)	22,563
Reported claims	**31,427**	**(10,395)**	**21,032**	32,202	(10,704)	21,498
Incurred but not reported	**1,970**	**(877)**	**1,093**	1,874	(809)	1,065
31 December	**33,397**	**(11,272)**	**22,125**	34,076	(11,513)	22,563

34. Subordinated loan stock

		2018	2017
	Contractual interest rate	**€000**	€000
Subordinated Tier 2 Capital Note with nominal value of €250 million	9.25% up to 19 January 2022	**270,930**	268,485
Subordinated Tier 2 Capital Loan	8.00% up to 21 December 2022	**-**	33,803
		270,930	302,288

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note (the Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The Note is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market. The fair value as at 31 December 2018 is disclosed in Note 23.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of the Company issued a £30 million unsecured and subordinated Tier 2 Capital Loan, priced at par.

35. Accruals, deferred income and other liabilities

	2018	2017
	€000	€000
Income tax payable and related provisions	**14,568**	20,410
Special defence contribution payable	**4,270**	5,891
Retirement benefit plans liabilities (Note 15)	**8,777**	10,037
Provisions for financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	**27,685**	51,987
Liabilities for investment-linked contracts under administration	**2,971**	7,873
Accrued expenses and other provisions	**72,192**	60,048
Deferred income	**18,869**	9,439
Items in the course of settlement	**47,958**	72,241
Other liabilities	**88,020**	67,979
	285,310	305,905

The ECL allowance for financial guarantees and commitments as at 31 December 2018 is analysed by stage in the table below:

2018	**ECL allowance €000**
Stage 1	**1,314**
Stage 2	**2,593**
Stage 3	**23,778**
	27,685

36. Share capital

	2018		2017	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	**47,677,593**	**4,767,759**	47,677,593	4,767,759
Issued				
1 January	**8,922,945**	**892,294**	8,922,945	892,294
31 December	**8,922,945**	**892,294**	8,922,945	892,294

Authorised and issued share capital

All issued ordinary shares carry the same rights.

2018

There were no changes to the authorised or issued share capital during the year ended 31 December 2018.

36. Share capital (continued)

2017

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved a scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders. The scheme of arrangement introduced the Company as the new holding company of the Group. Additionally the EGM authorised the directors of the Company to take all actions necessary or appropriate to carry the scheme of arrangement into effect. The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of the Company which amounted to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of the Company (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of the Company, equal to the aggregate nominal value of the Existing Shares so cancelled, and which shall be retained as a non-distributable capital reserve in accordance with the provisions of subsection (e) of section 64 of the Cyprus Companies Law, Cap. 113 (the Reduction of Capital).

Following the reduction of the share capital of the Company, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank pari passu with the existing ordinary shares of the Company. Also, the reserve arising in the books of account of the Company as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of the Company, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of the Company were cancelled and the Company issued and allotted 8,922,944,533 new ordinary shares of nominal value €0.10 each, credited as fully paid to the Company; and the Company issued and allotted new shares (New Shares) and procured the issue of Depositary Interests representing New Shares, in accordance with the terms of the scheme of arrangement. Each one New Share or one Depositary Interest represents one New Share for each individual holding of 20 Existing Shares. As a result, the Company issued 446,199,933 ordinary shares with a nominal value of €0.10 each.

Share premium reserve

The share premium reserve is maintained pursuant to the provision of section 55 of the Companies Law, Cap.113 and is not available for distribution to equity holders in the form of dividend

The share premium as at 31 December 2018 was created in 2014 and 2015 by the issuance of 4,167,234 thousand shares of a nominal value of €0.10 each of a subscription price of €0.24 each and was reduced by the relevant transaction costs of €30,794 thousand.

Treasury shares of the Company

Up to the restructuring of the Group and the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group, shares of the Company held by entities controlled by the Group were deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss was recognised in the consolidated income statement in 2017.

36. Share capital (continued)

Share-based payments - share options

Following the incorporation of Bank of Cyprus Holdings Public Limited Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of Bank of Cyprus Holdings Public Limited Company.

No share options were granted since the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of the Company. Any shares related to the Share Option Plan carry rights with regards to control of the company that are only exercisable directly by the employee.

Other equity instruments

	2018	2017
	€000	€000
Reset Perpetual Additional Tier 1 Capital Securities	**220,000**	-

On 19 December 2018 Bank of Cyprus Holdings Public Limited Company issued €220,000 thousand of Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the BOCH AT1). On the same date, the Company and Bank of Cyprus Holding Public Limited Company entered into an agreement pursuant to which Bank of Cyprus Holding Public Limited Company on-lent to the company the entire €220 million proceeds of the issue of the BOCH AT1 (the AT1 Loan) on terms substantially identical to the terms and conditions of the BOCH AT1. The AT1 Loan constitutes an unsecured and subordinated obligation of the Company. The interest is at 12.50% and is payable semi-annually. The Company may elect to cancel any interest payment for an unlimited period, and on a non cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. The AT1 Loan is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and each subsequent fifth anniversary; subject to the prior approval of the regulators.

37. Dividends

Based on the SREP decisions of prior years, the Company was under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2018 and 2017.

Following the 2018 SREP decision, the Company is still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders of the Company which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company.

38. Retained earnings/(accumulated losses)

For the purpose of dividend distribution, retained earnings determined at the Company level, are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals who are domiciled in Cyprus and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the company on account of the shareholders. During 2018 and 2017 no deemed dividend distribution was paid by the Company.

39. Fiduciary transactions

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2018 amounted to €1,244,908 thousand (2017: €1,120,817 thousand).

40. Pending litigation, claims, regulatory and other matters

The Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of the Company in 2013 as a result of the Bail-in Decrees, the Company is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees.

Apart from what is described below, the Group considers that none of these matters is material, either individually or in aggregate. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2018 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

40 Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims

Investigations and litigation relating to securities issued by the Company
A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of misselling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Companyin related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

The Company is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be documented that the relevant the Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Also a small number of cases are being heard in Cyprus. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

In July 2018 the Nicosia district court ruled in favour of the Company in an action against the Company by a capital securities holder and rejected the claim to reimburse the plaintiff for alleged damages sustained from investing in the capital securities of the Company. In September 2018 judgement was issued by the district court of Larnaca against the Company with respect to a capital security case. The plaintiffs were seeking compensation against the Company for negligence/fraud/breach of statutory duty in selling to the plaintiffs contingent convertible bonds. The court found against the Company, awarding damages. The Company has filed an appeal against this judgement.

Bail-in related litigation
Depositors
A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Company is defending these actions.

Shareholders
Numerous claims were filed by shareholders in 2013 against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Company appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. A number of actions for damages have been filed and are still being filed with the District Courts of Cyprus.

40 Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

Claims based on set-off
Certain claims have been filed by customers against the Company alleging that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company intends to contest such claims.

Laiki Bank depositors and shareholders
The Company has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above. The Company, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees
Occasionally, other claims are brought against the Company in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented).

Legal position of the Group
All above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

Provident fund case
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company's contribution by virtue of an agreement with the union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Group does not expect a material impact on its financial position.

Employment litigation
Former senior officers of the Company have instituted one claim for unfair dismissal and one claim for Provident Fund entitlements against the Company and Trustees of the Provident Fund. As at the present date one case had been dismissed as filed out of time, but the plaintiff has subsequently filed a civil action in the District Court on the same grounds as the previous case which was filed in the Labour Disputes Court. The Group does not consider that these cases will have a material impact on its financial position.

Swiss Francs loans litigation in Cyprus and UK
A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Group does not expect that these actions will have a material impact on its financial position.

UK property lending claims
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

40 Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

General criminal investigations and proceedings
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. The Company is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Group is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

The Attorney General had filed a criminal case against the Company and five former members of the Board of Directors for alleged market manipulation offences referring to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. On 14 December 2017, the Court found the Company and its former Chief Executive Officer guilty only in relation to the one charge regarding market manipulation and acquitted all accused of all remaining charges. On 5 January 2018 the Court imposed a fine of €120,000 on the Company and a prison sentence of two and a half years on Mr. Andreas Eliades. The Company has filed an appeal against both the decision and the fine imposed on it. In September 2018 both the Company and Mr. Andreas Eliades were acquitted.

The Attorney General had also filed a separate criminal case against the Company and six former members of the Board of Directors of the Company for alleged market manipulation offences referring to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. On 18 December 2017, the Criminal Court dismissed the proceedings against the accused following a ruling by the Supreme Court (first instance jurisdiction) which rendered the charges void ab initio. The Attorney General has filed an appeal against the first instance ruling of the Supreme Court. In April 2018 the Supreme Court rejected the appeal and thus this is the end of this criminal case.

In January 2017 the Attorney General has filed a criminal case against a number of current and former officers of the Company relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against the Company in this case. Two of the former officers accused, have already been acquitted on the basis of preliminary objections raised by them. The Attorney General has filed an appeal against the acquittals. Meanwhile the hearing of this case has not yet commenced.

40.2 Regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation
The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government Bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in the Company's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek Government Bond investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

The Cyprus Securities and Exchange Commission (CySEC) Investigations
The only pending CySEC investigation against the Company concerns possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. It is not expected that any resulting liability or fine will have a material impact on the financial position of the Group.

40 Pending litigation, claims, regulatory and other matters (continued)

40.2 Regulatory matters (continued)

Commission for the Protection of Competition Investigation
In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the CPC) issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Company.

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017 the CPC imposed a fine of €18 million upon the Company and the Company filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse. In June 2018 the Administrative court accepted the Company’s position and cancelled the decision as well as the fine imposed upon the Company. The Attorney General has filed an appeal before the Supreme court with respect to such decision.

UK regulatory matters
During 2016 and 2017 the BOC group recognised losses of €57,540 thousand on a conduct principle issue. The provision outstanding as at 31 December 2018 is €15,795 thousand (31 December 2017: €46,962 thousand). As part of the agreement for the sale of Bank of Cyprus UK Ltd (Note 53.2.1), liability in regards to UK regulatory matters remains an obligation for settlement by the Group. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management continues to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at the time.

40.3 Provisions for pending litigation, claims, regulatory and other matters

	Pending litigation or claims (Note 40.1)	Regulatory matters (Note 40.2)	Other matters	**Total**
2018	€000	€000	€000	**€000**
1 January	62,646	70,672	5,057	**138,375**
Increase of provisions - continuing operations (Note 16)	20,804	6,675	7,953	**35,432**
Utilisation of provisions	(9,016)	(39,242)	-	**(48,258)**
Release of provisions - continuing operations (Note 16)	(62)	(9,000)	-	**(9,062)**
Foreign exchange adjustments	-	464	-	**464**
31 December	**74,372**	**29,569**	**13,010**	**116,951**
Provisions expected to be settled within no more than 12 months post reporting date	2,000	15,795	-	**17,795**

40 Pending litigation, claims, regulatory and other matters (continued)

40.3 Provisions for pending litigation, claims, regulatory and other matters (continued)

2017				
1 January	25,234	23,648	5,057	**53,939**
Increase of provisions - continuing operations (Note 16)	41,282	52,877	-	**94,159**
Increase of provisions - discontinued operations	-	4,598	-	**4,598**
Utilisation of provisions	(2,650)	(9,990)	-	**(12,640)**
Release of provisions - continuing operations (Note 16)	(1,220)	-	-	**(1,220)**
Foreign exchange adjustments	-	(461)	-	**(461)**
31 December	**62,646**	**70,672**	**5,057**	**138,375**
Provisions expected to be settled within no more than 12 months post reporting date	1,200	4,000	-	**5,200**

The decrease of accumulated provisions for regulatory matters during the six months ended 31 December 2018 mainly relates to utilisation of in provisions on UK regulatory matters as detailed in Note 40.2. The increase of provisions for pending litigation and claims during the six months ended 31 December 2018 mainly relates to increase in provision recognised on investigations and litigations relating to securities issued by the Company as detailed in Note 40.1.

Other matters include other provisions for various open examination requests of the Group, by governmental and other public bodies. The provisions for pending litigation, claims, regulatory and matters do not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries as these are included in 'Insurance liabilities' (Note 33).

Some information required by the IAS 37 (Provision, Contingent Liabilities and Contingent Assets) is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

41. Contingent liabilities and commitments

As part of the services provided to its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Group (Note 46).

41.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2018 amount to €28,851 thousand (2017: €38,306 thousand).

41.2 Other contingent liabilities

The Group, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been made, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable (Note 46.8.1).

42. Net cash flow from operating activities

	Year ended 31 December	
	2018	2017
	€000	€000
Loss before tax from continuing operations	**(35,724)**	(479,239)
Profit before tax from discontinued operations	**8,926**	1,588
Adjustments for:		
Credit losses to cover credit risk on loans and advances to customers and net gains on derecognition of financial assets measured at amortised cost	**300,634**	779,483
Depreciation of property and equipment	**12,016**	11,930
Amortisation of intangible assets	**13,542**	9,404
Impairment of property held for own use and equipment	**11**	8,470
Impairment of other non-financial assets	**1,368**	-
Credit losses of other financial instruments	**1,610**	6,459
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	**(25,418)**	(22,669)
(Profit)/loss on sale and write-offs of property and equipment and intangible assets	**(99)**	208
Net losses on disposal of investment properties and investment properties held for sale	**-**	752
Net losses from revaluation of investment properties and investment properties held for sale	**13,275**	3,309
Dividend income	**(547)**	(683)
Net gains on disposal of investments at FVOCI	**(19,484)**	-
Net gains on financial liabilities at FVPL	**(1,435)**	-
Net gains on disposal of available-for-sale investments in equity securities	**-**	(1,520)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	**-**	(2,104)
Share of profit from associates	**(9,095)**	(8,957)
Loss from revaluation of debt securities designated as fair value hedges	**22,775**	14,150
(Profit)/loss on disposal/dissolution of subsidiaries and associates	**(6,205)**	2,187
Net gains on disposal of stock of property	**(31,867)**	(30,447)
Impairment of stock of property	**17,272**	50,502
Interest on funding from central banks	**3**	28
Interest on subordinated loan stock	**25,365**	22,258
Change in value of in-force life insurance business	**5,314**	(2,743)
	292,237	362,366
Change in:		
Loans and advances to banks	**(284,836)**	60,130
Deposits by banks	**(61,938)**	60,522
Obligatory balances with central banks	**(8,942)**	(11,036)
Customer deposits	**983,856**	1,340,321
Value of in-force life insurance policies and liabilities	**12,934**	2,306
Loans and advances to customers measured at amortised cost	**(320,757)**	(227,629)
Loans and advances to customers measured at FVPL	**(5,710)**	-
Other assets	**12,459**	28,610
Accrued income and prepaid expenses	**(8,306)**	374
Other liabilities and pending litigation, claims, regulatory and other matters	**(45,906)**	91,382
Accrued expenses and deferred income	**27,345**	3,346
Derivative financial instruments	**(18,636)**	5,075
Investments at fair value through profit or loss	**(9,816)**	(8,451)
Repurchase agreements	**(8,377)**	(45)
Proceeds on disposals of stock of property	**228,225**	280,365
	783,832	1,987,636
Tax received	**3,913**	5,630
Net cash flow from operating activities	**787,745**	1,993,266

42. Net cash flow from operating activities (continued)

Non-cash transactions

2018

Repossession of collaterals
During the year ended 31 December 2018, the Group acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €395,968 thousand (2017: €519,657 thousand) (Note 28).

Increase in the shareholding of Nicosia Mall Holdings (NMH) Ltd
During 2018, the Company increased its controlling interest from 51% to 64% in Nicosia Mall Holdings (NMH) Ltd.

2017

Closure of the operations of Bank of Cyprus branch in Romania
In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to others entities of the Group.

Acquisition of Nicosia Mall Holdings (NMH) Limited
During the year ended 31 December 2017 the Group acquired a 51% interest in the share capital of NMH Limited as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 53.3.1.

Net cash flow from operating activities - interest and dividends

	2018	2017
	€000	€000
Interest paid	**(225,585)**	(194,666)
Interest received	**633,733**	782,476
Dividends received	**547**	683
	408,695	588,493

42. Net cash flow from operating activities (continued)

Changes in liabilities arising from financing activities

	Funding from central banks	Subordinated loan stock	**Total**
2018	€000	€000	**€000**
1 January	930,000	302,288	**1,232,288**
Cash flows	(100,000)	(24,476)	**(124,476)**
Foreign exchange adjustments	-	(33)	**(33)**
Other non-cash movements	-	28,491	**28,491**
Disposal of subsidiary	-	(35,340)	**(35,340)**
31 December	**830,000**	**270,930**	**1,100,930**
2017			
1 January	850,014	-	**850,014**
Cash flows	79,986	280,983	**360,969**
Foreign exchange adjustments	-	(680)	**(680)**
Other non-cash movements	-	21,985	**21,985**
31 December	**930,000**	**302,288**	**1,232,288**

43. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	2017
	€000	€000
Cash and non-obligatory balances with central bank	**4,447,816**	3,240,201
Loans and advances to banks with original maturity less than three months	**357,028**	1,040,030
	4,804,844	4,280,231

Analysis of cash and balances with central banks and loans and advances to banks

	2018	2017
	€000	€000
Cash and non-obligatory balances with central bank	**4,447,816**	3,240,201
Obligatory balances with central banks (Note 20)	**162,675**	153,733
Total cash and balances with central banks (Note 20)	**4,610,491**	3,393,934
Loans and advances to banks with original maturity less than three months	**357,028**	1,040,030
Restricted loans and advances to banks	**115,504**	117,273
Other loans and advances to banks	**-**	35,330
Total loans and advances to banks (Note 20)	**472,532**	1,192,633

Restricted loans and advances to banks include collaterals under derivative transactions of €42,631 thousand (2017: €59,997 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

44. Operating leases - The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 and 2017 are presented below:

	2018	2017
	€000	€000
Within one year	**1,864**	1,850
Between one and five years	**2,542**	2,663
After five years	**47**	62
	4,453	4,575

The above mainly relate to property leases for the Group's branches and offices in Cyprus.

45. Analysis of assets and liabilities by expected maturity

	2018			2017		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
Assets	**€000**	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**4,447,816**	**162,675**	**4,610,491**	3,241,396	152,538	3,393,934
Loans and advances to banks	**364,655**	**107,877**	**472,532**	1,094,918	97,715	1,192,633
Derivative financial assets	**4,148**	**20,606**	**24,754**	1,495	16,532	18,027
Investments	**135,679**	**1,379,012**	**1,514,691**	39,050	1,081,562	1,120,612
Loans and advances to customers	**1,525,865**	**9,395,921**	**10,921,786**	3,642,968	10,959,486	14,602,454
Life insurance business assets attributable to policyholders	**498**	**402,067**	**402,565**	20,317	409,573	429,890
Prepayments, accrued income and other assets	**82,111**	**173,805**	**255,916**	98,196	127,723	225,919
Stock of property	**542,419**	**987,969**	**1,530,388**	441,800	1,199,622	1,641,422
Property, equipment and intangible assets	**6**	**431,128**	**431,134**	13	445,753	445,766
Investment properties	**-**	**24,475**	**24,475**	-	19,646	19,646
Investment in associates and joint venture	**-**	**114,637**	**114,637**	-	118,113	118,113
Deferred tax assets	**-**	**301,778**	**301,778**	26,000	357,498	383,498
Non-current assets and disposal group held for sale	**1,470,038**	**-**	**1,470,038**	6,500	-	6,500
	8,573,235	**13,501,950**	**22,075,185**	8,612,653	14,985,761	23,598,414
Liabilities						
Deposits by banks	**168,740**	**263,202**	**431,942**	360,277	135,031	495,308
Funding from central banks	**-**	**830,000**	**830,000**	100,000	830,000	930,000
Repurchase agreements	**80,692**	**168,253**	**248,945**	-	257,322	257,322
Derivative financial liabilities	**12,459**	**26,524**	**38,983**	15,205	35,687	50,892
Customer deposits	**2,946,714**	**13,896,844**	**16,843,558**	4,786,907	13,063,155	17,850,062
Insurance liabilities	**90,464**	**500,593**	**591,057**	89,689	515,759	605,448
Accruals, deferred income, other liabilities and pending litigation, claims, regulatory and other matters	**299,859**	**102,402**	**402,261**	283,754	160,526	444,280
Subordinated loan stock	**-**	**270,930**	**270,930**	-	302,288	302,288
Deferred tax liabilities	**-**	**44,282**	**44,282**	-	46,113	46,113
Non-current liabilities and disposal group classified as held for sale	**5,812**	**-**	**5,812**	-	-	-
	3,604,740	**16,103,030**	**19,707,770**	5,635,832	15,345,881	20,981,713

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

45. Analysis of assets and liabilities by expected maturity (continued)

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. The latter would be the case where there is secured borrowing, requiring the pledging of bonds and these bonds mature before the maturity of the secured borrowing. The maturity of bonds is then extended to cover the period of the secured borrowing. Investments in equity securities are classified in the 'less than one year' time band.

Trading investments are classified in the 'less than one year' time band.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The Stage 3 Loans are classified in the 'over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits in Cyprus maturing within one year is classified in the 'over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they don't have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

46. Risk management - Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms across all Group entities in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group.

The Credit Risk Management department sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and the quality of the Group's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

Credit Risk Management department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that credit sanctioning function is being properly managed.

The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Credit Risk Management department determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5 'Significant and other judgements, estimates and assumptions' of these Consolidated Financial Statements.

46. Risk management - Credit risk (continued)

The Market Risk department assesses the credit risk relating to investments in liquid assets (mainly loans and advances to banks and debt securities) and submits its recommendation for limits to be set to the Assets and Liabilities Committee (ALCO) for approval.

46.1 Maximum exposure to credit risk and collateral and other credit enhancements

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	2018	2017
On-balance sheet	**€000**	€000
Cyprus	**18,504,113**	17,986,526
United Kingdom	**511**	2,056,334
Other countries	**82,796**	138,725
	18,587,420	20,181,585
Off-balance sheet		
Cyprus	**2,781,943**	2,934,269
United Kingdom	**-**	31,471
Other countries	**60,592**	73,600
	2,842,535	3,039,340
Total on and off-balance sheet		
Cyprus	**21,286,056**	20,920,795
United Kingdom	**511**	2,087,805
Other countries	**143,388**	212,325
	21,429,955	23,220,925

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers
The Credit Risk department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group’s management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments
Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							**Net exposure to credit risk**
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
2018	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 20)	**4,456,768**	-	-	-	-	-	-	-	**4,456,768**
Loans and advances to banks (Note 20)	**472,532**	12,220	-	-	-	-	-	12,220	**460,312**
FVPL debt securities (Note 21)	**14,616**	-	-	-	-	-	-	-	**14,616**
Debt securities classified at amortised cost and FVOCI (Note 21)	**1,350,127**	-	-	-	-	-	-	-	**1,350,127**
Derivative financial instruments (Note 22)	**24,754**	-	-	-	-	-	-	-	**24,754**
Loans and advances to customers (Note 24)	**10,921,786**	419,735	291,662	209,274	15,735,094	1,315,573	(8,241,099)	9,730,239	**1,191,547**
Loans and advances to customers classified as held for sale (Note 30)	**1,154,108**	2,726	14,283	13,156	2,371,672	13,307	(1,374,545)	1,040,599	**113,509**
Debtors (Note 29)	**30,671**	-	-	-	-	-	-	-	**30,671**
Reinsurers' share of insurance contract liabilities (Note 29)	**48,348**	-	-	-	-	-	-	-	**48,348**
Other assets	**113,710**	-	-	31,768	48,900	46,683	(96,505)	30,846	**82,864**
On-balance sheet total	**18,587,420**	**434,681**	**305,945**	**254,198**	**18,155,666**	**1,375,563**	**(9,712,149)**	**10,813,904**	**7,773,516**
Contingent liabilities									
Acceptances and endorsements	**5,561**	323	-	34	4,506	492	-	5,355	**206**
Guarantees	**748,705**	120,139	985	4,563	152,272	34,958	-	312,917	**435,788**
Commitments									
Documentary credits	**24,297**	3,115	-	10	6,440	5,143	-	14,708	**9,589**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,063,972**	30,197	8,490	810	346,736	41,288	-	427,521	**1,636,451**
Off-balance sheet total	**2,842,535**	**153,774**	**9,475**	**5,417**	**509,954**	**81,881**	**-**	**760,501**	**2,082,034**
	21,429,955	**588,455**	**315,420**	**259,615**	**18,665,620**	**1,457,444**	**(9,712,149)**	**11,574,405**	**9,855,550**

As at 31 December 2018 the contingent liabilities and commitments include exposures relating to loans and advances to customers classified as held for sale amounting to €3,656 thousand which largely relate to the Cyprus geographical area.

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							**Net exposure to credit risk**
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
2017	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 20)	**3,250,029**	-	-	-	-	-	-	-	**3,250,029**
Loans and advances to banks (Note 20)	**1,192,633**	-	-	-	-	-	-	-	**1,192,633**
Trading investments debt securities (Note 21)	**14,577**	-	-	-	-	-	-	-	**14,577**
Debt securities classified as available-for-sale and loans and receivables (Note 21)	**950,392**	-	-	-	-	-	-	-	**950,392**
Derivative financial instruments (Note 22)	**18,027**	-	-	-	-	-	-	-	**18,027**
Loans and advances to customers (Note 24)	**14,602,454**	339,050	275,111	258,848	21,803,417	747,362	(10,369,288)	13,054,500	**1,547,954**
Debtors (Note 29)	**24,121**	-	-	-	-	-	-	-	**24,121**
Reinsurers' share of insurance contract liabilities (Note 29)	**48,000**	-	-	-	-	-	-	-	**48,000**
Other assets	**81,352**	-	-	37,798	-	-	(1,516)	36,282	**45,070**
On-balance sheet total	**20,181,585**	**339,050**	**275,111**	**296,646**	**21,803,417**	**747,362**	**(10,370,804)**	**13,090,782**	**7,090,803**
Contingent liabilities									
Acceptances and endorsements	**8,367**	813	-	-	9,817	79	(4,056)	6,653	**1,714**
Guarantees	**768,165**	85,099	464	3,736	153,756	11,405	-	254,460	**513,705**
Commitments									
Documentary credits	**29,630**	1,139	7	190	7,550	486	-	9,372	**20,258**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,233,178**	38,132	5,563	1,543	402,309	36,266	(19,699)	464,114	**1,769,064**
Off-balance sheet total	**3,039,340**	**125,183**	**6,034**	**5,469**	**573,432**	**48,236**	**(23,755)**	**734,599**	**2,304,741**
	23,220,925	**464,233**	**281,145**	**302,115**	**22,376,849**	**795,598**	**(10,394,559)**	**13,825,381**	**9,395,544**

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of these internal limits over time.

The Company categorises its loans using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from the Company of up to €260 thousand, excluding professional property loans.
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Company in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million.
- Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Company in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

Fair value adjustment on initial recognition
The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

Industry concentrations and geographical analysis of Group loans and advances to customers are presented in the table below. Following the disposal of the UK subsidiary during 2018, the loans in Romania, Russia, Greece and the remaining portfolio in UK are disclosed within 'Other countries'.

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	1,447,623	39,682	**1,487,305**	**(24,096)**	**1,463,209**
Manufacturing	437,030	7,572	**444,602**	**(6,439)**	**438,163**
Hotels and catering	877,501	3,806	**881,307**	**(20,354)**	**860,953**
Construction	991,122	2,552	**993,674**	**(14,661)**	**979,013**
Real estate	980,152	21,644	**1,001,796**	**(16,231)**	**985,565**
Private individuals	6,234,765	11,536	**6,246,301**	**(135,603)**	**6,110,698**
Professional and other services	866,093	45,758	**911,851**	**(36,551)**	**875,300**
Other sectors	720,876	4,704	**725,580**	**(8,114)**	**717,466**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers (continued)

2017	Cyprus	United Kingdom	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By economic activity	€000	€000	€000	**€000**	**€000**	**€000**
Trade	1,969,360	13,859	58,247	**2,041,466**	**(71,636)**	**1,969,830**
Manufacturing	630,101	6,468	27,983	**664,552**	**(19,968)**	**644,584**
Hotels and catering	1,283,512	103,808	6,208	**1,393,528**	**(47,257)**	**1,346,271**
Construction	2,310,057	3,398	24,000	**2,337,455**	**(144,899)**	**2,192,556**
Real estate	1,760,498	1,339,680	95,934	**3,196,112**	**(89,647)**	**3,106,465**
Private individuals	6,677,670	97,992	301	**6,775,963**	**(195,686)**	**6,580,277**
Professional and other services	1,181,920	54,616	71,548	**1,308,084**	**(61,954)**	**1,246,130**
Other sectors	1,000,434	1,231	35,890	**1,037,555**	**(37,438)**	**1,000,117**
	16,813,552	**1,621,052**	**320,111**	**18,754,715**	**(668,485)**	**18,086,230**

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	3,363,298	125,138	**3,488,436**	**(49,982)**	**3,438,454**
SMEs	1,188,456	11,188	**1,199,644**	**(16,537)**	**1,183,107**
Retail					
- housing	2,871,294	-	**2,871,294**	**(45,016)**	**2,826,278**
- consumer, credit cards and other	940,388	904	**941,292**	**2,965**	**944,257**
Restructuring					
- corporate	531,462	24	**531,486**	**(7,907)**	**523,579**
- SMEs	560,806	-	**560,806**	**(11,637)**	**549,169**
- retail housing	498,601	-	**498,601**	**(4,481)**	**494,120**
- retail other	328,952	-	**328,952**	**(8,588)**	**320,364**
Recoveries					
- corporate	164,821	-	**164,821**	**(7,439)**	**157,382**
- SMEs	630,968	-	**630,968**	**(26,178)**	**604,790**
- retail housing	697,212	-	**697,212**	**(40,577)**	**656,635**
- retail other	480,733	-	**480,733**	**(39,923)**	**440,810**
International banking services	192,646	-	**192,646**	**(2,158)**	**190,488**
Wealth management	105,525	-	**105,525**	**(4,591)**	**100,934**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers (continued)

2017	Cyprus	United Kingdom	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By business line	€000	€000	€000	**€000**	**€000**	**€000**
Corporate	3,321,730	1,293,304	245,540	**4,860,574**	**(83,251)**	**4,777,323**
SMEs	1,219,350	238,509	17,079	**1,474,938**	**(14,566)**	**1,460,372**
Retail						
- housing	3,007,487	72,856	-	**3,080,343**	**(30,274)**	**3,050,069**
- consumer, credit cards and other	1,085,146	13,977	296	**1,099,419**	**(14,348)**	**1,085,071**
Restructuring						
- major corporate	1,292,607	-	33,860	**1,326,467**	**(55,850)**	**1,270,617**
- corporate	777,460	-	-	**777,460**	**(15,303)**	**762,157**
- SMEs	1,085,221	-	-	**1,085,221**	**(37,096)**	**1,048,125**
- retail housing	437,892	-	-	**437,892**	**(6,319)**	**431,573**
- retail other	226,623	-	-	**226,623**	**(8,037)**	**218,586**
Recoveries						
- corporate	1,709,190	2,406	23,336	**1,734,932**	**(179,336)**	**1,555,596**
- SMEs	950,171	-	-	**950,171**	**(69,852)**	**880,319**
- retail housing	652,421	-	-	**652,421**	**(52,206)**	**600,215**
- retail other	737,566	-	-	**737,566**	**(94,367)**	**643,199**
International banking services	256,554	-	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	-	**54,134**	**(4,675)**	**49,459**
	16,813,552	**1,621,052**	**320,111**	**18,754,715**	**(668,485)**	**18,086,230**

The fair value adjustment on initial recognition for loans and advances to customers included in the Cyprus geographical area amounts to €261,862 thousand (2017: €658,205 thousand).

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €67,930 thousand (2017: €69,616 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €76,303 thousand (2017: €98,660 thousand). Additionally as at 31 December 2018, the loans and advances to customers in Cyprus include lending exposures to Serbian entities or with collaterals in Serbia with a carrying value of €10,722 thousand (2017: €15,000 thousand).

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale

Industry and business lines concentrations and geographical analysis of Group loans and advances to customers at amortised cost classified as held for sale are presented in the table below.

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	373,351	-	**373,351**	**(12,213)**	**361,138**
Manufacturing	202,193	-	**202,193**	**(7,216)**	**194,977**
Hotels and catering	258,529	-	**258,529**	**(11,960)**	**246,569**
Construction	995,430	-	**995,430**	**(74,233)**	**921,197**
Real estate	409,632	55,225	**464,857**	**(11,765)**	**453,092**
Private individuals	218,531	-	**218,531**	**(9,098)**	**209,433**
Professional and other services	140,748	-	**140,748**	**(5,941)**	**134,807**
Other sectors	191,463	6,011	**197,474**	**(6,727)**	**190,747**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	15,249	-	**15,249**	**(584)**	**14,665**
SMEs	2,841	-	**2,841**	**-**	**2,841**
Retail					
- consumer, credit cards and other	128	-	**128**	**(1)**	**127**
Restructuring					
- corporate	859,214	-	**859,214**	**(24,379)**	**834,835**
- SMEs	216,866	-	**216,866**	**(4,858)**	**212,008**
- retail housing	272	-	**272**	**-**	**272**
- retail other	5,773	-	**5,773**	**(210)**	**5,563**
Recoveries					
- corporate	1,274,835	61,236	**1,336,071**	**(86,644)**	**1,249,427**
- SMEs	374,336	-	**374,336**	**(17,991)**	**356,345**
- retail housing	635	-	**635**	**(115)**	**520**
- retail other	39,720	-	**39,720**	**(4,371)**	**35,349**
International banking services	8	-	**8**	**-**	**8**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale (continued)

There were no loans and advances to customers classified as held for sale at 31 December 2017.

46.4 Currency concentration of loans and advances to customers

	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
2018	€000	€000	**€000**	**€000**	**€000**
Euro	11,992,100	60,006	**12,052,106**	**(256,720)**	**11,795,386**
US Dollar	300,718	28,523	**329,241**	**(276)**	**328,965**
British Pound	37,955	11,735	**49,690**	**(248)**	**49,442**
Russian Rouble	81	36,058	**36,139**	**-**	**36,139**
Romanian Lei	-	932	**932**	**-**	**932**
Swiss Franc	203,026	-	**203,026**	**(3,242)**	**199,784**
Other currencies	21,282	-	**21,282**	**(1,563)**	**19,719**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

	Cyprus	United Kingdom	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
2017	€000	€000	€000	**€000**	**€000**	**€000**
Euro	16,000,016	16,050	191,126	**16,207,192**	**(649,671)**	**15,557,521**
US Dollar	228,660	424	42,550	**271,634**	**(525)**	**271,109**
British Pound	74,707	1,599,844	92	**1,674,643**	**(423)**	**1,674,220**
Russian Rouble	229	-	85,376	**85,605**	**(1)**	**85,604**
Romanian Lei	-	-	967	**967**	**-**	**967**
Swiss Franc	451,883	2,128	-	**454,011**	**(14,525)**	**439,486**
Other currencies	58,057	2,606	-	**60,663**	**(3,340)**	**57,323**
	16,813,552	**1,621,052**	**320,111**	**18,754,715**	**(668,485)**	**18,086,230**

46. Risk management - Credit risk (continued)

46.5 Currency concentration of loans and advances to customers classified as held for sale

	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
2018	€000	€000	**€000**	**€000**	**€000**
Euro	2,638,647	61,236	**2,699,883**	**(129,898)**	**2,569,985**
US Dollar	20,593	-	**20,593**	**(123)**	**20,470**
British Pound	2,469	-	**2,469**	**(18)**	**2,451**
Swiss Franc	90,951	-	**90,951**	**(8,239)**	**82,712**
Other currencies	37,217	-	**37,217**	**(875)**	**36,342**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

46.6 Credit quality of loans and advances to customers

The following tables present the Group's loans and advances to customers at amortised cost by staging and by business line concentration.

	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018	€000	€000	€000	€000	**€000**
Gross loans at amortised cost before fair value adjustment on initial recognition	6,035,781	1,921,255	3,915,591	819,789	**12,692,416**
Fair value adjustment on initial recognition	(77,738)	(20,673)	(40,432)	(123,206)	**(262,049)**
Gross loans at amortised cost after fair value adjustment on initial recognition	**5,958,043**	**1,900,582**	**3,875,159**	**696,583**	**12,430,367**

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018	€000	€000	€000	€000	**€000**
By business line					
Corporate	2,215,264	793,249	387,093	92,830	**3,488,436**
SMEs	739,166	346,148	103,384	10,946	**1,199,644**
Retail					
- housing	2,259,976	300,101	300,584	10,633	**2,871,294**
- consumer, credit cards and other	591,242	199,099	130,816	20,135	**941,292**
Restructuring					
- corporate	48,943	92,537	303,955	86,051	**531,486**
- SMEs	55,295	52,573	406,369	46,569	**560,806**
- retail housing	6,883	3,745	473,444	14,529	**498,601**
- retail other	5,140	1,226	304,076	18,510	**328,952**
Recoveries					
- corporate	-	-	120,234	44,587	**164,821**
- SMEs	-	-	515,542	115,426	**630,968**
- retail housing	-	-	512,175	185,037	**697,212**
- retail other	89	-	313,529	167,115	**480,733**
International banking services	69,620	78,109	41,352	3,565	**192,646**
Wealth management	44,163	54,468	3,038	3,856	**105,525**
	6,035,781	**1,921,255**	**3,915,591**	**819,789**	**12,692,416**

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018	€000	€000	€000	€000	**€000**
By business line					
Corporate	(25,159)	(11,564)	(12,282)	(977)	**(49,982)**
SMEs	(10,652)	(4,150)	(1,113)	(622)	**(16,537)**
Retail					
- housing	(43,528)	(97)	(1,246)	(145)	**(45,016)**
- consumer, credit cards and other	3,248	352	(375)	(260)	**2,965**
Restructuring					
- corporate	(199)	(1,988)	(2,687)	(3,033)	**(7,907)**
- SMEs	28	(580)	(3,931)	(7,154)	**(11,637)**
- retail housing	(119)	(3)	(2,796)	(1,563)	**(4,481)**
- retail other	34	(40)	(3,971)	(4,611)	**(8,588)**
Recoveries					
- corporate	-	-	(1,654)	(5,785)	**(7,439)**
- SMEs	-	-	(2,073)	(24,105)	**(26,178)**
- retail housing	-	-	(3,200)	(37,377)	**(40,577)**
- retail other	-	-	(4,695)	(35,228)	**(39,923)**
International banking services	(303)	(1,164)	(195)	(496)	**(2,158)**
Wealth management	(1,088)	(1,439)	(214)	(1,850)	**(4,591)**
	(77,738)	**(20,673)**	**(40,432)**	**(123,206)**	**(262,049)**

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018	€000	€000	€000	€000	**€000**
By business line					
Corporate	2,190,105	781,685	374,811	91,853	**3,438,454**
SMEs	728,514	341,998	102,271	10,324	**1,183,107**
Retail					
- housing	2,216,448	300,004	299,338	10,488	**2,826,278**
- consumer, credit cards and other	594,490	199,451	130,441	19,875	**944,257**
Restructuring					
- corporate	48,744	90,549	301,268	83,018	**523,579**
- SMEs	55,323	51,993	402,438	39,415	**549,169**
- retail housing	6,764	3,742	470,648	12,966	**494,120**
- retail other	5,174	1,186	300,105	13,899	**320,364**
Recoveries					
- corporate	-	-	118,580	38,802	**157,382**
- SMEs	-	-	513,469	91,321	**604,790**
- retail housing	-	-	508,975	147,660	**656,635**
- retail other	89	-	308,834	131,887	**440,810**
International banking services	69,317	76,945	41,157	3,069	**190,488**
Wealth management	43,075	53,029	2,824	2,006	**100,934**
	5,958,043	**1,900,582**	**3,875,159**	**696,583**	**12,430,367**

An analysis of changes in the gross loans at amortised cost after fair value adjustment on initial recognition by staging including the loans and advances to customers classified as held for sale is presented in the table below. Details on the loans and advances to customers classified as held for sale are disclosed in Note 46.7.

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	5,100,964	4,418,226	6,838,643	1,308,500	**17,666,333**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Restated balance at 1 January 2018	5,106,032	4,424,820	8,188,686	1,636,292	**19,355,830**
Transfers to stage 1	2,180,460	(1,952,997)	(227,463)	-	**-**
Transfers to stage 2	(269,513)	462,775	(193,262)	-	**-**
Transfers to stage 3	(171,920)	(441,097)	613,017	-	**-**
Write offs	(12,256)	(21,814)	(2,028,137)	(556,097)	**(2,618,304)**
Interest accrued and other adjustments	97,860	38,850	516,425	109,977	**763,112**
New assets originated or purchased and drawdowns of existing facilities	1,752,138	193,416	111,124	33,044	**2,089,722**
Assets derecognised or repaid (excluding write offs)	(1,021,693)	(603,701)	(879,866)	(112,836)	**(2,618,096)**
Changes to contractual cash flows due to modifications resulting in derecognition	(22)	(65)	(654)	1,511	**770**
Disposal of subsidiary	(1,696,090)	(108,266)	(26,351)	-	**(1,830,707)**
31 December	**5,964,996**	**1,991,921**	**6,073,519**	**1,111,891**	**15,142,327**

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New assets originated' and if negative change is reported as 'Assets derecognised or repaid'.

Loans and advances to customers at amortised cost after fair value adjustment on initial recognition, in the corporate and retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking services and Wealth management) including loans and advances to customers classified as held for sale are presented in the table below:

2018	**Corporate €000**	**Retail €000**
1 January	2,822,022	4,048,153
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	33,867	22,650
Restated balances at 1 January 2018	2,855,889	4,070,803
Transfers in/(out) of business line	358,019	(305,898)
Interest accrued, foreign exchange and other adjustments	172,622	144,670
Write offs	(80,160)	(25,188)
New assets originated or purchased	870,620	446,855
Assets derecognised or repaid (excluding write offs)	(852,997)	(561,675)
Changes to contractual cash flows due to modifications not resulting to derecognition	(192)	305
31 December	**3,323,801**	**3,769,872**

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

The following table presents the credit quality of the Group's loans and advances to customers at amortised cost by geographical concentration:

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By staging	€000	€000	**€000**	**€000**	**€000**
Stage 1	6,023,870	11,911	**6,035,781**	**(77,738)**	**5,958,043**
Stage 2	1,921,234	21	**1,921,255**	**(20,673)**	**1,900,582**
Stage 3	3,790,269	125,322	**3,915,591**	**(40,432)**	**3,875,159**
POCI	819,789	-	**819,789**	**(123,206)**	**696,583**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

The following table presents the credit quality of the Company's loans and advances to customers as presented in the 2017 financial statements in accordance with IAS 39 based on Credit risk analysis.

	2017		
	Gross loans before fair value adjustment	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000
Neither past due nor impaired	11,149,969	(140,405)	11,009,564
Past due but not impaired	2,084,694	(29,554)	2,055,140
Impaired	5,520,052	(498,526)	5,021,526
	18,754,715	(668,485)	18,086,230

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

	Grade 1	Grade 2	Grade 3	Total
2017	€000	€000	€000	€000
Cyprus	7,031,123	1,384,121	1,158,512	9,573,756
United Kingdom	1,503,234	48,975	22,812	1,575,021
Romania	978	-	214	1,192
	8,535,335	1,433,096	1,181,538	11,149,969

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

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

	2017	
	Impaired	Past due but not impaired
Past due analysis:	€000	€000
- no arrears	401,933	-
- up to 30 days	141,329	438,538
- 31 to 90 days	20,880	261,453
- 91 to 180 days	26,340	124,484
- 181 to 365 days	73,073	252,034
- over one year	4,856,497	1,008,185
	5,520,052	2,084,694

Impaired loans and advances to customers

	2017	
	Gross loans and advances	Fair value of collateral
	€000	€000
Cyprus	5,213,278	3,297,980
Greece	15,555	7,041
Russia	143,979	34,847
United Kingdom	6,447	19,932
Romania	140,793	20,385
	5,520,052	3,380,185

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of the Company. These are corporate, retail and SMEs. Corporate and SME clients include legal entities. Retail includes individuals.

Scoring models use internal and external data to assess and "score" borrowers, predict future performance and manage limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower's behaviour is also used.

Credit score is one of the factors employed on new clients and management of existing clients. The credit score of the borrower is used to assess the predicted credit risk for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring improves credit decision quality, adjudication timeframes and consistency in the credit decision process and facilitates risk-based pricing.

Borrower scores define the rating of the borrower from a range of 1-7 and 8 is defined as defaulted. The 12 months default rates (PDs) are calculated per rating. These default rates are assumed to be the 12 month probability of default for the scored borrowers. The following table maps PD bands to various risk levels for corporate, retail and SME exposures.

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

Unrated loans for corporate are assessed using a decision tree methodology based on customer's characteristics such as days past due and gross book value. Unrated loans for retail include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customers for corporate and SME legal entities and new lending for retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

Rating	**12-month PD**		
	Corporate legal entities %	**Retail individuals %**	**SME legal entities %**
1	2.46	1.49	0.88
2	3.04	1.87	1.85
3	3.37	3.20	2.57
4	3.74	5.42	3.84
5	4.21	7.92	6.49
6	7.47	13.37	9.03
7	12.28	29.54	18.17

Low rating exposures demonstrate a good capacity to meet financial commitments, with low probability of default. Medium range rating exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. High rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below shows the gross loans after fair value adjustment on initial recognition in Cyprus, using the corporate legal entities, SMEs legal entities and retail individual definition as per the internal rating of the Company. Loans and advances to customers classified based on the internal credit rating grades include €67,381 thousand managed in Cyprus but originated in other countries.

2018	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**
Rating 1	203,010	51,808	**254,818**
Rating 2	485,028	110,127	**595,155**
Rating 3	398,722	61,739	**460,461**
Rating 4	429,053	223,243	**652,296**
Rating 5	184,338	62,825	**247,163**
Rating 6	174,717	12,577	**187,294**
Rating 7	123,716	16,911	**140,627**
Unrated	184,900	573,703	**758,603**
New customers	259,165	19,023	**278,188**
	2,442,649	**1,131,956**	**3,574,605**
Total Stage 3 and POCI			**1,237,585**
			4,812,190

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

Retail individuals			
Rating 1	279,305	67,286	**346,591**
Rating 2	686,960	94,836	**781,796**
Rating 3	930,261	99,008	**1,029,269**
Rating 4	423,067	74,341	**497,408**
Rating 5	330,270	76,060	**406,330**
Rating 6	174,645	52,359	**227,004**
Rating 7	42,216	51,842	**94,058**
Unrated	-	3,470	**3,470**
New lending	259,495	36,397	**295,892**
	3,126,219	**555,599**	**3,681,818**
Total Stage 3 and POCI			**2,709,494**
			6,391,312

2018 **SMEs legal entities**	Stage 1 €000	Stage 2 €000	**Total** **€000**
Rating 1	55,500	30,751	**86,251**
Rating 2	87,460	31,678	**119,138**
Rating 3	51,932	17,992	**69,924**
Rating 4	41,757	15,644	**57,401**
Rating 5	40,685	22,250	**62,935**
Rating 6	35,414	32,538	**67,952**
Rating 7	37,283	36,180	**73,463**
Unrated	-	19,080	**19,080**
New customers	37,717	6,918	**44,635**
	387,748	**213,031**	**600,779**
Total Stage 3 and POCI			**556,403**
			1,157,182

46.7 Credit quality of loans and advances to customers classified as held for sale

The following tables present the credit quality of the Group's loans and advances at amortised cost classified as held for sale by business line concentration.

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Gross loans at amortised cost before fair value adjustment on initial recognition	7,148	94,600	2,222,931	526,434	**2,851,113**
Fair value adjustment on initial recognition	(195)	(3,261)	(24,571)	(111,126)	**(139,153)**
Gross loans at amortised cost after fair value adjustment on initial recognition	**6,953**	**91,339**	**2,198,360**	**415,308**	**2,711,960**

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Corporate	165	-	14,343	741	**15,249**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	3	**128**
Restructuring					
- corporate	2,110	85,783	722,631	48,690	**859,214**
- SMEs	2,038	8,817	187,831	18,180	**216,866**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,575	198	**5,773**
Recoveries					
- corporate	-	-	967,761	368,310	**1,336,071**
- SMEs	-	-	300,509	73,827	**374,336**
- retail housing	-	-	484	151	**635**
- retail other	-	-	23,427	16,293	**39,720**
International banking services	-	-	8	-	**8**
	7,148	**94,600**	**2,222,931**	**526,434**	**2,851,113**

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Corporate	-	-	(584)	-	**(584)**
Retail					
- consumer, credit cards and other	-	-	-	(1)	**(1)**
Restructuring					
- corporate	-	(2,722)	(13,730)	(7,927)	**(24,379)**
- SMEs	(195)	(539)	(1,470)	(2,654)	**(4,858)**
- retail other	-	-	(132)	(78)	**(210)**
Recoveries					
- corporate	-	-	(4,900)	(81,744)	**(86,644)**
- SMEs	-	-	(3,473)	(14,518)	**(17,991)**
- retail housing	-	-	-	(115)	**(115)**
- retail other	-	-	(282)	(4,089)	**(4,371)**
	(195)	**(3,261)**	**(24,571)**	**(111,126)**	**(139,153)**

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Corporate	165	-	13,759	741	**14,665**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	2	**127**
Restructuring					
- corporate	2,110	83,061	708,901	40,763	**834,835**
- SMEs	1,843	8,278	186,361	15,526	**212,008**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,443	120	**5,563**
Recoveries					
- corporate	-	-	962,861	286,566	**1,249,427**
- SMEs	-	-	297,036	59,309	**356,345**
- retail housing	-	-	484	36	**520**
- retail other	-	-	23,145	12,204	**35,349**
International banking services	-	-	8	-	**8**
	6,953	**91,339**	**2,198,360**	**415,308**	**2,711,960**

The following table presents the credit quality of the Group's loans and advances to customers at amortised cost classified as held for sale by geographical concentration:

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By staging	€000	€000	**€000**	**€000**	**€000**
Stage 1	7,148	-	**7,148**	**(195)**	**6,953**
Stage 2	94,600	-	**94,600**	**(3,261)**	**91,339**
Stage 3	2,161,695	61,236	**2,222,931**	**(24,571)**	**2,198,360**
POCI	526,434	-	**526,434**	**(111,126)**	**415,308**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Corporate legal entities	Stage 1 €000	Stage 2 €000	**Total** **€000**
Rating 2	2,452	-	**2,452**
Rating 3	722	4,468	**5,190**
Rating 6	3,000	951	**3,951**
Unrated	-	80,402	**80,402**
New customers	99	-	**99**
	6,273	**85,821**	**92,094**
Total Stage 3 and POCI			**2,363,960**
			2,456,054

Retail legal entities			
Rating 4	10	-	**10**
Rating 5	670	2,276	**2,946**
Rating 7	-	2,092	**2,092**
	680	**4,368**	**5,048**
Total Stage 3 and POCI			**234,237**
			239,285

SMEs legal entities			
Rating 7	-	129	**129**
Unrated	-	362	**362**
New customers	**-**	659	**659**
	-	**1,150**	**1,150**
Total Stage 3 and POCI			**15,471**
			16,621

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments

The Group enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

46.8.1 Contingent liabilities

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Exposures				
1 January	302,437	252,230	221,865	**776,532**
Transfers to stage 1	48,097	(32,459)	(15,638)	**-**
Transfers to stage 2	(9,298)	26,050	(16,752)	**-**
Transfers to stage 3	(2,528)	(6,749)	9,277	**-**
Net increase/(decrease)	62,315	(44,996)	(38,135)	**(20,816)**
Foreign exchange and other adjustments	(25)	-	-	**(25)**
Disposal of subsidiary	(1,425)	-	-	**(1,425)**
31 December	**399,573**	**194,076**	**160,617**	**754,266**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
ECL				
1 January	877	2,095	43,214	**46,186**
Impact of adopting IFRS 9 at 1 January 2018	(796)	(1,865)	(14,158)	**(16,819)**
Restated balance at 1 January	81	230	29,056	**29,367**
Transfers to stage 1	77	(47)	(30)	**-**
Transfers to stage 2	(16)	290	(274)	**-**
Transfers to stage 3	(887)	(3,890)	4,777	**-**
Charge for the year*	1,047	4,228	(9,751)	**(4,476)**
31 December	**302**	**811**	**23,778**	**24,891**
Individually assessed	35	149	23,778	**23,962**
Collectively assessed	267	662	-	**929**
	302	**811**	**23,778**	**24,891**

* The charge for the year mainly relates to changes to models and inputs

The outstanding contingent liabilities by geography are disclosed in the table below:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Cyprus	399,573	158,630	135,814	**694,017**
Other countries	-	35,446	24,803	**60,249**
Total	**399,573**	**194,076**	**160,617**	**754,266**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.1 Contingent liabilities (continued)

The credit quality of contingent liabilities in Cyprus, as per the internal rating system of the Company is disclosed in the table below.

Corporate legal entities	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 1	78,723	63	**78,786**
Rating 2	28,878	24	**28,902**
Rating 3	41,333	1,356	**42,689**
Rating 4	27,406	2,569	**29,975**
Rating 5	22,468	40	**22,508**
Rating 6	4,811	418	**5,229**
Rating 7	10,717	420	**11,137**
Unrated	37,573	145,101	**182,674**
New customers	86,675	-	**86,675**
	338,584	**149,991**	**488,575**
Total Stage 3			**155,784**
			644,359

SME legal entities	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 1	10,951	2,515	**13,466**
Rating 2	4,520	1,233	**5,753**
Rating 3	1,343	192	**1,535**
Rating 4	4,243	900	**5,143**
Rating 5	2,797	673	**3,470**
Rating 6	4,898	1,588	**6,486**
Rating 7	1,901	1,429	**3,330**
Unrated	-	13,211	**13,211**
New customers	30,336	555	**30,891**
	60,989	**22,296**	**83,285**
Total Stage 3			**2,824**
			86,109

Retail individuals	Stage 1 €000	Stage 2 €000	**Total €000**
Unrated	-	21,789	**21,789**
	-	**21,789**	**21,789**
Total Stage 3			**2,009**
			23,798

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Exposure				
1 January	1,160,742	883,737	218,329	**2,262,808**
Transfers to stage 1	232,355	(205,220)	(27,135)	**-**
Transfers to stage 2	(150,375)	172,014	(21,639)	**-**
Transfers to stage 3	(10,820)	(12,993)	23,813	**-**
Net increase/(decrease)	93,749	(222,036)	(27,830)	**(156,117)**
Disposal of subsidiary	(18,232)	-	-	**(18,232)**
Foreign exchange and other adjustments	(190)	-	-	**(190)**
31 December	**1,307,229**	**615,502**	**165,538**	**2,088,269**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
ECL				
1 January	25	22	5,754	**5,801**
Impact of adopting IFRS 9 at 1 January 2018	367	1,204	(3,672)	**(2,101)**
Restated balance at 1 January 2018	392	1,226	2,082	**3,700**
Transfers to stage 1	282	(203)	(79)	**-**
Transfers to stage 2	(265)	754	(489)	**-**
Charge for the year*	603	5	(1,514)	**(906)**
31 December	1,012	1,782	-	**2,794**
Individually assessed	78	71	-	**149**
Collectively assessed	934	1,711	-	**2,645**
	1,012	**1,782**	**-**	**2,794**

*The charge in the year mainly relates to changes to models and inputs.

Commitments by geography are presented in the table below:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Cyprus	1,307,229	615,502	165,195	**2,087,926**
Other countries	-	-	343	**343**
Total	**1,307,229**	**615,502**	**165,538**	**2,088,269**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

The credit quality of commitments in Cyprus, as per the internal rating system of the Company is disclosed in the table below.

	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**
Rating 1	175,810	7,993	**183,803**
Rating 2	155,852	5,246	**161,098**
Rating 3	85,480	15,600	**101,080**
Rating 4	54,717	5,614	**60,331**
Rating 5	28,247	1,969	**30,216**
Rating 6	10,853	1,982	**12,835**
Rating 7	11,606	2,167	**13,773**
Unrated	31,070	198,058	**229,128**
New customers	103,441	2,604	**106,045**
	657,076	**241,233**	**898,309**
Total Stage 3			**137,557**
			1,035,866

	Stage 1	Stage 2	**Total**
SME legal entities	€000	€000	**€000**
Rating 1	83,581	54,630	**138,211**
Rating 2	31,666	14,277	**45,943**
Rating 3	12,873	3,432	**16,305**
Rating 4	19,947	15,805	**35,752**
Rating 5	10,731	5,295	**16,026**
Rating 6	27,252	28,475	**55,727**
Rating 7	5,109	13,091	**18,200**
Unrated	-	23,122	**23,122**
New customers	25,035	733	**25,768**
	216,194	**158,860**	**375,054**
Total Stage 3			**12,672**
			387,726

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

Retail individuals	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 1	84,297	43,628	**127,925**
Rating 2	122,073	67,980	**190,053**
Rating 3	85,405	38,570	**123,975**
Rating 4	50,785	18,416	**69,201**
Rating 5	16,026	7,423	**23,449**
Rating 6	5,475	5,054	**10,529**
Rating 7	1,240	3,466	**4,706**
Unrated	-	26,481	**26,481**
New lending	68,658	4,391	**73,049**
	433,959	**215,409**	**649,368**
Total Stage 3			**15,309**
			664,677

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale

The movement in ECL of loans and advances, including the loans and advances to customers held for sale, is as follows:

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Cyprus	€000	€000	€000	€000	**€000**
1 January	20,840	29,510	2,654,800	500,027	**3,205,177**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,561	1,294,541	326,152	**1,632,322**
Impact of adopting IFRS 9 at 1 January 2018	(6,660)	32,744	235,471	52,373	**313,928**
Restated balance at 1 January	19,248	68,815	4,184,812	878,552	**5,151,427**
Transfer from Romania branch	-	-	-	22,176	**22,176**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,096	(26,375)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Foreign exchange and other adjustments	-	-	1,601	317	**1,918**
Write offs	(13,693)	(20,303)	(1,961,979)	(552,912)	**(2,548,887)**
Interest (provided) not recognised in the income statement	-	-	141,719	17,521	**159,240**
New assets originated or purchased*	6,345	-	-	5,581	**11,926**
Assets derecognised or repaid (excluding write offs)*	832	(3,760)	(107,462)	(9,868)	**(120,258)**
Write offs*	2,334	5,369	68,483	11,690	**87,876**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,691	36,336	380,988	61,123	**482,138**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
Impact on transfer between stages during the year*	(39,842)	294	110,778	(1,680)	**69,550**
31 December	**26,233**	**73,870**	**2,783,232**	**431,924**	**3,315,259**
Individually assessed	6,326	17,411	147,327	22,206	**193,270**
Collectively assessed	19,907	56,459	2,635,905	409,718	**3,121,989**
	26,233	**73,870**	**2,783,232**	**431,924**	**3,315,259**

* Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 Other countries	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	1,344	365	222,389	23,575	**247,673**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	33	55,502	1,640	**57,175**
Impact of adopting IFRS 9 at 1 January 2018	(7)	4,215	933	33	**5,174**
Restated balance at 1 January	1,337	4,613	278,824	25,248	**310,022**
Transfer to Cyprus operations	-	-	-	(22,176)	**(22,176)**
Transfers to stage 2	-	28	(28)	-	**-**
Foreign exchange and other adjustments	(236)	-	(8,189)	1	**(8,424)**
Write offs	1	(42)	(116,353)	(832)	**(117,226)**
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	**(3,594)**
Interest (provided) not recognised in the income statement	-	-	5,197	-	**5,197**
New assets originated or purchased*	(1)	-	-	-	**(1)**
Assets derecognised or repaid (excluding write offs)*	-	(3)	(4,209)	(89)	**(4,301)**
Write offs*	-	6	944	3	**953**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	33	(4,212)	(9,346)	(2,155)	**(15,680)**
Discontinued operations	233	3	(860)	-	**(624)**
Impact on transfer between stages during the year*	263	(25)	2,362	-	**2,600**
31 December	**135**	**-**	**146,611**	**-**	**146,746**
Individually assessed	-	-	88,716	-	**88,716**
Collectively assessed	135	-	57,895	-	**58,030**
	135	**-**	**146,611**	**-**	**146,746**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 Total	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	22,184	29,875	2,877,189	523,602	**3,452,850**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Impact of adopting IFRS 9 at 1 January 2018 (Note 6.5)	(6,667)	36,959	236,404	52,406	**319,102**
Restated balance at 1 January	20,585	73,428	4,463,636	903,800	**5,461,449**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,124	(26,403)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Foreign exchange and other adjustments	(236)	-	(6,588)	318	**(6,506)**
Write offs	(13,692)	(20,345)	(2,078,332)	(553,744)	**(2,666,113)**
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	**(3,594)**
Interest (provided) not recognised in the income statement	-	-	146,916	17,521	**164,437**
New assets originated or purchased*	6,344	-	-	5,581	**11,925**
Assets derecognised or repaid (excluding write offs)*	832	(3,763)	(111,671)	(9,957)	**(124,559)**
Write offs*	2,334	5,375	69,427	11,693	**88,829**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,724	32,124	371,642	58,968	**466,458**
Discontinued operations	233	3	(860)	-	**(624)**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
Impact on transfer between stages during the year*	(39,579)	269	113,140	(1,680)	**72,150**
31 December	**26,368**	**73,870**	**2,929,843**	**431,924**	**3,462,005**
Individually assessed	6,326	17,411	236,043	22,206	**281,986**
Collectively assessed	20,042	56,459	2,693,800	409,718	**3,180,019**
	26,368	**73,870**	**2,929,843**	**431,924**	**3,462,005**

* Individual components of the 'Impairment loss net of reversals on loans and advances to customers' as disclosed in Note 17.

The above tables do not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and ECL on financial guarantees which are part of other liabilities on the balance sheet. There were no loans and advances to customers classified as held for sale as at 31 December 2017.

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of credit losses of loans and advances to customers includes credit losses relating to loans and advances to customers classified as held for sale. Their balance at 31 December 2018 by staging and geographical area is presented in the table below:

	Stage 1	Stage 2	Stage 3	POCI	**Total**
31 December 2018	€000	€000	€000	€000	**€000**
Cyprus	3,441	43,977	1,271,559	188,482	**1,507,459**
Other countries	-	-	50,393	-	**50,393**
Total	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**
Collectively assessed	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
1 January	3,170,161	10,782	371,298	**3,552,241**
Foreign exchange and other adjustments	77,234	(183)	(7,059)	**69,992**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Applied in writing off impaired loans and advances	(831,708)	(117)	(138,684)	**(970,509)**
Interest accrued on impaired loans and advances	(97,951)	(2)	(1,406)	**(99,359)**
Collection of loans and advances previously written off	5,975	287	2	**6,264**
Charge for the year	925,161	(2,650)	16,000	**938,511**
Charge for the year - discontinued operations	-	(572)	-	**(572)**
31 December	**3,236,103**	**7,522**	**240,151**	**3,483,776**
Individual impairment	**2,367,205**	**4,751**	**227,739**	**2,599,695**
Collective impairment	**868,898**	**2,771**	**12,412**	**884,081**

The provision for impairment of loans and advances, including the loans and advances to customers held for sale, by business line is presented in the table below:

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

31 December 2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate	8,322	16,008	165,706	5,143	**195,179**
SMEs	5,621	3,333	22,574	320	**31,848**
Retail					
- housing	4,052	1,028	28,109	301	**33,490**
- consumer, credit cards and other	4,848	4,655	26,152	1,878	**37,533**
Restructuring					
- corporate	1,803	42,745	402,181	21,621	**468,350**
- SMEs	1,507	5,469	253,504	24,325	**284,805**
- retail housing	23	102	138,799	4,309	**143,233**
- retail other	127	53	171,882	9,479	**181,541**
Recoveries					
- corporate	-	-	696,310	147,552	**843,862**
- SMEs	-	-	538,148	83,209	**621,357**
- retail housing	-	-	248,429	59,651	**308,080**
- retail other	-	-	226,379	72,396	**298,775**
International banking services	52	462	10,180	1,175	**11,869**
Wealth management	13	15	1,490	565	**2,083**
	26,368	**73,870**	**2,929,843**	**431,924**	**3,462,005**

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of the ECL allowance for the loans and advances to customers in the corporate and retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking services and Wealth management) including ECL allowance for loans and advances to customers held for sale is presented in the table below:

2018	**Corporate €000**	**Retail €000**
1 January	**106,153**	**115,197**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	**33,867**	**22,651**
Impact of adopting IFRS 9 at 1 January 2018	**40,270**	**40,645**
Restated balance at 1 January	**180,290**	**178,493**
Transfer in/(out) of the business line	**18,978**	**(95,078)**
Write offs	**(80,160)**	**(25,188)**
Interest (provided) not recognised in the income statement	**1,788**	**1,531**
New assets originated or purchased*	**5,987**	**1,385**
Assets derecognised or repaid (excluding write offs)*	**(36,005)**	**(10,796)**
Write offs*	**772**	**8,018**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	**(1,156)**	**17,962**
Changes to contractual cash flows due to modifications not resulting in derecognition*	**7**	**827**
Impact on transfer between stages during the year*	**17,368**	**(6,678)**
31 December	**107,869**	**70,476**

As from 1 January 2018, to comply with the requirements of IFRS 9, relating to the measurement and presentation of the gross carrying amount and accumulated allowance for impairment as impacted from interest income on impaired loans, the gross carrying amounts of the loans have been increased by an amount of €1,689,497 thousand and an equivalent adjustment was effected on the accumulated allowance for impairment. There was no impact on the net carrying amount of the customer loans and advances from this charge in the presentation.

During 2018 the total non-contractual write-offs recorded by the Group amounted to €2,264,902 thousand (2017: €466,248 thousand).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

At 31 December 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provision calculation for loans and advances to customers other than those classified as held for sale is c.32% under the baseline scenario (31 December 2017: c.34%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation for loans and advances to customers other than those classified as held for sale has been estimated to be on average 7 years under the baseline scenario (2017: average of 6 years).

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case.

For Stage 3 customers, the calculation of individually assessed provision is the weighted average of three scenarios; base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures. In the case of loans held for sale the Group has taken into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL. Amounts previously written off which are expected to be recovered through sale are presented in 'Recoveries of loans and advances to customers previously written off' in Note 17.

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

Any positive cumulative average future change in forecasted property values was capped to zero for 2018 and 2017. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue the Company maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses of loans and advances.

Sensitivity analysis
The Group has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents 99% of the total loan portfolio of the Group (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2018.

The Group uses three different economic scenarios in the ECL calculation: a base, an adverse and a favourable scenario with weights 50%, 30% and 20% respectively. The same scenarios determined at 31 December 2018 were used for the scenarios determined on 1 January 2018 (the transition date to IFRS 9).

The Group has altered the weights of the economic scenarios and changed the collateral realisation periods and the impact on the ECL, for both individually and collectively assessed ECL calculations, as at 31 December 2018 is presented in the table below:

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost
	€000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	4,963
Decrease the adverse weight by 5% and increase the favourable weight by 5%	(4,956)
Increase the expected recovery period by 1 year	50,898
Decrease the expected recovery period by 1 year	(49,821)
Increase the collateral realisation haircut by 5%	89,682
Decrease the collateral realisation haircut by 5%	(81,862)
Increase in the PDs of stages 1&2 by 20%	12,733
Decrease in the PDs of stages 1&2 by 20%	(11,126)

The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 31 December 2017. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(decrease) on provisions for impairment of loans and advances
	€000
Increase the timing of recovery from collaterals by 1 year for all customers	120,700
Decrease the timing of recovery from collaterals by 1 year for all customers	(121,875)
Increase haircuts by 5% on all customers	179,447
Decrease haircuts by 5% on all customers	(169,291)
Increase the average expected recovery period by 1 year and decrease of haircuts by 5% on all customers	(47,199)
Decrease the average expected recovery period by 1 year and increase of haircuts by 5% on all customers	59,748

The comparative information is not comparable to current period information since the assumptions used, are different under IAS 39 compared to those of IFRS 9.

46. Risk management - Credit risk (continued)

46.10 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2018 and 2017 by taking possession of collateral held as security, was as follows:

	2018	2017
	€000	€000
Residential property	**66,893**	77,932
Commercial and other property	**329,363**	444,536
	396,256	522,468

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2018 amounted to €1,684,606 thousand (2017: €1,611,091 thousand).

The disposals of repossessed assets during 2018 amounted to €173,080 thousand (2017: €247,030 thousand).

46.11 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to categorise the facility as credit-impaired as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPEs .

Rescheduled loans and advances are those facilities for which the Group has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Group has developed and deployed restructuring solutions, which are suitable for the borrower and acceptable for the Group.

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:
- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears; that is forbearance of the arrears and capitalisation of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.

Long-term restructuring solutions can include the following:
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

Stage 2 and Stage 3 loans after fair value adjustment on initial recognition that were forborne during the year amounted to €480,437 thousand. Their related modification loss amounted to €7,009 thousand.

Facilities that have cured since their modification and are classified as Stage 1 at 31 December 2018 amount to €31,138 thousand and their corresponding ECL amount to €220 thousand.

Facilities that reverted to Stage 2 and Stage 3 having once cured amount to €165,379 thousand and their corresponding ECL amounts to €6,495 thousand at 31 December 2018.

46.12 Rescheduled loans and advances to customers

The below table presents the movement of the Group's rescheduled loans and advances to customers measured at amortised cost including those classified as held for sale (by geography). The rescheduled loans related to loans and advances classified as held for sale amounts to €1,412,802 thousand.

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
1 January	6,272,946	99,068	**6,372,014**
Rescheduled loans measured at FVPL on adoption of IFRS 9	(341,765)	-	**(341,765)**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	416,093	3,678	**419,771**
Restated balance at 1 January	6,347,274	102,746	**6,450,020**
Transfer between geographical areas	6,254	(6,254)	**-**
New loans and advances rescheduled in the year	240,660	220	**240,880**
Assets no longer classified as rescheduled (including repayments)	(1,472,701)	(98)	**(1,472,799)**
Applied in writing off rescheduled loans and advances	(727,759)	(31,932)	**(759,691)**
Interest accrued on rescheduled loans and advances	166,922	919	**167,841**
Foreign exchange adjustments	5,820	(16,795)	**(10,975)**
31 December	**4,566,470**	**48,806**	**4,615,276**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
1 January	7,401,870	90,323	163,111	**7,655,304**
New loans and advances rescheduled in the year	402,521	89	3,424	**406,034**
Assets no longer classified as rescheduled (including repayments)	(1,326,918)	(79,147)	(60,032)	**(1,466,097)**
Applied in writing off rescheduled loans and advances	(461,468)	(2)	(13,076)	**(474,546)**
Interest accrued on rescheduled loans and advances	278,858	16	1,382	**280,256**
Foreign exchange adjustments	(21,917)	(1,393)	(5,627)	**(28,937)**
31 December	**6,272,946**	**9,886**	**89,182**	**6,372,014**

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification excluding those classified as held for sale, as well as impairment provisions and tangible collateral held for rescheduled loans.

Credit quality

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	508,664	120	**508,784**
Stage 2	376,794	24	**376,818**
Stage 3	2,001,947	48,662	**2,050,609**
POCI	266,263	-	**266,263**
	3,153,668	**48,806**	**3,202,474**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
Neither past due nor impaired	3,158,894	5,383	79	**3,164,356**
Past due but not impaired	1,218,160	2,354	-	**1,220,514**
Impaired	1,895,892	2,149	89,103	**1,987,144**
31 December	**6,272,946**	**9,886**	**89,182**	**6,372,014**

Fair value of collateral

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	480,611	101	**480,712**
Stage 2	327,142	21	**327,163**
Stage 3	1,631,012	11,204	**1,642,216**
POCI	248,691	-	**248,691**
31 December	**2,687,456**	**11,326**	**2,698,782**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
Neither past due nor impaired	2,818,937	5,345	93	**2,824,375**
Past due but not impaired	1,020,063	2,353	-	**1,022,416**
Impaired	1,437,734	1,131	24,448	**1,463,313**
31 December	**5,276,734**	**8,829**	**24,541**	**5,310,104**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration

2018	Cyprus	Other countries	**Total**
By economic activity	€000	€000	**€000**
Trade	245,919	20,430	**266,349**
Manufacturing	84,267	2,729	**86,996**
Hotels and catering	123,596	1	**123,597**
Construction	373,539	532	**374,071**
Real estate	221,011	13,186	**234,197**
Private individuals	1,761,663	166	**1,761,829**
Professional and other services	249,607	11,761	**261,368**
Other sectors	94,066	1	**94,067**
	3,153,668	**48,806**	**3,202,474**

2018			
By business line			
Corporate	337,316	45,192	**382,508**
SMEs	207,000	3,466	**210,466**
Retail			
- housing	568,879	-	**568,879**
- consumer, credit cards and other	172,559	124	**172,683**
Restructuring			
- corporate	353,210	24	**353,234**
- SMEs	363,465	-	**363,465**
- retail housing	382,478	-	**382,478**
- retail other	177,241	-	**177,241**
Recoveries			
- corporate	64,698	-	**64,698**
- SMEs	139,309	-	**139,309**
- retail housing	222,244	-	**222,244**
- retail other	117,573	-	**117,573**
International banking services	43,698	-	**43,698**
Wealth management	3,998	-	**3,998**
	3,153,668	**48,806**	**3,202,474**

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
By business line	€000	€000	€000	€000	**€000**
Corporate	98,485	154,531	126,186	3,306	**382,508**
SMEs	67,513	63,170	75,310	4,473	**210,466**
Retail					
- housing	246,922	45,090	271,988	4,879	**568,879**
- consumer, credit cards and other	46,012	17,148	107,184	2,339	**172,683**
Restructuring					
- corporate	7,903	44,505	236,389	64,437	**353,234**
- SMEs	31,579	27,729	281,415	22,742	**363,465**
- retail housing	3,800	871	369,482	8,325	**382,478**
- retail other	1,468	153	171,789	3,831	**177,241**
Recoveries					
- corporate	-	-	49,759	14,939	**64,698**
- SMEs	-	-	102,355	36,954	**139,309**
- retail housing	-	-	165,738	56,506	**222,244**
- retail other	-	-	76,716	40,857	**117,573**
International banking services	4,174	23,621	14,185	1,718	**43,698**
Wealth management	928	-	2,113	957	**3,998**
	508,784	**376,818**	**2,050,609**	**266,263**	**3,202,474**

2017	Cyprus	United Kingdom	Other countries	**Total**
By economic activity	€000	€000	€000	**€000**
Trade	607,700	445	31,950	**640,095**
Manufacturing	201,377	44	12,436	**213,857**
Hotels and catering	429,520	2,242	-	**431,762**
Construction	1,222,591	-	20,145	**1,242,736**
Real estate	862,508	4,837	5,401	**872,746**
Private individuals	2,221,465	1,593	-	**2,223,058**
Professional and other services	359,970	725	18,912	**379,607**
Other sectors	367,815	-	338	**368,153**
	6,272,946	**9,886**	**89,182**	**6,372,014**

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2017	Cyprus	United Kingdom	Other countries	Total
By business line	€000	€000	€000	**€000**
Corporate	795,714	3,867	80,900	**880,481**
SMEs	344,957	4,550	4,670	**354,177**
Retail				
- housing	958,415	-	-	**958,415**
- consumer, credit cards and other	290,308	1,469	-	**291,777**
Restructuring				
- major corporate	934,096	-	79	**934,175**
- corporate	624,602	-	-	**624,602**
- SMEs	739,537	-	-	**739,537**
- retail housing	301,111	-	-	**301,111**
- retail other	122,749	-	-	**122,749**
Recoveries				
- corporate	569,287	-	3,533	**572,820**
- SMEs	226,158	-	-	**226,158**
- retail housing	171,234	-	-	**171,234**
- retail other	139,851	-	-	**139,851**
International banking services	53,103	-	-	**53,103**
Wealth management	1,824	-	-	**1,824**
	6,272,946	**9,886**	**89,182**	**6,372,014**

ECL allowances

	Cyprus	Other countries	Total
2018	€000	€000	**€000**
Stage 1	4,122	-	**4,122**
Stage 2	8,613	-	**8,613**
Stage 3	589,372	7,513	**596,885**
POCI	85,412	-	**85,412**
	687,519	**7,513**	**695,032**

	Cyprus	United Kingdom	Other countries	Total
2017	€000	€000	€000	**€000**
Individual impairment	797,975	1,054	66,510	**865,539**
Collective impairment	594,075	242	-	**594,317**
	1,392,050	**1,296**	**66,510**	**1,459,856**

46. Risk management - Credit risk (continued)

46.13 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and loans and advances to banks
Balances with central banks and loans and advances to banks are analysed by Moody's Investors Service rating as follows:

	2018	2017
	€000	€000
Aaa - Aa3	**182,968**	745,330
A1 - A3	**100,478**	560,059
Baa1 - Baa3	**68,666**	132,610
Ba1 - Ba3	**4,472,223**	2,870,600
B1 - B3	**8,621**	655
Caa - C	**20,973**	18,399
Unrated	**38,147**	58,406
Other receivables from banks	**37,224**	56,603
	4,929,300	4,442,662

Band Ba1-Ba3 above includes an amount of €162,675 thousand which relates to obligatory deposits for liquidity purposes with the CBC (2017: €153,733 thousand). As at 31 December 2018, no bank balances are impaired (2017: €33,004 thousand, with cumulative impairment loss of €24,998 thousand).

All balances with central banks and loans and advances to banks are classified as Stage 1 (Note 20).

46. Risk management - Credit risk (continued)

46.13 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Debt securities
Investments in debt securities are analysed as follows:

Moody's rating	**2018** **€000**	2017 €000
Aaa - Aa3	**823,485**	437,857
A1 - A3	**27,005**	-
Baa1 - Baa3	**26,001**	12,306
Ba1 - Ba3	**441,700**	514,306
Unrated	**46,552**	500
	1,364,743	964,969
Issued by:		
- Cyprus government	**441,757**	514,306
- Other governments	**423,675**	304,441
- Banks and other corporations	**499,311**	146,222
	1,364,743	964,969
Classified as:		
Investments mandatorily measured at FVPL	**14,616**	14,577
Investments at FVOCI	**819,748**	-
Investments at amortised cost	**530,379**	-
Available-for-sale investments	**-**	901,734
Loans and receivables	**-**	48,658
	1,364,743	964,969

	FVOCI	**Amortised cost**		
	Stage 1 €000	Stage 1 €000	Stage 2 €000	**Total** **€000**
Aaa - Aa3	486,385	337,100	-	**337,100**
A1 - A3	1,876	11,560	-	**11,560**
Baa1 - Baa3	946	25,055	-	**25,055**
Ba1 - Ba3	322,020	70,841	48,292	**119,133**
Unrated	8,521	-	37,531	**37,531**
	819,748	**444,556**	**85,823**	**530,379**

47. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, exchange rates, property and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk refers to the current or prospective risk to Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

47. Risk management - Market risk (continued)

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated.

Interest rate risk is managed through a Year 1 Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income (when positive). There are different limits for the Euro and the US Dollar.

Sensitivity analysis
The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies using the assumption of the prevailing market risk policy for the current and the comparative year.

		Impact on Net Interest Income in €000	
Currency	**Interest Rate Scenario**	**2018 (50 bps for Euro and 60 bps for US Dollar)**	**2017 (60 bps for Euro and US Dollar)**
All	Parallel up	32,640	24,470
All	Parallel down	(29,712)	(29,886)
All	Steepening	(25,455)	(25,031)
All	Flattening	27,170	22,895
All	Short up	31,590	25,603
All	Short down	(29,590)	(29,352)
Euro	Parallel up	32,247	24,280
Euro	Parallel down	(28,001)	(28,458)
Euro	Steepening	(23,917)	(22,935)
Euro	Flattening	26,894	22,499
Euro	Short up	31,211	25,378
Euro	Short down	(27,743)	(27,188)
US Dollar	Parallel up	393	190
US Dollar	Parallel down	(1,711)	(1,428)
US Dollar	Steepening	(1,538)	(2,096)
US Dollar	Flattening	276	396
US Dollar	Short up	379	225
US Dollar	Short down	(1,847)	(2,164)

47. Risk management - Market risk (continued)

The table below sets out the impact on the Group's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines:

		Impact on Equity in €000	
Currency	**Interest Rate Scenario**	**2018 (50 bps for Euro and 60 bps for US Dollar)**	**2017 (60 bps for Euro and US Dollar)**
All	Parallel up	(62,222)	(73,930)
All	Parallel down	39,961	8,815
All	Steepening	(37,309)	(84,428)
All	Flattening	11,001	27,502
All	Short up	(31,449)	(12,685)
All	Short down	15,908	4,837
Euro	Parallel up	(63,551)	(75,866)
Euro	Parallel down	87,037	26,724
Euro	Steepening	(36,216)	(81,121)
Euro	Flattening	21,382	52,012
Euro	Short up	(32,584)	(14,551)
Euro	Short down	38,322	19,263
US Dollar	Parallel up	2,659	3,872
US Dollar	Parallel down	(3,558)	(4,547)
US Dollar	Steepening	(1,093)	(3,307)
US Dollar	Flattening	620	2,991
US Dollar	Short up	2,271	3,733
US Dollar	Short down	(3,253)	(4,795)

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

47. Risk management - Market risk (continued)

Parallel change in interest rates ((increase)/decrease in net interest income)	**Impact on profit/(loss) before tax**	**Impact on equity**
2018	**€000**	**€000**
+0.6% for US Dollar +0.5% for Euro +1.0% for British Pound	**(400)**	**(1,126)**
-0.6% for US Dollar -0.5% for Euro -1.0% for British Pound	**9,997**	**1,126**
2017		
+0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	364	(3,155)
-0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other countries	(364)	3,155

Currency risk

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by market risk officers.

The Group does not maintain a currency trading book.

The table below sets out the Group's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries whose functional currency is not the Euro. The net assets of foreign operations are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

47. Risk management - Market risk (continued)

2018	Change in foreign exchange rate %	Impact on profit/(loss) after tax €000	Impact on equity €000
US Dollar	**+10**	**2,071**	**-**
Russian Rouble	**+20**	**2,049**	**18,060**
Romanian Lei	**+10**	**-**	**(667)**
Swiss Franc	**+10**	**1,138**	**-**
British Pound	**+20**	**671**	**(2,472)**
Japanese Yen	**+10**	**119**	**-**
Other currencies	**+10**	**(74)**	**-**
US Dollar	**-10**	**(1,695)**	**-**
Russian Rouble	**-20**	**(1,366)**	**(12,040)**
Romanian Lei	**-10**	**-**	**546**
Swiss Franc	**-10**	**(931)**	**-**
British Pound	**-20**	**(448)**	**1,648**
Japanese Yen	**-10**	**(97)**	**-**
Other currencies	**-10**	**60**	**-**

2017	Change in foreign exchange rate %	Impact on profit/(loss) after tax €000	Impact on equity €000
US Dollar	+10	1,110	-
Russian Rouble	+25	2,714	22,323
Romanian Lei	+10	(419)	(407)
Swiss Franc	+20	3,803	-
British Pound	+20	868	(34,079)
Japanese Yen	+10	195	-
Other currencies	+10	(18)	-
US Dollar	-10	(908)	-
Russian Rouble	-25	(1,628)	(13,394)
Romanian Lei	-10	343	333
Swiss Franc	-20	(2,535)	-
British Pound	-20	(578)	22,719
Japanese Yen	-10	(160)	-
Other currencies	-10	14	-

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group's risk appetite. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Group as soon as practicable.

47. Risk management - Market risk (continued)

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as FVOCI affect the equity of the Group.

The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on profit/(loss) before tax	Impact on equity
2018	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+25**	**574**	**997**
Athens Exchange	**+25**	**95**	**-**
Other stock exchanges and unlisted	**+20**	**1,007**	**1,695**
Cyprus Stock Exchange	**-25**	**(574)**	**(997)**
Athens Exchange	**-25**	**(95)**	**-**
Other stock exchanges and unlisted	**-20**	**(1,007)**	**(1,695)**

	Change in index	Impact on profit/(loss) before tax	Impact on equity
2017	**%**	**€000**	**€000**
Cyprus Stock Exchange	+25	1,477	1,288
Athens Exchange	+25	-	99
Other stock exchanges and unlisted	+20	1,144	4,206
Cyprus Stock Exchange	-25	(1,483)	(1,282)
Athens Exchange	-25	(5)	(93)
Other stock exchanges and unlisted	-20	(1,390)	(3,960)

Debt securities price risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2018 was A1 (2017: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2018 was Aa1 (2017: Aa1).

Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as FVOCI affect the equity of the Group.

The table below indicates how the profit/loss before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

47. Risk management - Market risk (continued)

2018	Impact on profit/(loss) before tax €000	Impact on equity €000
+1.5% for Aa3 and above rated bonds	**1,476**	**7,320**
+3.5% for A3 and above rated bonds	**774**	**167**
+5.5% for Baa3 and above rated bonds	**-**	**51**
+7.8% for Cyprus Government bonds	**42**	**24,808**
-1.5% for Aa3 and above rated bonds	**(1,476)**	**(7,320)**
-3.5% for A3 and above rated bonds	**(774)**	**(167)**
-5.5% for Baa3 and above rated bonds	**-**	**(51)**
-7.8% for Cyprus Government bonds	**(42)**	**(24,808)**

2017	Impact on profit/(loss) before tax €000	Impact on equity €000
+3% for A3 and above rated bonds	1,385	13,038
+10% for below A3 rated bonds	607	45,667
-3% for A3 and above rated bonds	(1,385)	(13,038)
-10% for below A3 rated bonds	(607)	(45,667)

Other non-equity instruments price risk

The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of other non-equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices.

2018	Change in index %	Impact on profit/(loss) before tax €000	Impact on equity €000
Other (non equity-instruments)	**+25**	**3,388**	**-**
Other (non equity-instruments)	**-25**	**(3,388)**	**-**

48. Risk management - Liquidity risk and funding

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

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

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Group's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

48. Risk management - Liquidity risk and funding (continued)

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite being the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting the liquidity position of the Group.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group.

Group Treasury is responsible for liquidity management at Group level to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

Liquidity is also monitored daily by Market Risk, which is an independent department responsible for monitoring compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market Risk reports to ALCO the regulatory liquidity position of the Group, at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

Liquidity is monitored and managed on an ongoing basis through:
- (i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.
- (ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.
- (iii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags when the ratios deteriorate.
- (iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.
- (v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
- (vi) Recovery Plan: the Group has developed a Recovery Plan (RP). The key objectives of the RP are to set key Recovery and Early Warning Indicators so as to monitor these consistently and to set in advance a range of recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's position.

Monitoring process

Daily
The daily monitoring of customer flows and the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepared a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position, net customer movements and other movements analysed by the main currencies. This report was abolished in June 2018. However, for better monitoring of the liquidity buffer, a new daily report was introduced analysing the internal liquidity buffer and comparing it to the previous day's buffer. This report is made available to Group Treasury and Group Finance. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Market Risk also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

48. Risk management - Liquidity risk and funding (continued)

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds. The majority of these bonds are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds.

The designing of the stress tests followed best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA SREP. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives and repos.

Weekly
Market Risk prepared weekly reports of Euro and foreign currency liquidity mismatch, which also disclosed the level of the liquidity ratios which were submitted to the CBC. Given these ratios were abolished on the 1 January 2018, CBC abolished these reports on the 15 June 2018 and replaced them with a new one indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

Monthly
Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements, for the Group and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and the percentage of instant access deposits are also presented to the ALCO.

Market Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

Group Treasury prepares a liquidity report which is submitted to the ALCO on a monthly basis. The report indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly. Market Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly as well as various other liquidity reports, included in the short-term exercise of the SSM per their SREP guidelines.

Annually
The Group prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP).

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (LCP) for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this Committee and a series of the possible actions that can be taken. This LCP, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated Liquidity Policy with its recommendations to the Board through the Board Risk Committee for approval. The approved Liquidity Policy is notified to the SSM.

Liquidity ratios

The Group LCR presented in the table below, is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. As from 1 January 2018, the minimum requirement is 100%.

48. Risk management - Liquidity risk and funding (continued)

The Group's LCR (unaudited) was as follows:

	2018	2017
	%	%
End of reporting year	**231**	190
Average monthly ratio	**213**	120
Highest monthly ratio	**231**	190
Lowest monthly ratio	**197**	58

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR of the Company and which became effective on 1 January 2018. The objective of the measure has been to ensure that there will be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that were not subject to any outflow rates under the LCR. The measure was implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018. The second stage required more relaxed outflow and inflow rates compared to the initial ones, and were applicable from 1 July 2018 until 31 December 2018. Specifically, there was a reduction of 50% of the LCR add-on rates as from 1 July 2018. The additional liquidity requirement was implemented up to 31 December 2018. As at 31 December 2018, the Company was in compliance with the LCR add-on requirement.

Main sources of funding

During 2018, the Group’s main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

As at 31 December 2018, ECB funding was at €830 million in the form of 4-Year TLTRO II. As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

Any new funding to subsidiaries requires approval from the ECB and the CBC.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

Collateral requirements

The carrying values of the Group's encumbered assets as at 31 December 2018 and 2017 are summarised below:

	2018	2017
	€000	€000
Cash and other liquid assets	**118,627**	120,525
Investments	**737,587**	317,167
Loans and advances	**2,528,241**	3,137,586
	3,384,455	3,575,278

48. Risk management - Liquidity risk and funding (continued)

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

Investments are mainly used as collateral for repurchase transactions with commercial banks, supplementary assets for the covered bond and with the ECB.

Loans and advances indicated as encumbered as at 31 December 2018 and 31 December 2017 are mainly used as collateral for funding from ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,009 million as at 31 December 2018 (2017: €1,001 million) in Cyprus, pledged as collateral for the covered bond issued by the Company in 2011 under its Covered Bond Programme. Furthermore as at 31 December 2018 housing loans of a nominal amount €1,543 million (2017: €1,273 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 31). As at 31 December 2018, no loans were pledged as collateral for deposits of the Republic of Cyprus (2017: €715 million) (Note 31).

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC. Under the Covered Bond Programme, the Company has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bonds have been amended to extend the maturity date to 12 December 2021 and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by the Company. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

The Republic of Cyprus was upgraded to investment grade (BBB-) by S&P Global Ratings in September 2018 and by Fitch Ratings in October 2018. The Cyprus Government bonds became ECB eligible in September 2018.

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month' time band.

48. Risk management - Liquidity risk and funding (continued)

The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Group has the discretion not to accept such early termination of deposits.

Subordinated loan stock is classified in the relevant time band according to the remaining contractual maturity, ignoring the call date.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

48. Risk management - Liquidity risk and funding (continued)

2018	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Financial assets						
Cash and balances with central banks	4,541,876	27,022	38,972	87	2,534	**4,610,491**
Loans and advances to banks	357,944	8,347	367	105,874	-	**472,532**
Investments at fair value through profit or loss	102,129	2,175	-	39,138	9,031	**152,473**
Loans and advances to customers	2,356,405	200,730	742,393	3,181,229	4,441,029	**10,921,786**
Fair value of net settled derivative assets	3,764	376	8	20,606	-	**24,754**
Non-trading investments	3,683	-	108,969	822,333	427,233	**1,362,218**
Financial assets classified as held for sale	823,140	14,453	71,658	75,722	169,135	**1,154,108**
Other assets	28,055	30,637	9,623	75,854	212	**144,381**
	8,216,996	**283,740**	**971,990**	**4,320,843**	**5,049,174**	**18,842,743**
Financial liabilities						
Deposits by banks	121,497	30,083	22,015	439	269,787	**443,821**
Funding from central banks	-	-	-	830,000	-	**830,000**
Repurchase agreements	-	-	90,174	172,803	-	**262,977**
Customer deposits	9,894,848	2,834,384	4,138,620	8,870	-	**16,876,722**
Subordinated loan stock	23,125	-	-	92,500	319,375	**435,000**
Fair value of net settled derivative liabilities	9,343	188	2,929	14,907	11,616	**38,983**
Other liabilities	182,043	4,231	2,065	-	-	**188,339**
	10,230,856	**2,868,886**	**4,255,803**	**1,119,519**	**600,778**	**19,075,842**
Net financial (liabilities)/assets	**(2,013,860)**	**(2,585,146)**	**(3,283,813)**	**3,201,324**	**4,448,396**	**(233,099)**

48. Risk management - Liquidity risk and funding (continued)

2017	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Financial assets						
Cash and balances with central banks	3,321,403	29,667	34,371	8,493	-	**3,393,934**
Loans and advances to banks	1,053,565	4,775	3,573	110,476	20,244	**1,192,633**
Investments at fair value through profit or loss	123,539	4,541	-	2,290	12,287	**142,657**
Loans and advances to customers	4,273,947	269,251	852,799	3,933,785	5,272,672	**14,602,454**
Fair value of net settled derivative assets	1,414	69	11	16,369	164	**18,027**
Non-trading investments	20,464	-	10,480	609,319	337,692	**977,955**
Other assets	24,216	13,420	7,821	53,864	6,152	**105,473**
	8,818,548	**321,723**	**909,055**	**4,734,596**	**5,649,211**	**20,433,133**
Financial liabilities						
Deposits by banks	196,211	140,361	26,145	460	141,554	**504,731**
Funding from central banks	100,000	-	-	830,000	-	**930,000**
Repurchase agreements	-	-	-	267,524	10,908	**278,432**
Customer deposits	9,595,209	3,173,297	4,530,788	641,855	5,320	**17,946,469**
Subordinated loan stock	23,125	-	-	126,303	362,125	**511,553**
Fair value of net settled derivative liabilities	14,039	992	252	23,789	11,898	**50,970**
Other liabilities	87,689	16,666	29,929	4,820	2,410	**141,514**
	10,016,273	**3,331,316**	**4,587,114**	**1,894,751**	**534,215**	**20,363,669**
Net financial (liabilities)/assets	**(1,197,725)**	**(3,009,593)**	**(3,678,059)**	**2,839,845**	**5,114,996**	**69,464**

2018	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	241,235	32,188	448	-	-	**273,871**
Contractual amounts payable	(237,967)	(31,933)	(446)	-	-	**(270,346)**
	3,268	**255**	**2**	**-**	**-**	**3,525**
Financial liabilities						
Contractual amounts receivable	997,856	37,174	446	-	-	**1,035,476**
Contractual amounts payable	(1,006,555)	(37,284)	(445)	-	-	**(1,044,284)**
	(8,699)	**(110)**	**1**	**-**	**-**	**(8,808)**

48. Risk management - Liquidity risk and funding (continued)

2018	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	1,985	3,008	568	-	-	**5,561**
Guarantees	115,174	116,697	258,603	206,044	52,187	**748,705**
Commitments						
Documentary credits	5,085	10,649	5,993	885	1,685	**24,297**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,063,972	-	-	-	-	**2,063,972**
	2,186,216	**130,354**	**265,164**	**206,929**	**53,872**	**2,842,535**

2017	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	403,689	6,552	1,966	-	-	**412,207**
Contractual amounts payable	(402,221)	(6,465)	(1,956)	-	-	**(410,642)**
	1,468	**87**	**10**	**-**	**-**	**1,565**
Financial liabilities						
Contractual amounts receivable	919,721	181,629	1,106	-	-	**1,102,456**
Contractual amounts payable	(933,009)	(182,582)	(1,107)	-	-	**(1,116,698)**
	(13,288)	**(953)**	**(1)**	**-**	**-**	**(14,242)**

2017	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2,849	4,155	1,363	-	-	**8,367**
Guarantees	132,897	134,166	242,944	167,153	91,005	**768,165**
Commitments						
Documentary credits	3,382	5,447	17,931	505	2,365	**29,630**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,215,856	17,322	-	-	-	**2,233,178**
	2,354,984	**161,090**	**262,238**	**167,658**	**93,370**	**3,039,340**

49. Risk management - Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

49. Risk management - Insurance risk (continued)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating.

Life insurance contracts
The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results:

	2018	2017
Changes in embedded value	**€000**	€000
Change in interest rates +0.25%	**76**	271
Change in expenses +10%	**(2,523)**	(2,014)
Change in lapsation rates +10%	**(902)**	(1,069)
Change in mortality rates +10%	**(7,727)**	(6,272)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non–economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non–economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

49. Risk management - Insurance risk (continued)

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with–profit business versus non–profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

General insurance contracts
General insurance business is concentrated in Cyprus and the main claims during 2018 and 2017 related to fire and natural forces and other damage to property, motor vehicle liability and general liability.

Risks under these policies are usually covered for a period of 12 months, with the exception of the goods in transit class that covers shorter periods and the contractors all risks class that covers longer periods.

The liabilities for outstanding claims arising from insurance contracts issued by the Group are calculated based on experts' estimates and facts known at the balance sheet date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends and take into consideration claims handling costs, inflation and claim numbers for each accident year. Also external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are taken into consideration.

The insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of court cases, is very difficult to be quantified. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty over the cost of claims at the reporting date.

The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The main risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative developments in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

50. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

The Group follows the EU Regulations, primarily the CRR and CRD IV and any other decisions or circulars issued by the regulators, ECB and CBC with respect to the capital adequacy calculations.

The Group and the Company have complied with the minimum capital requirements (Pillar I and Pillar II).

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

50. Capital management (continued)

The Pillar 3 Disclosures Report (unaudited) of the Group required with respect to the requirements of the Capital Requirements Regulation (EU) No 575/2013 is published on the Group's website www.bankofcyprus.com (Investor Relations).

51. Related party transactions

Aggregate amounts outstanding at year end on additional transactions

	2018	2017	**2018**	2017
	Number of directors		**€000**	€000
Loans and advances to members of the Board of Directors and connected persons:				
- less than 1% of the Group's net assets per director	**12**	10	**266**	265
Loans and advances to other key management personnel and connected persons			**2,591**	2,885
Total loans and advances as at 31 December			**2,857**	3,150
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,736**	2,736
- connected persons			**121**	414
			2,857	3,150
Interest income for the year			**81**	85
Commission income for the year			**9**	10
Insurance premium income for the year			**126**	112
Subscriptions and insurance expenses for the year			**633**	422

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**1,575**	2,737
- connected persons			**3,122**	3,088
			4,697	5,825
Interest expense on deposits for the year			**41**	64

Accruals and other liabilities as at 31 December with entity providing key management personnel services			**5,108**	6,217
Staff costs consultancy and other restructuring expenses with entity providing key management personnel services			**14,629**	17,627

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

51. Related party transactions (continued)

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €37 thousand (2017: €76 thousand).

There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €402 thousand (2017: €431 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2018 amounted to €532 thousand (2017: €663 thousand).

At 31 December 2018 the Group has a deposit of €4,086 thousand (2017: €5,419 thousand) with Piraeus Bank SA, in which Mr Arne Berggren is a non-executive Director. The Group has also provided certain indemnities to Piraeus Bank SA as part of the disposal of Kyprou Leasing SA in 2015.

During the year ended 31 December 2018 premiums of €45 thousand (2017: €32 thousand) and claims of €19 thousand (2017: €17 thousand) were paid between the members of the Board of Directors of the Company and their connected persons and the insurance subsidiaries of the Group.

Additionally, during the year ended 31 December 2017, the Company has signed an agreement to rent property owned by connected persons to the director Mr Michalis Spanos (resigned on 21 January 2019) covering the period from 1 June 2017 to 31 May 2027 but the contract is expected to be terminated on 1 September 2019. The monthly rental expense amounts to €4 thousand commencing from June 2018. The rental expense of the Group during 2018 amounted to €30 thousand.

There were no other transactions during the years ended 31 December 2018 and 2017 with connected persons of the current members of the Board of Directors or with any members who resigned during the two years.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions including interest rates with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel on the same terms as those applicable to the rest of the Group's employees and their connected persons on the same terms as those of customers.

Connected persons include spouses, minor children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Group.

51. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	2018	2017
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**2,453**	2,300
Employer's contributions	**98**	91
Retirement benefit plan costs	**216**	202
	2,767	2,593
Other key management personnel emoluments		
Salaries and other short term benefits	**3,070**	3,150
Employer's contributions	**192**	202
Retirement benefit plan costs	**127**	189
Total other key management personnel emoluments	**3,389**	3,541
Total	**6,156**	6,134

Other key management personnel emoluments include an amount of €572 thousand which relates to emoluments of key management personnel of Bank of Cyprus UK Limited, which was disposed in November 2018.

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

Executive Directors
The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2018	2017
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**2,256**	2,104
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**197**	196
	2,453	2,300

The retirement benefit plan costs for 2018 amounting to €216 thousand (2017: €202 thousand) relate to: Mr John Patrick Hourican €198 thousand (2017: €184 thousand) and Dr Christodoulos Patsalides €18 thousand (2017: €18 thousand).

Non-executive Directors
Non-executive director fees are reflected as an expense of Bank of Cyprus Holdings Public Limited Company and as a result no non-executive director fees are disclosed. However, these are recharged by the holding company back to the Company and the recharge cost is included within 'Other operating expenses'.

Other key management personnel
The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy Chief Executive Officer and Chief Operating Officer.

51. Related party transactions (continued)

Year end balances

As at 31 December 2017 an amount of €143 thousand is payable by the Company to its parent company Bank of Cyprus Holdings Public Limited Company and is disclosed within customer deposits. This was granted on normal business terms.

52. Group companies

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2018 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	100
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	Cyprus	UCITS Fund	60
LCP Holdings and Investments Public Ltd	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
BOC Asset Management Ltd	Cyprus	Management administration and safekeeping of UCITS Units	100
Cyreit Variable Capital Investment Company PLC (Cyreit)	Cyprus	Real estate investment fund	88
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	n/a
BOC Asset Management Romania S.A.	Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100

52. Group companies (continued)

In addition to the above companies, at 31 December 2018 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Belvesi Properties Ltd, Hamura Properties Ltd, Legamon Properties Ltd, Asendo Properties Ltd, Domilas Properties Ltd, Gylito Properties Ltd, Lamezoco Properties Ltd, Noleta Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilero Properties Ltd, Ensolo Properties Ltd, Folimo Properties Ltd, Pelika Properties Ltd, Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Thryan Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Citlali Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Garmozy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Barway Properties Ltd, Cimonia Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Finevo Properties Ltd, Ganina Properties Ltd, Intelamon Properties Ltd, Kenelyne Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Nivoco Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Bokeno Properties Ltd, Flymoon Properties Ltd, Meriaco Properties Ltd, Valecast Properties Ltd, Teresan Properties Ltd, Odolo Properties Ltd, Prodino Properties Ltd, Racotino Properties Ltd, Rondemio Properties Ltd, Rylico Properties Ltd, Vatino Properties Ltd, Virevo Properties Ltd, Sailoma Properties Ltd and Volparo Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2018 the Company had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd and Gosman Properties Ltd.

52. Group companies (continued)

Cyreit Variable Capital Investment Company PLC was incorporated in January 2018 as an alternative investment fund. The Fund is licensed and regulated by the Cyprus Securities and Exchange Commission. The Group has transferred to the Cyreit, following its set-up its holding 100% in Smooland Properties Ltd, Threefield Properties Ltd, Vameron Properties Ltd, Bascot Properties Ltd, Vanemar Properties Ltd, Consoly Properties Ltd, Alomnia Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd, Allodica Properties Ltd, Wiceco Properties Ltd, Primaco Properties Ltd, Arleta Properties Ltd, Kuvena Properties Ltd, Nuca Properties Ltd, Orleania Properties Ltd, Ravenica Properties Ltd, Rouena Properties Ltd, Lancast Properties Ltd and Azemo Properties Ltd. As at 31 December the Company held 88% shareholding in Cyreit therefore the indirect holding in Cyreit's subsidiaries at 31 December 2018 is 88%.

Additionally, the Company increased its controlling interest from 51% to 64% in Nicosia Mall Management (NMM) Limited, Nicosia Mall Finance (NMF) Limited, Nicosia Mall Holdings (NMH) Limited and Nicosia Mall Property (NMP) Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services except for Nicosia Mall Property (NMP) Ltd and Cyreit's subsidiaries whose activity is the ownership and management of immovable property.

At 31 December 2018 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Tavoni Properties Ltd, Amary Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Calandomo Properties Ltd, Cramonco Properties Ltd, Monata Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Dorfilo Properties Ltd, Enelo Properties Ltd, Mikosa Properties Ltd, Stormino Properties Ltd, Fodilo Properties Ltd, Jalimo Properties Ltd, Livena Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Petrassimo Properties Ltd, Sendilo Properties Ltd, Stevolo Properties Ltd, Baleland Properties Ltd, Edilia Properties Ltd, Icazo Properties Ltd, Limoro Properties Ltd, Lomenia Properties Ltd, Rofeno Properties Ltd, Samilo Properties Ltd, Vemoto Properties Ltd, Vertilia Properties Ltd and Zenoplus Properties Ltd.

Romania: Selilar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Loneland Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

The Company also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Renalandia Properties Ltd, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd, Fantasio Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Polkima Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, CYCMC I Ltd, CYCMC II Ltd, CYCMC III Ltd and CYCMC IV Ltd.

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above except Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC and Cyreit which are UCITS Fund have share capital consisting of ordinary shares.

52. Group companies (continued)

Control over CLR Investment Fund Public Ltd (CLR) and its subsidiaries without substantial shareholding

The Group considers that it exercises control over CLR and its subsidiaries (Europrofit Capital Investors Public Limited, Axxel Ventures Limited and CLR Private Equity Limited) through control of the members of the Board of Directors and is exposed to variable returns through its holding.

Dissolution and disposal of subsidiaries

As at 31 December 2018, the following subsidiaries were in the process of dissolution or in the process of being struck off: Bank of Cyprus (Channel Islands) Ltd, Bank of Cyprus Romania (Romanian branch), BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, BOC Ventures Ltd, Buchuland Properties Ltd, Calomland Properties Ltd, Corner LLC, Diners Club (Cyprus) Ltd, Fairford Properties Ltd, Frozenport Properties SRL, Lameland Properties Ltd, Leasing Finance LLC, Loneland Properties SRL, Melgred Properties SRL, Mirodi Properties Ltd, Nallora Properties Ltd, Omiks Finance LLC, Pittsburg Properties Ltd, Salecom Ltd, Sylvesta Properties Ltd, Unknownplan Properties Ltd and Kyprou Finance (NL) B.V.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Group. The gain on dissolution of the branch in Romania amounts to €3,023 thousand.

Unknownplan Properties SRL, Buchuland Properties SRL, Janoland Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Pittsburg Properties SRL, Samarinda Navigation Co Ltd and Blindingqueen Properties SRL were dissolved during the year ended 31 December 2018. Nelipo Properties Ltd, Zarveto Properties Ltd, Bigwaive Properties Ltd, Jungax Properties Ltd, Bracando Properties Ltd, Kimrar Properties Ltd, Cadomia Properties Ltd, Desogus Properties Ltd, Ecunaland Properties Ltd, Lasmane Properties Ltd, Forsban Properties Ltd, Zedoma Properties Ltd, Carnota Properties Ltd, Fastflow Properties Ltd, Alomco Properties Ltd, Lozzaria Properties Ltd, Basiga Properties Ltd, Belaland Properties Ltd, Bank of Cyprus UK Ltd, BOC Financial Services Ltd, Finacap Properties Ltd, Jomento Properties Ltd and Newington Properties Ltd were disposed of during the year ended 31 December 2018.

Capitalisation of property revaluation reserve

During 2018 Bank of Cyprus UK Ltd proceeded with the capitalisation of its property revaluation reserve of €7,955 thousand through the issue of shares to the Company and subsequent reduction of share capital as permitted by the relevant legislation. Similarly, other reserves of €6,059 thousand which is of similar nature has been reclassified to accumulated losses.

53. Acquisitions and disposals

53.1 Acquisitions during 2018

There were no acquisitions during the year ended 31 December 2018.

53.2 Disposals during 2018

53.2.1 Disposal of Bank of Cyprus UK Limited

In November 2018, the Group completed the sale of 100% of its subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Limited.

53. Acquisitions and disposals (continued)

53.2. Disposals during 2018 (continued)

53.2.1. Disposal of Bank of Cyprus UK Limited (continued)

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	**€000**
Cash and balances with central banks	**278,250**
Loans and advances to banks	**71,932**
Loans and advances to customers	**1,827,113**
Property and equipment	**17,224**
Intangible assets	**1,883**
Prepayments, accrued income and other assets	**23,204**
	2,219,606
Liabilities	
Deposits by banks	**30,869**
Customer deposits	**1,990,360**
Accruals, deferred income and other liabilities	**29,317**
Subordinated loan stock	**35,340**
	2,085,886
Net identifiable assets sold	**133,720**

The cash consideration amounts to €120,131 thousand comprising of €115,991 thousand base consideration plus a purchase price adjustment of €4,140 thousand. The disposal resulted in a gain of €3,680 thousand comprising a loss of €13,703 thousand against the book value of the assets as at the disposal date and a gain of €17,383 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to consolidated income statement (Note 12).

Half of the base consideration together with the purchase price adjustment was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 29).

The net cash flows of Bank of Cyprus UK Limited are as follows:

	2018	2017
	€000	€000
Operating	**(119,269)**	92,291
Investing	**(744)**	(1,862)
Financing	**-**	34,483
Net cash (outflow)/inflow for the year	**(120,013)**	124,912

The cash and cash equivalents as at the date of disposal amounted to €321,225 thousand.

53. Acquisitions and disposals (continued)

53.3 Acquisitions during 2017

53.3.1 Acquisition of Nicosia Mall Holdings (NMH) Limited

In the context of the loan restructuring activities, the Group acquired on 28 September 2017 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Nicosia Mall Holdings (NMH) Limited is the holding company of a group of subsidiaries involved in the construction and management of the Nicosia Mall. The consideration for the acquisition of 51% share in Nicosia Mall Holdings (NMH) Limited amounts to €7,500 thousand which was used to reduce part of the outstanding facilities and therefore the acquisition did not include any cash consideration. The transaction was considered as an acquisition of an asset and was not treated as a business combination since the Group obtained control of an input without any process, therefore no goodwill or gain on bargain was recognised. The Company has control over Nicosia Mall Holdings (NMH) Limited.

The non-controlling interest is measured at the proportionate share of the identifiable net assets acquired.

The fair value of assets and liabilities of Nicosia Mall Holdings (NMH) Limited at the date of acquisition are presented below:

Assets	**€000**
Loans and advances to banks	**4,011**
Stock of property	**52,758**
	56,769
Liabilities	
Deposits by banks	**56,769**
Net identifiable assets acquired	**-**

No cash and cash equivalents were acquired.

53.4 Disposals during 2017

There were no material disposals during the year ended 31 December 2017.

54. Investments in associates and joint venture

Carrying value of the investments in associates and joint venture

	Percentage holdings	**2018**	2017
	(%)	**€000**	€000
CNP Cyprus Insurance Holdings Ltd	**49.9**	**114,637**	115,770
Interfund Investments Plc	**-**	**-**	2,343
Aris Capital Management LLC	**30.0**	**-**	-
Rosequeens Properties Limited	**33.3**	**-**	-
Rosequeens Properties SRL	**33.3**	**-**	-
Tsiros (Agios Tychon) Ltd	**50.0**	**-**	-
M.S. (Skyra) Vassas Ltd	**15.0**	**-**	-
D.J. Karapatakis & Sons Limited	**7.5**	**-**	-
Rodhagate Entertainment Ltd	**7.5**	**-**	-
Fairways Automotive Holdings Ltd	**45.0**	**-**	-
		114,637	118,113

54. Investments in associates and joint venture (continued)

Share of pre-tax profit/(loss) from associates

	2018	2017
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**9,164**	8,781
Interfund Investments Plc	**(69)**	176
	9,095	8,957

Investments in associates

CNP Cyprus Insurance Holdings Ltd
As part of the acquisition of certain operations of Laiki Bank in 2013, 49.9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the the Company.

The main financial highlights of the associate are as follows:

	2018	2017
	€000	€000
Total assets	**717,515**	707,796
Liabilities	**(487,786)**	(475,794)
Net assets, including value of in-force business	**229,729**	232,002

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €21,055 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	2018	2017
	€000	€000
Dividend income	**5,362**	774
Interest expense paid by the Group	**129**	139
Other expenses paid by the Group	**92**	92
Other income received by the Group	**1**	-

Interfund Investments Plc
In May 2018, the Company sold its holding of 23.1% in its associate Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. The loss of disposal amounts to €191 thousand.

Rosequeens Properties Limited and Rosequeens Properties SRL
The Group effectively owns 33.3% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Group's share of net assets of the associate at 31 December 2018 and 2017 had nil accounting value as the net assets of the associate had a negative balance.

Aris Capital Management LLC
The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank. The investment is considered to be fully impaired and its value is restricted to zero.

54. Investments in associates and joint venture (continued)

M.S. (Skyra) Vassas Ltd
In the context of its loan restructuring activities, the Group acquired 15.0% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Group considers that it exercises significant influence over the Skyra Vassas group as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
In the context of its loan restructuring activities, the Group acquired 7.5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Group considers that it exercises significant influence over the two companies as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

Fairways Automotive Holdings Ltd
In the context of its loan restructuring activities, the Group acquired 45.0% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Group considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

Investment in joint venture

Tsiros (Agios Tychon) Ltd
The Group holds a 50.0% shareholding in Tsiros (Agios Tychon) Ltd. The shareholder agreement with the other shareholder of Tsiros (Agios Tychon) Ltd stipulates a number of matters which require consent by both shareholders, therefore the Group considers that it jointly controls the company. The carrying value of Tsiros (Ayios Tychon) Ltd is restricted to zero.

The percentage holdings are in ordinary shares or membership interests.

55. Country by country reporting

Article 89 of CRD IV requires banks to disclose on a consolidated basis the following information for all countries where the Group operates. The table below provides information on the following items of the Group for year 2018:

	Total operating income/(expense)	Average number of employees	Profit/(loss) before tax	Accounting tax expense/(income) on profit/(loss)	Corporation tax paid/(refunded)	Public subsidies received
Country	**€000**		**€000**	**€000**	**€000**	**€000**
Cyprus	798,151	4,116	16,322	(1,623)	5,802	-
Russia	955	5	(3,110)	-	-	-
United Kingdom	267	196	428	-	670	-
Romania	19,647	16	18,819	(2,281)	17	-
Greece	(294)	8	(16,186)	(1,614)	(10,412)	-
Netherlands	(51,699)	-	(51,997)	(2)	10	-
Total	**767,027**	**4,341**	**(35,724)**	**(5,520)**	**(3,913)**	**-**

The activities of Group companies by geographical area are disclosed in Note 52.

Total operating income: comprises net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions, gains/(losses) from revaluation and disposal of investment properties, gains/(losses) on disposal of stock of property and other income.

Number of employees: the number of employees has been calculated as the average number of employees, on a quarterly basis, who were employed by the Group during the year ended 31 December 2018.

Profit/(loss) before tax: profit/(loss) before tax represents profits/(losses) after the deduction of inter-segment revenues/(expenses).

Accounting tax expense/(income) on profit/(loss): includes corporation tax and Cyprus special defence contribution. Deferred tax charge for the year is excluded from the above.

Corporation tax paid/(refunded) includes actual payments made during 2018 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

56. Events after the reporting period

56.1 Legislative amendments for conversion of deferred tax assets (DTA) to deferred tax credits (DTC)

On 1 March 2019 the Cyprus Parliament adopted legislative amendments on Income Tax Law ('the Law') published on the Official Gazette of the Republic on 15 March 2019 ('the amendments').

The amendments allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC). To the extent that the DTC are not utilised they are converted into a receivable amount by the credit institution that falls within the scope of these amendments. The law amendments cover the income tax losses transferred from Laiki Bank to the Company in March 2013 within the framework of 'The Resolution of Credit and Other Institutions Law' of 2013.

Under the Law the Company may, potentially and gradually, convert up to an amount of €3.3 billion tax losses to DTC (which led to the creation of DTA amounting to €417 million), with the conversion being based on the tax rate applicable at the time of conversion. The tax losses in excess of the €3.3 billion transferred from Laiki Bank to the Company in March 2013 cannot be utilised by the Company except in cases where there are transfers arising due to reorganisations made prior to 1 October 2019 (subject to the prior approval of the Minister of Finance). The Company paid a consideration for the DTA as part of the consideration paid for the acquisition of certain assets and liabilities of Laiki Bank in 2013.

The law amendment will result in improved regulatory capital treatment of the DTA, under CRR and will increase CET1 by c.170 bps on a transitional basis, as at 31 December 2018. This improvement includes the impact from the reversal of impairment of the related DTA of €108 million recognised in previous year, which will be reversed in 2019 Income statement.

56.2 Resignation of the Group's CEO

On 3 March 2019 the Group's CEO Mr John Patrick Hourican informed the Board of his decision to leave the Group in September 2019.

Building a better working world

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Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company the 'Group'), which are presented in pages 26 to 245 and comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Consolidated Financial Statements* section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of Loans and Advances to Customers including IFRS 9 transition On 1 January 2018, the Group adopted IFRS 9, a new accounting standard for financial instruments. This standard introduced a model of expected credit losses (ECL), rather than the incurred loss model which was previously applied under IAS 39. As at 31 December 2018, gross loans and advances to customers amounted to €12,430m and the related allowance for expected credit losses amounted to €1,904m. The basis of the impairment provision policy is presented in the accounting policies and further analysed in Note 5.2 to the consolidated financial statements. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that meet the internal definition of significant. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the ECL for loans and advances to customers. As loans and advances to customers comprise a large portion of the Group's assets, and due to the significance of judgement used in estimating both the individual and collective provisions, this is considered to be a key audit matter. Refer to Note 46 to the consolidated financial statements.	The key judgments and estimates in respect of the timing and measurement of ECL which we focused on include: • The allocation of loans and advances to Stages 1, 2 or 3 using criteria in accordance with the standard; • The interpretations and assumptions used to build the model that calculated ECL; • The completeness and accuracy of data used in the calculation of ECL; • The inputs, assumptions and probability weightings assigned to multiple economic scenarios; • The identification and measurement of individually assessed provisions; and • The accuracy and adequacy of the disclosures in the financial statements. In obtaining sufficient audit evidence we: • Inspected key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation. • Tested the key controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement. • Assessed management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018. • Performed walkthroughs of the processes relevant to the calculation of ECL to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. • Observed the joint audit committee and risk committee meetings where the inputs,

	assumptions, adjustments and outcomes were discussed and approved by the members. • Challenged the criteria used to allocate loans and advances to customers to Stage 1, 2 or 3 in accordance with IFRS 9. We selected a sample of loans and advances to customers in Stage 1, 2 or 3 to verify that they were allocated to the appropriate stage. • Tested the completeness and accuracy of the data through reconciliation to the source systems and testing of inputs. • Involved our credit risk specialists within the engagement team to test the assumptions, inputs and formulas used in a sample of ECL. This testing included assessing the appropriateness of model design and formulas used, recalculating the Probability of Default, Loss Given Default and Exposure at Default. • Involved our credit risk specialists within the engagement team to assess the base case and alternative economic scenarios, including challenging probability weights. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment, interest rates and House Price Index. • Tested a sample of the Group's loan reviews and assessed the measurement of the provisions, involving our valuation specialists to value the collateral. We examined other cash flow assumptions where the level of provision is not dependent on collateral values. We also assessed the timing of estimated cash flows. • Assessed the disclosures made against the relevant accounting standards.
Provisions for Pending Litigation, Claims, Regulatory and Other Matters As at 31 December 2018, provisions for pending litigation, claims, regulatory and other matters amounted to €117m.	In relation to provision for pending litigation, claims, regulatory and other matters, audit focus was placed on the completeness of the exposures, the

The accounting policy for provisions is described in the accounting policies and further analysed in Note 5.5 to the consolidated financial statements. The Group, in the ordinary course of business, is subject to various legal claims, investigations and other proceedings. It also operates in a heavily regulated environment and needs to remain constantly alert to ensure compliance with relevant rules and regulations. Management reviews all existing and potential legal and conduct cases based on the assessment of the probability of economic outflow from the Group in conjunction with the internal compliance and legal departments. The recognition and measurement of provisions in respect of pending litigation, claims, regulatory and other matters require a high level of judgement. Due to the risk that the provisions may be incomplete or inappropriately provided for, and the difficulty in assessing and measuring the quantum from any resulting obligations, this is considered a key audit matter. Refer to Note 40 of the consolidated financial statements.	probability of occurrence assigned to each case and the expected cash outflow calculated by the Group. In obtaining sufficient audit evidence we: • Performed walkthroughs of the process relevant to the calculation of provisions for pending litigation, claims, regulatory and other matters to identify key systems, applications and controls within the process. • Obtained a detailed assessment from the Group's internal legal department of potential outcomes for each individual case in excess of €200k. We ensured that this assessment was endorsed by the Group's external legal advisors in Cyprus and Greece. • We evaluated the competence, capability and objectivity of management's external specialists (legal advisors). • Analysed with the head of the internal legal department the list of existing and potential claims, the current progression of existing cases with a range of related outcome possibilities and the consequential exposure for the Group. • Analysed lists of legal cases from each location and tested that sufficient provision has been recorded in the Group's records where the exposure is assessed as probable. • Inspected the board of directors and other committee meeting minutes for evidence of any unidentified legal cases or developments in current cases which may impact the outcome. • Inspected regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances or possible non-compliance with any regulatory requirements. • Analysed working files and results reports for the assessment of customer redress provisions, prepared by the Group's external advisors. • Assessed the disclosures made against the relevant accounting standards.

Going Concern	

As required by IFRSs, Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.
 	
The Directors have determined that the going concern assumption is appropriate and that the Group is taking all necessary measures to maintain its viability of the business into the future. As part of their assessment, the Directors have considered compliance with regulatory measures, recent legislative amendments in Cyprus and the uncertainty in executing the required steps in the Financial and Capital Plan. The Directors have formulated actions as deemed appropriate to ensure the Group is a going concern into the future.
 	
In light of the judgment and uncertainties involved in the delivery of the Financial and Capital Plan and the actions formulated therein, this is considered a key audit matter.
 	
Refer to Management Report and Note 3 to the consolidated financial statements.
	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern.
	
	In obtaining sufficient audit evidence we:
	
	• Obtained and read correspondence with the relevant regulators with regards to regulatory capital and liquidity requirements of the Group, in addition to other correspondence such as the findings of the Supervisory Review and Evaluation Process. We have also discussed the findings of the Supervisory Review and Evaluation Process with management of the Group to understand the actions being implemented to address the points raised by the Joint Supervisory Team.
	• Met with the members of the Joint Supervisory Team of the European Central Bank to understand their assessment of a number of matters including the following:
	    ○ the Group's Financial and Capital Plan and the associated implementation risk present in the Group executing the plan;
	    ○ the ongoing viability of the Group and the associated macro conditions impacting future viability;
	    ○ the findings included in the letter on the Supervisory Review and Evaluation Process; and
	    ○ the Significant Risk Transfer of Project Helix including the nature of its capital accretive impact.
	
	• Considered the significant transactions occurring during 2018 and their ongoing accretive impact in complying with regulatory capital ratios. These executed transactions include:

	○ Project Helix, a transaction disposing of a portfolio on non-performing loans, which received confirmation of Significant Risk Transfer from the European Central Bank in March 2019; ○ the completion of the sale of Bank of Cyprus UK Limited in Q3 2018 to third party investors; and ○ the issuance of €220m Additional Tier 1 Capital Securities. • Considered the Income Tax Law amendment 28 (I) of 2019 enacted by the Cyprus Parliament in Q1 2019. This legislation has converted the Deferred Tax Asset recognised by the Group on acquisition of the ex-Laiki Bank into a Deferred Tax Credit. This legislation has a capital accretive impact on the Group's ability to meet regulatory capital needs for the next 12 months. • Inspected the Group's 3 year Financial and Capital Plan approved by the Board in February 2019. • Inspected the regulatory capital projections of the Group for the next 12 months which take into consideration the Financial and Capital Plan. • Involved our internal valuation specialists to assess the inputs and assumptions embedded in forecasts of profitability which are included within the Financial and Capital Plan, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group, the Financial and Capital Plan prepared by the Group, the future strategic plans and the past performance of the Group. • Assessed the disclosures made by the Directors in the financial statements in relation to going concern for adequacy.

Recoverability of Deferred Tax Assets The Group has recognised deferred tax assets of €302m in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in the accounting policies and further analysed in Note 5.3 to the consolidated financial statements. The recoverability and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward. In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of deferred tax assets to be a key audit matter. Refer to Note 18 to the consolidated financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the profit projections such as macro-economic assumptions, business growth rates, cost reduction and restructuring initiatives. In obtaining sufficient audit evidence we: • Performed a walkthrough of the process for the valuation of the deferred tax asset to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across processes. • Assessed and tested the supporting calculations of the Group's Financial and Capital Plan which formed the basis of the extended projections until 2028. • Involved our internal valuation specialists within the engagement team to assess and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group, the future strategy and the past performance. • Compared the actual results with management profit projections and obtained explanations about significant variances to assess the accuracy of the forecasting process. • Assessed the disclosures made against the relevant accounting standards.

Valuation of stock of property	
The Group has acquired a significant number of properties as a result of restructuring agreements with customers. As at 31 December 2018, the stock of properties amounted to €1,530m. These properties are accounted by the Group as stock of property in accordance with IAS 2. The basis of the stock of property valuation policy is presented in the accounting policies and further analysed in Note 5.4 to the consolidated financial statements. In light of the large volume of properties held and the uncertainty around market conditions when estimating the recoverable amount, we have considered the judgement based valuation inputs involved to be a key audit matter. Refer to Note 28 to the consolidated financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the valuation of the properties held in accordance to IAS2. In obtaining sufficient audit evidence we: • Performed walkthroughs of the processes relevant to the valuation of stock of property to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls around the valuation process of stock of property. • Obtained management's assessment of the net realisable value ('NRV') and tested whether the lower of the cost and NRV is considered as the value of the stock of property as at the reporting date, in accordance with IAS 2. • Obtained the valuation reports received by the Group from independent external valuers for a sample of properties to determine that the valuations used in the NRV calculation were appropriate. • For a sample of external valuation reports reviewed we assessed the methodology and assumptions by involving our internal valuation specialists. • We evaluated the competence, capability and objectivity of management's external specialists (valuers). • Compared disposal cost assumptions incorporated in the Group's calculation of the NRV to disposals that have occurred during the year. • Performed substantive analytical review procedures, categorising the properties by type and district and comparing the change in the value of each type of property and each district over the year to the changes in Royal Institute of Chartered Surveyors ('RICS') indices. • Assessed the disclosures made against the relevant accounting standards.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors through its Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors through its Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and period of engagement

We were first appointed as auditors of the Company on 18 December 1939 by the Company's Board of Directors. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 80 years.

Consistency of the additional report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other legal requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
28 March 2019

Income Statement

for the year ended 31 December 2018

	Notes	**2018**	2017
		€000	€000
Turnover		**851,567**	977,632
Interest income	7	**569,811**	734,988
Income similar to interest income	7	**55,400**	32,251
Interest expense	8	**(144,661)**	(169,621)
Expense similar to interest expense	8	**(46,188)**	(44,310)
Net interest income		**434,362**	553,308
Fee and commission income	9	**166,027**	171,201
Fee and commission expense	9	**(11,909)**	(9,991)
Net foreign exchange gains	10	**25,229**	43,342
Dividend income from subsidiaries and associates	23	**39,334**	29,884
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	11	**117,538**	3,716
Net losses from revaluation and disposal of investment properties		**-**	(1,596)
Net gains on disposal of stock of property	27	**9,192**	7,590
Other income	12	**5,587**	10,149
		785,360	807,603
Staff costs	13	**(195,522)**	(186,133)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund		**(25,095)**	(22,846)
Other operating expenses	14	**(218,221)**	(253,742)
		346,522	344,882
Net gains on derecognition of financial assets measured at amortised cost		**27,825**	173,443
Credit losses to cover credit risk on loans and advances to customers	15	**(326,619)**	(950,308)
Credit gains/(losses) on other financial instruments	15	**1,070**	(6,574)
Impairment of non-financial instruments	15	**(13,625)**	(94,125)
Profit/(loss) before tax		**35,173**	(532,682)
Income tax	16	**(79,359)**	(69,895)
Loss after tax for the year		**(44,186)**	(602,577)

Basic and diluted losses per share (€ cent)	17	**(0.5)**	(6.8)

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	**2018**	2017
		€000	€000
Loss for the year		**(44,186)**	(602,577)
Other comprehensive income (OCI)			
OCI that may be reclassified in the income statement in subsequent year			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)		**(9,523)**	-
Transfer to the income statement on disposal		**(19,484)**	-
		(29,007)	-
Foreign currency translation reserve			
(Loss)/profit on translation of net investment in foreign branches and subsidiaries		**(98)**	171
Transfer to the income statement on disposal of foreign operations		**(5,148)**	-
		(5,246)	171
Available-for-sale investments			
Net gains from fair value changes before tax		**-**	43,002
Transfer to the income statement on impairment		**-**	(27)
Transfer to the income statement on disposal		**-**	(595)
		-	42,380
Total OCI that may be reclassified in the income statement in subsequent periods		**(34,253)**	42,551
OCI not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net gains on investments in equity instruments designated at FVOCI		**2,329**	-
Property revaluation			
Fair value gain before tax	25	**-**	2,808
Tax	16	**554**	99
		554	2,907
Actuarial gain on the defined benefit plans			
Remeasurement (losses)/gains on defined benefit plans	13	**(427)**	11,760
Total OCI not to be reclassified in the income statement in subsequent periods		**2,456**	14,667
Other comprehensive (loss)/income loss after tax for the year net of taxation		**(31,797)**	57,218
Total comprehensive loss for the year		**(75,983)**	(545,359)

Balance Sheet

as at 31 December 2018

Assets	Notes	**2018 €000**	2017 €000
Cash and balances with central banks	18	**4,610,282**	2,989,555
Loans and advances to banks	18	**439,467**	1,134,494
Derivative financial assets	20	**24,754**	18,027
Investments	19	**613,735**	676,173
Investments pledged as collateral	19	**737,587**	290,129
Loans and advances to customers	22	**10,906,576**	12,986,757
Balances with Group companies	23	**916,856**	1,067,856
Prepayments, accrued income and other assets	28	**140,173**	116,453
Stock of property	27	**743,383**	652,963
Property and equipment	25	**202,877**	199,596
Intangible assets	26	**41,006**	30,927
Investments in associates	24	**95,068**	97,293
Investments in subsidiaries	49	**254,688**	259,372
Deferred tax assets	16	**301,772**	383,492
Non-current assets held for sale and disposal group held for sale	29	**1,199,359**	-
Total assets		**21,227,583**	20,903,087
Liabilities			
Deposits by banks		**428,816**	486,049
Funding from central banks	30	**830,000**	930,000
Repurchase agreements		**248,945**	257,322
Derivative financial liabilities	20	**38,983**	50,970
Customer deposits	31	**16,843,558**	15,982,905
Balances with Group companies	23	**105,148**	286,722
Accruals, deferred income and other liabilities	33	**204,501**	243,523
Pending litigation, claims, regulatory and other matters	38	**105,306**	82,876
Subordinated loan stock	32	**270,930**	268,485
Deferred tax liabilities	16	**20,893**	20,616
Total liabilities		**19,097,080**	18,609,468
Equity			
Share capital	34	**892,294**	892,294
Share premium	34	**551,368**	551,368
Revaluation and other reserves		**65,008**	114,337
Retained earnings	36	**401,833**	735,620
Other equity instruments	34	**220,000**	-
Total equity		**2,130,503**	2,293,619
Total liabilities and equity		**21,227,583**	20,903,087

Prof. Dr. J. Ackermann Chairman

Mr. J. P. Hourican Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Finance Director

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital (Note 34)	Share premium (Note 34)	Retained earnings (Note 36)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Foreign currency translation reserve	Other equity instruments (Note 34)	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2018	**892,294**	**551,368**	**735,620**	**59,488**	**48,016**	**6,059**	**774**	-	**2,293,619**
Impact of adopting IFRS 9 at 1 January 2018 (Note 6)	-	-	(298,767)	-	(8,366)	-	-	-	**(307,133)**
Restated balance at 1 January 2018	**892,294**	**551,368**	**436,853**	**59,488**	**39,650**	**6,059**	**774**	-	**1,986,486**
Loss for the year	-	-	(44,186)	-	-	-	-	-	**(44,186)**
Other comprehensive (loss)/income after tax for the year	-	-	(427)	554	(26,678)	-	(5,246)	-	**(31,797)**
Total comprehensive (loss)/income for the year	-	-	(44,613)	554	(26,678)	-	(5,246)	-	**(75,983)**
Transfer of realised profits on disposal of properties	-	-	3,361	(3,361)	-	-	-	-	**-**
Transfer of gain on disposal of FVOCI equity investments to retained earnings	-	-	173	-	(173)	-	-	-	**-**
Transfer of other reserves to retained earnings	-	-	6,059	-	-	(6,059)	-	-	**-**
Issue of other equity instruments (Note 34)	-	-	-	-	-	-	-	220,000	**220,000**
31 December 2018	**892,294**	**551,368**	**401,833**	**56,681**	**12,799**	**-**	**(4,472)**	**220,000**	**2,130,503**

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital (Note 34)	Share premium (Note 34)	Capital reduction reserve (Note 34)	(Accumulated losses)/ retained earnings (Note 36)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Foreign currency translation reserve	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2017	**892,294**	**551,368**	**1,952,486**	**(633,600)**	**64,132**	**5,636**	**6,059**	**603**	**2,838,978**
Loss for the year	-	-	-	(602,577)	-	-	-	-	**(602,577)**
Other comprehensive income after tax for the year	-	-	-	11,760	2,907	42,380	-	171	**57,218**
Total comprehensive (loss)/income for the year	-	-	-	(590,817)	2,907	42,380	-	171	**(545,359)**
Transfer of realised profits on disposal of properties	-	-	-	7,551	(7,551)	-	-	-	**-**
Cancellation of shares due to reorganisation (Note 34)	(892,294)	-	-	-	-	-	-	-	**(892,294)**
Issue of shares (Note 34)	892,294	-	-	-	-	-	-	-	**892,294**
Elimination of capital reduction reserve (Note 34)	-	-	(1,952,486)	1,952,486	-	-	-	-	**-**
31 December 2017	**892,294**	**551,368**	**-**	**735,620**	**59,488**	**48,016**	**6,059**	**774**	**2,293,619**

Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 €000	2017 €000
Net cash flow from operating activities	40	**1,160,543**	1,907,129
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(709,027)**	(402,977)
Proceeds on disposal/redemption of investments:			
- debt securities		**294,494**	91,741
- equity securities		**5,451**	1,522
Interest received from debt securities and treasury bills		**27,279**	19,501
Dividend income received		**34,869**	39,425
Cash consideration paid for acquisition/increase in holding of subsidiaries		**-**	(44,714)
Net proceeds from disposal of Undertakings for Collectively Investments in Transferable Securities (UCITS) Fund and investment funds units		**19,359**	-
Proceeds on disposal of subsidiaries and associates		**64,604**	1,000
Proceeds from the reduction of share capital of subsidiary		**-**	1,778
Purchases of property and equipment	25	**(10,788)**	(4,925)
Purchases of intangible assets	26	**(22,454)**	(20,511)
Proceeds on disposals of property and equipment and intangible assets		**1,908**	72
Proceeds on disposals of investment properties and investment properties held for sale		**-**	10,375
Net cash flow used in investing activities		**(294,305)**	(307,713)
Cash flows from financing activities			
Net (repayment)/proceeds of funding from central banks		**(100,000)**	79,986
Net proceeds from the issue of other equity instruments		**220,000**	-
Net proceeds from the issue of subordinated loan stock		**-**	246,500
Interest on subordinated loan stock		**(23,125)**	-
Interest on funding from central banks		**(3)**	(28)
Net cash flow from financing activities		**96,872**	326,458
Net increase in cash and cash equivalents for the year		**963,110**	1,925,874
Cash and cash equivalents			
1 January		**3,821,081**	1,894,655
Foreign exchange adjustments		**(12,621)**	552
Net increase in cash and cash equivalents for the year		**963,110**	1,925,874
31 December	41	**4,771,570**	3,821,081

Details on non-cash transactions are presented in Note 40.

1. Corporate information

Bank of Cyprus Public Company Ltd (the Company) is the holding company of the Bank of Cyprus Group (the Group). The principal activities of the Company involve the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law.

The shares of the parent company Bank of Cyprus Holdings Public Limited Company (BOCH), a company incorporated in Ireland, are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The financial statements are available at the Bank of Cyprus Public Company Ltd Registered Office (51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the website www.bankofcyprus.com (Investor Relations).

The Annual Report of Bank of Cyprus Holdings Public Limited Company Group is available on the website www.bankofcyprus.com (Investor Relations).

Financial statements
The financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2018 (the Financial Statements) were authorised for issue by a resolution of the Board of Directors on 28 March 2019.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income, financial assets (including loans and advances to customers and investments) at fair value through profit or loss and derivative financial assets that have been measured at fair value, non-current assets held for sale measured at fair value less costs to sell and stock of property measured at net realisable value where this is lower than cost. 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.

The Company elected as a policy choice permitted under IFRS 9 to continue to apply hedge accounting in accordance with IAS 39.

Presentation of Financial Statements
The Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated. A comma is used to separate thousands and a dot is used to separate decimals.

The Company presents its balance sheet broadly in order of 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 43.

These Financial Statements include branches of the Company in Greece and Romania.

The operations of the branch in Romania were terminated during 2018 subject to the final completion of deregistration formalities with respective authorities (Note 49).

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

2.2 Accounting policies and changes in accounting policies and disclosures

The accounting policies adopted in preparing the Financial Statements of the Company are consistent with those adopted in preparing the Consolidated Financial Statements of the Group, a summary of which is presented in Note 2 of the Consolidated Financial Statements of the Group for the year ended 31 December 2018.

In addition the following policies are adopted:

Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures are measured at cost less impairment.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 of the Consolidated Financial Statements of the Group for the year ended 31 December 2018.

2.3 Comparative information

Reclassifications to comparative information were made to conform to current year presentation as follows:

- Provisions for pending litigation, claims, regulatory and other matters were reclassified from other 'Accruals, deferred income and other liabilities' to the face of the balance sheet.
- Interest income and interest expense relating to financial instruments classified at FVPL have been reclassified to ‘Income similar to interest income’ and ‘Expense similar to interest expense’ respectively. In order to be consistent with the presentation requirements for the interest income calculated using the effective interest rate method, on financial instruments measured at amortised cost and financial assets measured at FVOCI following the adoption of IFRS9. Further information is disclosed in Note 2.11 of the Consolidated Financial Statements of the Group.

The Company has not restated comparative information for 2017 for financial instruments within the scope of IFRS 9. Additionally, the recognition and measurement of credit losses under IFRS 9 differs from that under IAS 39. Therefore, the comparative information for 2017, which is reported under IAS 39 is not comparable to the information presented for 2018, which is reported under IFRS 9. New or amended disclosures are presented for the current period according to IFRS 9, where applicable, whereas comparative period disclosures are consistent with those made in the prior periods. Adjustments arising from the adoption of IFRS 9 have been recognised directly in equity as at 1 January 2018, as disclosed in Note 6.

3. Going concern

The Directors have made an assessment of the Company’s and the Group’s ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Directors believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

In making this assessment, the Directors considered the significant transactions during 2018 which have had a positive impact on the capital position of the Company and the Group, including the disposal of Bank of Cyprus UK Ltd, the agreement for the sale of non-performing loans and the issuance of €220 million Additional Tier 1 Capital Securities. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC), the Group’s Financial and Capital Plan and the developments in the operating environment in Cyprus (Note 4).

3. **Going concern** (continued)

The Group has developed a Financial and Capital Plan (the 'Plan'), which has been approved by the Board in February 2019. One of the most important objectives of the Plan was to ensure that the Group has sufficient resources and capital in order to continue the balance sheet de-risking and further deal with the residual Non Performing Exposures (NPEs). The IFRS 9 impact on a fully phased-in basis has been considered within the Group's Plan. Despite the implementation risk associated with the outcome of future events outlined in the Plan at the reporting date, the Directors believe that there is sufficient capital throughout the period of assessment to meet regulatory capital requirements. The Group will continue its de-risking strategy and remains focused to implement the actions contemplated in the Plan.

The Directors, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

Non-Performing Exposures

- The continued organic reduction (now achieved for fifteen consecutive quarters) of the Group's NPEs which have decreased from €8,804 million in December 2017 to €7,518 million at 31 December 2018 and are further reduced to €4,768 million pro forma for Project Helix (Note 4.2.2); and
- The reduction of NPEs has been a regulatory focus for a number of years and will continue to be so. The Group is currently preparing an updated NPE strategy plan for the years 2019-2021 which will be submitted to the ECB by end of June 2019. The Directors believe that the reduction of NPEs is a significant factor with regard to the future viability of the Group as a pillar bank in Cyprus.

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% (unaudited) and 14.9% (unaudited) respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1).

Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased in CET1 ratio and Total Capital ratios remain unchanged, when ignoring the phasing-in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

The projected capital ratios of the Group indicate that there will be sufficient capital throughout the period of assessment when considered in conjunction with the following items:

- The phase-in of IFRS 9. The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the total impact on adoption of IFRS 9 of €308,511 thousand, on 1 January 2018 and any subsequent increase allowed by the regulation for phasing-in (i.e. increase in Stage 1 and Stage 2 allowance) will impact the capital ratios over a period of five years. The impact on the regulatory capital is being phased-in based on a weighting factor until it is fully absorbed at the end of the five years. The initial impact of IFRS 9 was phased-in by 5% on 1 January 2018 regulatory capital and increases to 15% (cumulative) on 1 January 2019;
- The enactment of the Income Tax Amendment Law 28 (1) of 2019 by the Cypriot parliament in March 2019, allowing for the conversion of the Group's deferred tax assets into deferred tax credits. This results in a more capital efficient tax asset. The law will result in improved regulatory capital treatment under the Capital Requirement Regulation (CRR) and will increase CET1 by c. 170 bps (unaudited) on a transitional basis as at 31 December 2018. This improvement includes the impact from a reversal of impairment of the related deferred tax asset of approximately €108 million recognised during 2017 and 2018, which will be reversed in 2019 Income Statement of the Group; and
- The regulatory capital position of the Group will strengthen further, upon completion of the sale of loans and advances to customers (the 'Helix Portfolio' or the 'Transaction'), largely NPEs, classified as held for sale (Note 29). A significant step towards completion of the Transaction was the ECB approval of the Significant Risk Transfer (the 'SRT') for regulatory capital purposes. The Company has received the SRT approval in March 2019. The completion of the Transaction remains subject to various other conditions precedent. On completion, the derecognition of the Helix portfolio will have a positive impact on the Group's CET1 ratio, of c. 160 bps (unaudited), resulting from the release of risk weighted assets. Completion is currently expected to occur in early second quarter of 2019.

3. Going concern (continued)

Funding and liquidity

- The Group has made a significant improvement in its liquidity position and ratios; and
- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Notes 4.2.3 and 46).

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

4. Operating environment

4.1 Cyprus

Economic recovery became more deeply rooted with real Gross Domestic Product (GDP) rising by 3.9% in 2018 following increases of 4.2% and 4.8% in the preceding two years (Cyprus Statistical Service). GDP growth in 2018 was underpinned by robust expansion in private consumption and services exports, particularly tourism. Fixed investments particularly construction activity also made an important contribution. On a sectoral basis growth was mainly driven by tourism, trade and transport, construction and professional and business services. The outlook for 2019-2020 remains positive with real GDP expected to rise by 3.3% and 2.7% respectively according to the European Commission (European Economic Forecast, Winter 2019, Interim).

Employment increased by 5.6% in 2018 compared with an increase of 4.6% in 2017 (Cyprus Statistical Service). As a result the unemployment rate dropped to an average of 8.4% in 2018 from 11% in 2017 and contributed to strong private consumption growth (Cyprus Statistical Service).

Exports of goods and services continued to grow robustly in 2018 rising by 3.3% in real terms (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery, but Cyprus might be impacted negatively by the exit of the UK from the EU (Brexit). Cyprus has close trade and investment links with the UK, making its economy vulnerable to the impact of Brexit on the Cyprus economy. Tourist arrivals from the UK accounted for about 34% of total arrivals in 2017-2018. A possible decline in tourist arrivals from the UK and a drop in their spending will need to be mitigated by increasing arrivals and revenues from other countries.

Regarding prices, consumer inflation accelerated modestly in 2018 to 1.4% from 0.5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

The budget turned to a surplus of 1.8% of GDP in 2017. The budget surplus is estimated at 2.8% of GDP in 2018, according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018) excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus will also remain sizable in 2019-2020 according to the European Commission. The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme, a State-supported scheme to aid the loan repayment of vulnerable groups with NPEs backed by primary residences, will be relatively low and its impact on the budget balance will be marginal.

Gross Government debt is estimated at 105% of GDP in 2018 according to the European Commission, up from 96% in 2017. This followed the placement of €3.2 billion Government bonds in the CyCB to facilitate the sale of the good assets of CyCB. However, its underlying dynamics remain stable and it is expected to decline significantly in coming years. The debt ratio will decline to 98.4% in 2019 and to 91% in 2020 according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018).

In the banking sector, the stock of NPEs declined significantly. For the first eleven months of 2018, NPEs dropped by 46% or by €9.6 billion to €11.2 billion, after the CyCB transaction and the sale of a package of NPEs by the biggest lender, i.e. the Bank of Cyprus, according to data by the Central Bank of Cyprus (CBC). The ratio of NPEs to gross loans dropped to 32.1% at the end of November 2018 from 42.5% at the end of December 2017. The ratio of total impairments to total NPEs was 52.2% at the end of November 2018.

4. Operating environment (continued)

4.1 Cyprus (continued)

In July 2018, the Cyprus government took additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs.

The sovereign risk ratings of the Cyprus government improved considerably. In October 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating from Ba3 to Ba2. The improvement in the ratings since the crisis in 2013 reflects the government's fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

4.2 The Company

4.2.1 Regulatory capital ratios (unaudited)

The CET1 ratio of the Group at 31 December 2018 stands at 12.1% and the total capital at 15.2% on a transitional basis.

The minimum Pillar I total capital ratio requirement is 8.0% and may be met, in addition to the 4.5% CET1 requirement, with up to 1.5% of Additional Tier 1 capital and with up to 2.0% of Tier 2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons).

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased-in CET1 capital ratio and Total capital ratio remain unchanged when ignoring the phasing-in of the Capital Conservation Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

The Group's phased-in CET1 capital ratio requirement will be 10.5% (2018: 9.375%), comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (2018: 1.875%) and the Other Systemically Important Institution Buffer of 0.5% (2018: Nil).

The Group's Total capital ratio requirement will be 14.0% (2018: 12.875%), comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (2018: 1.875%) and the Other Systemically Important Institution Buffer of 0.5% (2018: Nil).

The above minimum ratios apply for both, the Company and the Group. The Company is 100% subsidiary of BOCH and its principal activities are the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

The capital position of the Group and the Company at 31 December 2018 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The Group has developed a Plan, which has been approved by the Board in February 2019 (Note 3).

4. Operating environment (continued)

4.2 The Company (continued)

4.2.2 Asset quality

The Group's NPEs, as defined by EBA, including loans and advances to customers which have been classified as non-current assets held for sale totalled €7,518 million at 31 December 2018 and accounted for 47% of gross loans before fair value adjustment on initial recognition. The provisioning coverage ratio of NPEs totalled 47% at 31 December 2018 compared to 48% at 31 December 2017.

The Group addresses the asset quality challenge through the operation of the Restructuring and Recoveries Division which is actively seeking to find innovative solutions to manage distressed exposures. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. At 31 December 2018 NPEs have decreased by 50% since their peak of €15,175 million at 31 March 2015.

The Group has prepared a detailed NPE Strategy plan for the three year period 2018-2020 as requested by the ECB. The Group is currently preparing an updated NPE strategy plan for the year 2019-2021 which will be submitted to ECB by end of June 2019.

4.2.3 Liquidity (unaudited)

Group customer deposits totalled €16,844 million at 31 December 2018 compared to €17,850 million at 31 December 2017. At 31 December 2018 all deposits were in Cyprus (2017: €15,983 million). Group customer deposits accounted for 76% of total assets as at 31 December 2018 (2017: 76% and a low of 48% at 31 March 2014).

The Group focused on measures to improve its liquidity position in order to comply with the regulatory liquidity requirements. As at 31 December 2018, the Group was in compliance with all regulatory liquidity requirements. As at 31 December 2018 the LCR stood at 231% for the Group (compared to 190% at 31 December 2017) and was in compliance with the minimum regulatory requirement of 100% applicable as from 1 January 2018. As at 31 December 2018 the Group's NSFR, on the basis of the Basel III standards, was 119% (compared to 111% at 31 December 2017).

On 1 January 2018, the local regulatory requirements, set by the CBC, were abolished as per Article 412(5) of EU Regulation No 575/2013.

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR of the Company and which became effective on 1 January 2018. The objective of the measure was to ensure that there would be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that are not subject to any outflow rates under the LCR. The measure was implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018.

The second stage required more relaxed outflow and inflow rates compared to the initial ones, and were applicable from 1 July 2018 until 31 December 2018. Specifically, there was a reduction of 50% of the LCR add-on rates as from 1 July 2018.

The additional liquidity requirement was applicable up to 31 December 2018 and was abolished from 1 January 2019. As at 31 December 2018, the Group and the Company were in compliance with both the LCR and the LCR add-on.

4. Operating environment (continued)

4.2 The Company (continued)

4.2.4 Pending litigation, claims, regulatory and other matters

The management has considered the potential impact of pending litigation and claims, investigations, regulatory and other matters against the Company which include the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company. The Company has obtained legal advice in respect of these claims.

Despite the novelty of many of the said claims based on the information available at present and on the basis of the law as it currently stands, management considers that the said claims as are considered unlikely to have a material adverse impact on the financial position and capital adequacy of the Company. Additional information on pending litigation, claims, regulatory and other matters is provided in Note 38.

5. Significant and other judgements, estimates and assumptions

The preparation of the Financial Statements requires the Company's Board of Directors and management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the Financial Statements and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Company based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant judgements, estimates and assumptions relate to classification of financial instruments and calculation of expected credit losses, tax, estimation of the net realisable value of stock of property and provisions which are presented in Notes 5.1 to 5.5 below. Other significant judgements, estimates and assumptions are disclosed further in Notes 5.6 to 5.11.

5.1 Classification of financial assets

The Company exercises judgement upon determining the classification of its financial assets, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. In general, the assessment is performed at the level of each business line. Further, the Company exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Company also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows. Furthermore, judgement is required when assessing whether compensation paid or received on early termination of lending arrangements result in cash flows that are not Solely payments of principles and interest (SPPI).

5.2 Calculation of expected credit losses

The calculation of Expected Credit losses (ECL) requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Company's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Elements of ECL models that are considered accounting judgements and estimates include:

Assessment of significant increase of credit risk
IFRS 9 does not include a definition of significant increase in credit risk. The Company assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated on a yearly basis by the Risk Management division and endorsed by the Group Provisions Committee.

Determining the probability of default (PD) at initial recognition requires management estimates. In the case of exposures existing prior to the adoption of IFRS 9, a retrospective calculation of the PD is made in order to quantify the risk of each exposure at the time of the initial recognition. In certain cases estimates about the date of initial recognition might be required.

For the retail portfolio, the Company uses a PD at origination driven by behavioural information (score cards) whereas, for the corporate portfolio, the Group uses the internal credit rating information. In determining the relevant PDs, management estimates are required with respect to the life-time of revolving facilities. For revolving facilities, the origination date is the date when a credit review has taken place instead of the contractual date.

Scenarios and macroeconomic factors
The Company determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are monitored by the Economic Research Unit and are based on external market data supplemented by expert judgement.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Risk Management Division and endorsed by the Group Provisions Committee. Qualitative adjustments or overlays made as at the reporting date relate to the positive future properly value cap to 0% for all scenarios.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's ECL as a whole is particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective.

The Company uses three different economic scenarios.

The table below indicates the most significant macroeconomic variables as well as the scenarios used by the Company and the Group as at 31 December 2018 and 1 January 2018 respectively. The Group has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 20-60-20 structure derived using the method described in Note 2.19.5 of the Consolidated Financial Statements of the Group for the year ended 31 December 2018. The pace of expansion of the economy is expected to decline towards 2%, in the medium and longer terms. Additionally the heightened uncertainties in the economy in 2019 and beyond relating to Brexit, trade disputes between the US and the China and between the US and the EU, and economic fragility in southern Europe amidst a slowing global economy, increase the risk of a financial crisis. These factors display a relatively high volatility, which the management considered that may not be fully captured in the weights as calculated using the method described in Note 2.19.5 of the Consolidated Financial Statements of the Group for the year ended 31 December 2018 and hence the management has decided to increase the weight of the adverse scenario.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

31 December 2018

Year	Scenario	Weight (%)	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2019	Adverse	30.0	-1.3	10.0	-0.2	1.4
	Baseline	50.0	3.1	7.6	1.7	4.4
	Favourable	20.0	4.3	7.2	2.5	5.5
2020	Adverse	30.0	-1.3	12.2	0.3	-1.7
	Baseline	50.0	2.6	7.3	1.7	2.7
	Favourable	20.0	3.4	6.8	2.6	4.1
2021	Adverse	30.0	3.0	12.4	2.1	0.7
	Baseline	50.0	2.4	6.9	2.0	2.9
	Favourable	20.0	2.6	6.5	2.4	3.6
2022	Adverse	30.0	4.1	11.1	2.4	3.1
	Baseline	50.0	2.5	6.5	2.0	3.1
	Favourable	20.0	2.6	6.1	2.6	3.7
2023	Adverse	30.0	3.9	10.0	2.5	4.7
	Baseline	50.0	2.3	6.3	2.1	3.8
	Favourable	20.0	2.3	5.8	2.6	4.0

1 January 2018

Year	Scenario	Weight (%)	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2018	Adverse	30.0	-1.6	12.4	-1.2	-0.8
	Baseline	50.0	2.8	9.9	0.7	3.0
	Favourable	20.0	3.9	9.5	1.8	4.2
2019	Adverse	30.0	-1.5	14.0	0.2	0.7
	Baseline	50.0	2.4	9.0	1.6	4.5
	Favourable	20.0	2.7	8.5	2.3	5.3
2020	Adverse	30.0	2.8	14.1	1.9	2.2
	Baseline	50.0	2.4	8.5	1.7	3.6
	Favourable	20.0	2.2	8.1	1.7	4.0
2021	Adverse	30.0	3.8	12.8	2.0	2.2
	Baseline	50.0	2.2	8.2	1.6	1.7
	Favourable	20.0	2.2	7.8	1.5	2.7
2022	Adverse	30.0	3.8	11.6	2.1	3.6
	Baseline	50.0	2.2	7.9	1.7	2.2
	Favourable	20.0	2.2	7.4	1.6	2.8

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are primarily determined by GDP growth but with a lag. Thus property prices will initially adjust less steeply than GDP and will start to accelerate after the recovery in GDP has been entrenched. After this point, property prices will accelerate and will match and surpass the pace in the baseline scenario, before finally coverging.

Since 1 January 2018, the Company has reassessed the key economic indicators used in the ECL models and using actual performance ratios of the economy as revised by the Cyprus statistical service for 2016 and 2017 and the forecast upgrades by the IMF and the European Commission. The favourable and adverse scenarios were adjusted to reflect tourist sector performance, construction activity, unemployment rates, consumer price index and house prices.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)
The RICS indices, which are considered for the purposes of determining the real estate collateral value on realisation date are capped at the reporting date value, in case of any projected increase, whereas any projected decrease is taken into account. As a result, the indexed value for all collaterals is less or equal to their corresponding open market value as of the reporting date.

For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios: base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario, whereas under the favourable scenario applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures.

For collectively assessed customers the calculation is the weighted average of three scenarios: base, adverse and favourable.

Expected lifetime of revolving facilities
Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The determination of the expected life for the revolving portfolio is sensitive to changes in contractual maturities resulting from business decisions. The Company exercises judgement in determining the period over which ECL should be computed.

Assessment of loss given default
A factor for the estimation of loss given default (LGD) is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

At 31 December 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers excluding those classified as held for sale is c.32% under the baseline scenario.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers other than those classified as held for sale has been estimated to be on average seven years under the baseline scenario.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. Judgement may also be exercised over staging during the individual assessment.

Any positive cumulative average future change in property values forecasted was capped to zero for the year ended 31 December 2018. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue the Group maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Assessment of loss given default (continued)
Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses of loans and advances.

Modelling adjustments
Forward looking models have been developed for ECL parameters (PD, exposure at default (EAD), LGD) for all portfolios and segments sharing similar characteristics. Model validation is performed by the independent validation unit within the Risk Management Division on an annual basis and involves monitoring of model performance and stability, review of model relationships and back testing. In certain cases, judgment may be exercised in the form of management overlay by applying adjustments on the modelled parameters. Governance of these models lies with the Risk Management Division. Any management overlays are approved by the Risk Management Division and endorsed by the Provisions Committee.

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated based on the relevant ECL model.

Portfolio segmentation
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary.

In addition to individually assessed assets the Company also assesses assets collectively. The collectively assessed portfolio includes all loans which are not individually assessed. The Group categorises the exposures into sufficiently granular portfolios segments with shared risk characteristics. The granularity is based on different levels of segmentation. In determining the level of granularity of such portfolios, as well as assessing that these share similar risk characteristics, management's judgment is required.

Further details on impairment allowances and related credit information are set out in Note 44.

5.3 Tax

The Company operates in and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Company recognises income tax liabilities for transactions and assessments 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.

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. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets.

The assumptions with greater influence on deferred tax are disclosed in Note 16.

5. Significant and other judgements, estimates and assumptions (continued)

5.4 Stock of property – estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined through valuation techniques, requiring significant judgement, which take into account all available reference points such as, expert valuation reports, current market conditions, the holding period of the asset applying an appropriate illiquidity discount and any other relevant parameters. Selling expenses are always considered and deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainty due to the relatively low level of market activity.

More details on the stock of property are presented in Note 27.

5.5 Provisions

The accounting policy for provisions is described in Note 2.39 of the Consolidated Financial Statements of the Group.

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims, regulatory and other matters usually require a higher degree of judgement than other types of provisions. It is expected that the Company will continue to have a material exposure to litigation and regulatory proceedings and investigations relating to legacy issues in the medium term. The matters for which the Company determines that the probability of a future loss is more than remote, will change from time to time, as will the matters as to which a reliable estimate can be made and the estimated possible loss for such matters. Actual results may prove to be significantly higher or lower than the estimate of possible loss in those matters, where an estimate was made. In addition, loss may be incurred in matters with respect to which the Company believed the probability of loss was remote.

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims, regulatory and other matters refer to Note 38.

5.6 Fair value of investments and derivatives

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Company use only observable market data and so the reliability of the fair value measurement is relatively high.

However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Company only uses models with unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

Further details on the fair value of assets and liabilities are disclosed in Note 21.

5. Significant and other judgements, estimates and assumptions (continued)

5.7 Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Company's management sets these assumptions based on market expectations at the reporting date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions, a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. The expected return on plan assets is based on the composition of each fund's plan assets, estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates are derived after consultation with the Company's advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

Further details on retirement benefits are disclosed in Note 13.

5.8 Classification of properties

The Company determines whether a property is classified as investment property or stock of property as follows:

- Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and are not intended to be sold in the ordinary course of business.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013.

5.9 Fair value of properties held for own use and investment properties

The Company's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value. In the case of property held for own use, valuations are carried out periodically so that the carrying value is not materially different from the fair value, whereas in the case of investment properties, the fair value is established at each reporting date. Valuations are carried out by qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

In arriving at their estimates of the fair values of properties, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date.

Further information on inputs used is disclosed in Note 21.

5.10 Provisions for impairment of loans and advances to customers (applicable before 1 January 2018)

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 and the calculation of the impairment allowance involves the use of judgement. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

5. Significant and other judgements, estimates and assumptions (continued)

5.10 Provisions for impairment of loans and advances to customers (applicable before 1 January 2018) (continued)

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. Loans together with the associated provisions are written-off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.

The Company may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of loans changes from period to period.

A very important factor for the estimation of provisions is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. During 2017, the Company, following a reconsideration of its strategy to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking, has modified certain of its provisioning assumptions and estimates.

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34%.

The timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average six years.

For the calculation of specific provisions, the timing of recovery of collaterals as well as the haircuts used were based on the specific facts and circumstances of each case.

In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero.

The above assumptions are also influenced by the ongoing regulatory dialogue the Company maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

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

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (e.g. the business prospects for the customer, the realisable value of collateral, the Company's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate) and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

5. Significant and other judgements, estimates and assumptions (continued)

5.10 Provisions for impairment of loans and advances to customers (applicable before 1 January 2018) (continued)

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

Impairment assessment also includes off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the probability, timing and amount of cash outflows; otherwise the provision is calculated on a collective basis, taking into account the probability of loss for the portfolio in which the customer is included for on-balance sheet exposures impairment assessment. The Company may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of off-balance sheet exposure changes from period to period.

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 reporting 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 fully reflected. 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 total amount of the Company's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due and are treated as up to date loans for measurement purposes. Loans subject to collective impairment assessment whose terms have been renegotiated are taken into account in determining the inputs for collective impairment calculation. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification in accordance with the rules of the relevant EBA technical standard.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Company's loan impairment provisions as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

Further details on impairment allowances and related credit information are set out in Note 44.

5.11 Impairment of available-for-sale investments (applicable before 1 January 2018)

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. The determination of what is significant or prolonged requires judgement by management. Management has assessed that a loss of 25% or more is considered significant, except in the cases of investment companies where higher limits are set. Prolonged has been assessed by management to be a period of 12 months or more. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

5. Significant and other judgements, estimates and assumptions (continued)

5.11 Impairment of available-for-sale investments (applicable before 1 January 2018) (continued)

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the event (or events) has an impact on the estimated future cash flows of the investment. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgement, as well as changes in the fair value of individual instruments such as when their fair value at the reporting date falls below 90% of the instruments' amortised cost.

Further details on impairment of available-for-sale investments are presented in Notes 15 and 19.

6. Transition disclosures

6.1 Transitional Balance Sheet on adoption of IFRS 9

	31 December 2017 (IAS 39 presentation)	Reclassifications and re-measurements	1 January 2018 (revised for IFRS 9 adoption)
Assets	**€000**	**€000**	**€000**
Cash and balances with central banks	2,989,555	(5,872)	2,983,683
Loans and advances to banks	1,134,494	(20)	1,134,474
Derivative financial assets	18,027	-	18,027
Investments	676,173	(1,843)	674,330
Investments pledged as collateral	290,129	-	290,129
Loans and advances to customers	12,986,757	(318,318)	12,668,439
Balances with Group companies	1,067,856	-	1,067,856
Prepayments, accrued income and other assets	116,453	-	116,453
Stock of property	652,963	-	652,963
Property and equipment	199,596	-	199,596
Intangible assets	30,927	-	30,927
Investments in associates	97,293	-	97,293
Investment in subsidiaries	259,372	-	259,372
Deferred tax assets	383,492	-	383,492
Total assets	20,903,087	(326,053)	20,577,034
Liabilities			
Deposits by banks	486,049	-	486,049
Funding from central banks	930,000	-	930,000
Repurchase agreements	257,322	-	257,322
Derivative financial liabilities	50,970	-	50,970
Customer deposits	15,982,905	-	15,982,905
Balances with Group companies	286,722	-	286,722
Accruals, deferred income and other liabilities	243,523	(18,920)	224,603
Pending litigation, claims, regulatory and other matters	82,876	-	82,876
Subordinated loan stock	268,485	-	268,485
Deferred tax liabilities	20,616	-	20,616
Total liabilities	18,609,468	(18,920)	18,590,548
Equity			
Share capital	892,294	-	892,294
Share premium	551,368	-	551,368
Revaluation and other reserves	114,337	(8,366)	105,971
Retained earnings	735,620	(298,767)	436,853
Total equity	2,293,619	(307,133)	1,986,486
Total liabilities and equity	20,903,087	(326,053)	20,577,034

6. Transition disclosures (continued)

6.1 Transitional Balance Sheet on adoption of IFRS 9 (continued)

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. The Company elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. As permitted by IFRS 9 the Company has not restated comparative periods. The impact on the adoption date on 1 January 2018, was therefore recognised through the consolidated statement of changes in equity in the opening retained earnings and other components of equity as appropriate.

6.2 Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		€000		€000
Cash and balances with central banks	Loans and receivables (amortised cost)	2,989,555	Amortised cost	2,983,683
Loans and advances to banks	Loans and receivables (amortised cost)	1,134,494	Amortised cost	1,134,474
Derivative financial assets	FVPL	18,027	FVPL (mandatory)	18,027
Investments (including investments pledged as collateral)	Available-for-sale	916,420	FVOCI	909,310
	Loans and receivables (amortised cost)	48,658	Amortised cost	46,815
	FVPL	1,224	FVPL	8,334
Loans and advances to customers	Loans and receivables (amortised cost)	12,986,757	Amortised cost	12,278,577
			FVPL (mandatory)	389,862
Balances with Group companies	Loans and receivables (amortised cost)	1,067,856	Amortised cost	240,522
			FVPL (mandatory)	827,334
Other financial assets (included in 'Prepayments, accrued income and other assets' in balance sheet)	Loans and receivables (amortised cost)	69,486	Amortised cost	63,061
			FVPL (mandatory)	6,425

Financial liabilities				
Other financial liabilities and provisions for financial guarantees and commitments	N/a	191,781	N/a	172,861

There were no other changes to the classification and measurement of financial liabilities, namely deposits by banks, funding from central banks, repurchase agreements, derivative financial liabilities, customer deposits, subordinated loan stock and other financial liabilities included in 'Accruals, deferred income and other liabilities'. The carrying amount of these financial liabilities under IAS 39 and IFRS 9 is the same.

6. Transition disclosures (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9

For the adoption of IFRS 9 on 1 January 2018, the Company performed an assessment of its business models for managing financial assets and analysis of their cash flow characteristics, to determine their classification and measurement category. On the basis of the result of their classification and measurement category the Company has proceeded with the measurement of those financial assets under the new measurement requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

6. Transition disclosures (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount 31 December 2017	Re-classifications	Re-measurements		IFRS 9 carrying amount 1 January 2018
				ECL	Other	
Financial assets		**€000**	**€000**	**€000**	**€000**	**€000**
Amortised cost under IFRS 9						
Cash and balances with central banks						
Carrying amount under IAS 39		2,989,555				
Re-measurement: ECL allowance				(5,872)		
Carrying amount under IFRS 9						**2,983,683**
Loans and advances to banks						
Carrying amount under IAS 39		1,134,494				
Re-measurement: ECL allowance				(20)		
Carrying amount under IFRS 9						**1,134,474**
Investments (debt instruments)						
Carrying amount under IAS 39		48,658				
Re-measurement: ECL allowance				(1,843)		
Carrying amount under IFRS 9						**46,815**
Loans and advances to customers						
Carrying amount under IAS 39		12,986,757				
Reclassification: To FVPL (mandatory)	A		(388,971)			
Re-measurement: ECL allowance				(319,209)		
Carrying amount under IFRS 9						**12,278,577**
Other assets						
Carrying amount under IAS 39		69,486				
Reclassification: To FVPL (mandatory)			(6,425)			
Carrying amount under IFRS 9						**63,061**
Total financial assets measured at amortised cost		17,228,950	(395,396)	(326,944)	-	**16,506,610**
Fair value through profit or loss (FVPL) under IFRS 9						
Derivative financial assets						
Carrying amount under IAS 39 and under IFRS 9 (FVPL mandatory)		18,027				**18,027**
Investments – FVPL (debt instruments) (mandatory)						
Reclassification: From available-for-sale	B		8,010			
Carrying amount under IFRS 9						**8,010**
Investments – FVPL (equity instruments)						
Carrying amount under IAS 39		1,224				
Reclassification: from available-for-sale	C		324			
Reclassification: To FVOCI (equity instruments)	C		(1,224)			
Carrying amount under IFRS 9						**324**
Total investments at FVPL		1,224	7,110	-	-	**8,334**
Loans and advances to customers (mandatory FVPL)						
Carrying amount under IAS 39		-				
Reclassification: From loans and receivables (amortised cost)	A		388,971			
Re-measurement: Fair value					891	
Carrying amount under IFRS 9						**389,862**
Other assets (mandatory FVPL)						
Carrying amount under IAS 39		-				
Reclassification: from amortised cost			6,425			
Carrying amount under IFRS 9						**6,425**
Total financial assets measured at FVPL		-	395,396	-	891	**396,287**
Fair value through other comprehensive income (FVOCI) under IFRS 9						
Investments – FVOCI (debt instruments)						
Carrying amount under IAS 39		N/a				
Reclassification: from available for sale	D		901,192			
Re-measurement: ECL allowance						
Carrying amount under IFRS 9						**901,192**
Investments – FVOCI (equity instruments)						
Reclassification: from available for sale	C		6,894			
Reclassification: from FVPL	C		1,224			
Carrying amount under IFRS 9						**8,118**
Total financial assets measured at FVOCI		-	909,310	-	-	**909,310**

6. Transition disclosures (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

	Ref	IAS 39 carrying amount 31 December 2017	Re-classifications	Re-measurements		IFRS 9 carrying amount 1 January 2018
				ECL	Other	
Investments – Available-for-sale financial assets		**€000**	**€000**	**€000**	**€000**	**€000**
Carrying amount under IAS 39		916,420				
Reclassification: To FVPL – debt instruments (mandatory)	B		(8,010)			
Reclassification: To FVPL – equity instruments	C		(324)			
Reclassification: To FVOCI – equity instruments	C		(6,894)			
Reclassification: To FVOCI – debt instruments	D		(901,192)			
Carrying amount under IFRS 9						**N/a**
		916,420	(916,420)	-	-	-

Financial liabilities						
Amortised cost under IFRS 9						
Other liabilities						
Carrying amount under IAS 39		191,781				
Re-measurement: ECL allowance				(18,920)		
Carrying amount under IFRS 9						**172,861**
		191,781	-	(18,920)	-	**172,861**

A. Loans and advances to customers carried at amortised cost under IAS 39 of a carrying amount of €388,971 thousand as at 31 December 2017, failed to meet the SPPI criteria and, as a result, have been classified at FVPL on 1 January 2018 and re-measured then at fair value with an initial application impact of €891 thousand. The Company did not voluntarily designate any loans previously measured at amortised cost as financial assets at FVPL.

B. The Company has classified certain debt and non-equity instruments of a carrying value of €8,010 thousand that were previously classified as available-for-sale under IAS 39 as investments at FVPL as these instruments failed to meet the SPPI criteria.

C. The Company has made an irrevocable election to classify the majority of its equity investments of a carrying value of €6,894 thousand that were classified as available for sale under IAS 39 as equity instruments at FVOCI on transition to IFRS 9. The Company has also elected to classify at FVOCI under IFRS 9, equity investments which were classified at FVPL under IAS 39 of an amount of €1,224 thousand, as they were not held for trading on 1 January 2018.

D. Debt instruments that were classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9 since they meet the SPPI criteria and the Company concluded that apart from a small portion (refer to B above) these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets and have therefore been classified at FVOCI.

E. There is no impact on deferred tax on adoption of IFRS 9.

6. Transition disclosures (continued)

6.4 Impact on transition to IFRS 9: Financial instruments fair value reserve and accumulated losses

The impact on transition to IFRS 9 on financial instruments fair value reserve and accumulated losses is as follows:

	Retained earnings	Financial instruments fair value reserve
	€000	€000
Balance under IAS 39 (31 December 2017)	735,620	48,016
Recognition of IFRS 9 ECL including those measured of FVOCI (Note 6.5)	(308,024)	-
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	891	-
Debt instruments from available-for-sale to FVOCI	(854)	854
Debt instruments from available-for-sale to FVPL	2,508	(2,508)
Equity securities from available-for-sale to FVOCI	6,487	(6,487)
Equity securities from FVPL to FVOCI	225	(225)
Restated balance at 1 January 2018	**436,853**	**39,650**

6.5 Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9

The following table reconciles the opening loss provision allowances under IAS 39 and provisions for financial guarantees and commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Note 44.

	Provision under IAS 39 / Provision under IAS 37	Re-classification	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)	€000	€000	€000	€000
Cash and balances with central banks	-	-	5,872	**5,872**
Loans and advances to banks	24,998	-	20	**25,018**
Investments (debt securities) – amortised cost	-	-	1,843	**1,843**
Loans and advances to customers	3,364,963	(30,926)	319,209	**3,653,246**
Other assets	-	-	-	**-**
	3,389,961	(30,926)	326,944	**3,685,979**
Provisions for financial guarantees and commitments				
Financial guarantees and other	48,300	-	(15,233)	**33,067**
Other commitments	3,687	-	(3,687)	**-**
	51,987	-	(18,920)	**33,067**
Total	**3,441,948**	**(30,926)**	**308,024**	**3,719,046**

6. Transition disclosures (continued)

6.5 Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9 (continued)

Reclassification of an amount €30,926 thousand from loans and advances to customers relates to loan loss provisions under IAS 39 as at 31 December 2017 on loans and advances to customers which failed the SPPI criteria and, as a result, have been classified at FVPL.

As at 1 January 2018 the expected credit loss allowance on the other commitments is presented together with the loss allowance for expected credit losses on the associated loans and advances to customers since the expected credit losses related to the on and off balance sheet components cannot be separately identified.

7. Interest income and income similar to interest income

Interest income

	2018	2017
	€000	€000
Financial assets at amortised cost:		
- Loans and advances to customers	**538,730**	699,658
- Loans and advances to banks and central banks	**5,663**	12,743
- Debt securities	**5,445**	-
Debt securities at FVOCI	**19,973**	-
Investments available-for-sale	**-**	19,881
Investments classified as loans and receivables	**-**	2,706
	569,811	734,988

Income similar to interest income

Loans and advances to customers at FVPL	**19,720**	-
Derivative financial instruments	**35,680**	32,185
Other investments at FVPL	**-**	66
	55,400	32,251

8. Interest expense and expense similar to interest expense

Interest expense

	2018	2017
	€000	€000
Financial liabilities at amortised cost:		
- Customer deposits	**93,673**	126,455
- Funding from central banks and deposits by banks	**3,323**	3,652
- Subordinated loan stock	**23,325**	22,175
Repurchase agreements	**10,198**	10,207
Negative interest on loans and advances to banks and central banks	**14,142**	7,132
	144,661	169,621

Expense similar to interest expense

Derivative financial instruments	**46,188**	44,310

9. Fee and commission income and expense

Fee and commission income

	2018	2017
	€000	€000
Credit-related fees and commissions	**60,088**	69,404
Other banking commissions	**101,959**	98,640
Mutual funds and asset management fees	**2,121**	2,160
Other commissions	**1,859**	997
	166,027	171,201

Mutual funds and asset management fees relate to fiduciary and other similar activities.

Other banking commissions include commissions from credit card arrangements amounting to €36,593 thousand (2017: €41,016 thousand).

Fee and commission expense

	2018	2017
	€000	€000
Banking commissions	**11,626**	9,747
Mutual funds and asset management fees	**283**	244
	11,909	9,991

10. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

11. Net gains on financial instrument transactions and on disposal/dissolution of subsidiaries and associates

	2018	2017
	€000	€000
Trading portfolio:		
- equity securities	-	(48)
- derivative financial instruments	115	460
Other investments at FVPL:		
- debt securities	-	(57)
- equity securities	1,269	-
Net gains on disposal of FVOCI debt securities	19,484	-
Net gains on balances with Group companies (Note 23)	75,138	-
Net gains on disposal of available-for-sale investments:		
- equity securities	-	1,506
- debt securities	-	2,104
Net gains on loans and advances to customer at FVPL (Note 21)	16,125	-
Realised losses on disposal of loans	-	(12)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments (Note 20)	(10,028)	13,020
- hedged items (Note 20)	11,103	(12,792)
Gain/(loss) on disposal/dissolution of subsidiaries and associates	4,332	(465)
	117,538	3,716

The net gains on balances with Group companies of an amount of €52,000 thousand relate to reversal of impairment recognised in 2014 on the receivable from Kyprou Finance (NL) B.V., following the termination of the operations of the Romanian branch and the dissolution of Kyprou Finance NL (B.V.). Additionally, the amount of €23,138 thousand relates to fair value gains.

The gain on disposal/dissolution of subsidiaries for 2018 primarily relates to gain on disposal of Bank of Cyprus UK Limited (Note 50.2.1) and gain on dissolution of the branch in Romania (Note 49). The loss on disposal of subsidiaries for 2017, primarily relates to loss on disposal of Hotel New Montana SRL.

12. Other income

	2018	2017
	€000	€000
Dividend income – third parties	123	194
Profit/(loss) on sale and write-off of property and equipment and intangible assets	91	(204)
Rental income from investment properties	2,346	2,196
Rental income from stock of property	598	6,756
Other income	2,429	1,207
	5,587	10,149

Dividend income relates to Cyprus operations.

13. Staff costs

	2018	2017
	€000	€000
Salaries	**158,840**	150,038
Employer's contributions to state social insurance	**22,381**	21,054
Retirement benefit plan costs	**14,301**	14,703
	195,522	185,795
Restructuring costs – voluntary exit plans and other termination benefits	**-**	338
	195,522	186,133

During 2017 a small number of employees left the Company, under the same terms of the voluntary exit plan which took place during 2016. The cost of this exit amounted to €338 thousand.

The number of persons employed by the Company as at 31 December 2018 was 3,672 (2017: 3,646).

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance, the Company operates plans for the provision of additional retirement benefits as described below:

	2018	2017
	€000	€000
Defined benefit plans	**396**	1,506
Defined contribution plans	**13,905**	13,197
	14,301	14,703

Cyprus
The main retirement plan for the Company's permanent employees in Cyprus (99% of total Company employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2017: 9%) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

Greece
After the disposal of the Greek operations in 2013, a small number of employees of the Company's Greek branch continue to be members of the defined benefit plans.

United Kingdom
The Company has assumed in prior years the obligation of the defined benefit plan of its employees in the United Kingdom which was closed in December 2008 to future accrual of benefits for active members.

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Romania
The Company does not operate any retirement benefit plans in Romania.

Analysis of the results of the actuarial valuations for the defined benefit plans

Amounts recognised in the balance sheet	**2018**	2017
	€000	€000
Liabilities (Note 33)	**8,033**	9,761

One of the plans has a funded status surplus of €7,694 thousand (2017: €13,814 thousand) that is not recognised as an asset on the basis that the Company has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the years are presented below:

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2018	70,720	(74,773)	(4,053)	13,814	**9,761**
Loss on curtailment and settlement	48	-	48	-	**48**
Net interest expense/(income)	1,737	(1,743)	(6)	-	**(6)**
Past service cost arising over last year	354	-	354	-	**354**
Total amount recognised in the income statement	2,139	(1,743)	396	-	**396**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	6,280	6,280	-	**6,280**
Actuarial loss from changes in financial assumptions	(4,197)	-	(4,197)	-	**(4,197)**
Demographic assumptions	(560)	-	(560)	-	**(560)**
Experience adjustments	24	-	24	-	**24**
Change in asset ceiling	-	-	-	(6,120)	**(6,120)**
Asset adjustment	-	5,000	5,000	-	**5,000**
Total amount recognised in the OCI	(4,733)	11,280	6,547	(6,120)	**427**
Exchange differences	(713)	629	(84)	-	**(84)**
Contributions:					
Employer	-	(2,467)	(2,467)	-	**(2,467)**
Benefits paid from the plans	(3,944)	3,944	-	-	**-**
31 December 2018	63,469	(63,130)	339	7,694	**8,033**

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement / asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2017	92,144	(83,401)	8,743	14,000	**22,743**
Loss on curtailment and settlement	1,150	-	1,150	-	**1,150**
Net interest expense/(income)	2,260	(1,904)	356	-	**356**
Total amount recognised in the income statement	3,410	(1,904)	1,506	-	**1,506**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	(5,315)	(5,315)	-	**(5,315)**
Actuarial loss from changes in financial assumptions	(31)	-	(31)	-	**(31)**
Demographic assumptions	(2,041)	-	(2,041)	-	**(2,041)**
Experience adjustments	(4,187)	-	(4,187)	-	**(4,187)**
Change in asset ceiling	-	-	-	(186)	**(186)**
Total amount recognised in the OCI	(6,259)	(5,315)	(11,574)	(186)	**(11,760)**
Exchange differences	(2,551)	1,849	(702)	-	**(702)**
Contributions:					
Employer	-	(2,026)	(2,026)	-	**(2,026)**
Benefits paid from the plans	(16,024)	16,024	-	-	**-**
31 December 2017	70,720	(74,773)	(4,053)	13,814	**9,761**

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The actual return on plan assets for year 2018 was a loss of €4,537 thousand (2017: gain of €7,219 thousand).

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Company is exposed to a number of risks as outlined below:

Interest rate risk	The Company is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Company faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2018	2017
Equity securities	**47%**	48%
Debt securities	**43%**	42%
Loans and advances to banks	**10%**	10%
	100%	100%

The assets held by the funded plans include equity securities issued by Bank of Cyprus Holdings Public Limited Company, the fair value of which is as at 31 December 2018 €1,260 thousand (2017: €2,000 thousand).

The Company expects to make additional contributions to defined benefit plans of €2,448 thousand during 2019.

At the end of the reporting period, the average duration of the defined benefit obligation was 18.4 years (2017:19.8 years).

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Company during 2018 and 2017 are set out below:

2018	**Cyprus**	**Greece**	**UK**
Discount rate	**1.98%**	**1.40%**	**2.90%**
Inflation rate	**1.75%**	**1.75%**	**3.20%**
Future salary increases	**2.25%**	**2.00%**	**n/a**
Rate of pension increase	**2.00%**	**n/a**	**3.05%**
Life expectancy for pensioners at age 60	**23.5 years M 29.6 years F**	**n/a**	**n/a**
Life expectancy for pensioners at age 65	**n/a**	**n/a**	**22.7 years M 25.3 years F**

2017			
Discount rate	1.58%	1.30%	2.55%
Inflation rate	1.75%	1.75%	3.20%
Future salary increases	2.25%	2.00%	n/a
Rate of pension increase	2.00%	n/a	3.00%
Life expectancy for pensioners at age 60	23.5 years M 29.6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23.0 years M 24.5 years F

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Company's plans in the Eurozone (Cyprus and Greece) which comprise 2% of the defined benefit obligations, the Company adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Company's plan in the UK which comprises 98% of the defined benefit obligations, the Company adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Company, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

The impact of significant assumptions fluctuations on the defined benefit obligation as at 31 December 2018 and 2017 is presented below:

13. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

Variable	**2018**		2017	
	Change +0.5%	**Change -0.5%**	Change +0.5%	Change -0.5%
Discount rate	**-8.6%**	**9.1%**	-12.1%	13.0%
Inflation growth rate	**4.2%**	**-4.3%**	10.0%	-9.3%
Salary growth rate	**0%**	**0%**	0%	0%
Pension growth rate	**0.1%**	**-0.1%**	0.1%	-0.1%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-5.1%**	**5.1%**	-1.8%	2.2%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

14. Other operating expenses

	2018	2017
	€000	€000
Repairs and maintenance of property and equipment and stock of property	**20,222**	16,297
Other property-related costs	**11,375**	15,583
Operating lease rentals for property and equipment	**9,096**	9,143
Consultancy and other professional services fees	**15,158**	14,829
Insurance	**6,275**	7,761
Advertising and marketing	**13,118**	16,614
Depreciation of property and equipment (Note 25)	**7,476**	7,318
Amortisation of intangible assets (Note 26)	**10,591**	7,243
Communication expenses	**7,755**	7,458
Provisions and settlements of litigation, claims and provision for regulatory matters (Note 38)	**23,261**	92,939
Printing and stationery	**1,931**	2,440
Local cash transfer expenses	**2,991**	3,056
Other operating expenses	**37,919**	24,261
	167,168	224,942
Advisory and other restructuring costs	**51,053**	28,800
	218,221	253,742

14. Other operating expenses (continued)

Advisory and other restructuring costs comprise mainly fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate, (ii) the listing on the London Stock Exchange (relevant to 2017) and (iii) disposal of operations and non-core assets.

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge.

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Company, for audit and other professional services provided both in Cyprus and overseas as follows:

	2018	2017
	€000	€000
Audit of the financial statements of the Company	**1,462**	1,311
Other audit-related services	**307**	294
Tax services	**287**	298
Services related to the listing on the London Stock Exchange	**-**	114
Other services	**535**	493
	2,591	2,510

The following table discloses the fees (including taxes) to the independent auditors of the Company, for the audit and other professional services provided both in Cyprus and overseas for the Group.

	2018	2017
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**2,029**	2,416
Other audit-related services	**416**	407
Tax services	**473**	462
Services related to the listing on the London Stock Exchange	**-**	114
Other services	**561**	499
	3,479	3,898
Continuing operations	**3,442**	3,474
Discontinued operations	**37**	424
	3,479	3,898

15. Credit losses of financial instruments and impairment of non-financial instruments

	2018	2017
	€000	€000
Credit losses to cover credit risk on loans and advances to customers		
Impairment loss net of reversals on loans and advances to customers (Note 44.9)	**510,492**	935,321
Recoveries of loans and advances to customers previously written off	**(140,735)**	-
Changes in expected cash flows	**(37,756)**	-
Financial guarantees and commitments (Notes 44.8.1 and 44.8.2)	**(5,382)**	14,987
	326,619	950,308

Credit (gains)/losses of other financial instruments		
Amortised cost debt securities (Note 19)	**(1,011)**	-
FVOCI debt securities (Note 19)	**(268)**	-
Available-for-sale equity securities	**-**	70
Impairment of balances with Group companies	**-**	1,272
Loans and advances to banks	**711**	7,127
Loans and advances to central banks	**(5,872)**	-
Other financial assets (Note 28)	**5,370**	(1,895)
	(1,070)	6,574

Impairment of non-financial instruments		
Stock of property (Note 27)	**7,937**	35,932
Property held for own use (Note 25)	**-**	582
Investments in subsidiaries (Note 49)	**4,320**	57,611
Other non-financial assets	**1,368**	-
	13,625	94,125

16. Income tax

	2018	2017
	€000	€000
Cyprus special defence contribution	**13**	35
Deferred tax	**82,551**	67,040
Prior years' tax adjustments	**(2,815)**	1,390
Other tax (credits)/charges	**(390)**	1,430
	79,359	69,895

The reconciliation between the income tax expense and the (loss)/profit before tax as estimated using the current income tax rates is set out below:

	2018	2017
	€000	€000
Profit/(loss) before tax	**35,173**	(532,682)
Income tax at the normal tax rates in Cyprus	**4,410**	(66,550)
Income tax effect of:		
- expenses not deductible for income tax purposes	**10,377**	20,364
- income not subject to income tax	**(14,053)**	(12,056)
- differences between overseas income tax rates and Cyprus income tax rates	**-**	4,511
- reversal of previously recognised deferred tax asset	**81,720**	66,858
- losses on which deferred tax was not recognised	**110**	53,948
	82,564	67,075
Prior years' tax adjustments	**(2,815)**	1,390
Other tax (credits)/charges	**(390)**	1,430
	79,359	69,895

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2017: 12.5%).

Special defence contribution is payable on rental income at a rate of 3% (2017: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2017: 30%).

The Company's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2018 were: Greece 29% (2017: 29%) and Romania 16% (2017: 16%).

The Company is subject to income taxes in the various jurisdictions it operates and the calculation of the Company's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Company has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters, which are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

16. **Income tax** (continued)

The accumulated income tax losses are presented in the table below:

2018	**Total income tax losses**	**Income tax losses for which a deferred tax asset was recognised**	**Income tax losses for which no deferred tax asset was recognised**
	€000	**€000**	**€000**
Expiring within 5 years	**950,084**	**-**	**950,084**
Expiring by the end of 2028	**7,378,801**	**2,414,176**	**4,964,625**
	8,328,885	**2,414,176**	**5,914,709**

2017			
Expiring within 5 years	2,694,565	-	2,694,565
Expiring by the end of 2028	7,378,801	3,067,936	4,310,865
	10,073,366	3,067,936	7,005,430

The deferred tax asset relates to the Laiki Bank income tax losses transferred to the Company as a result of the acquisition of certain operations on 29 March 2013. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Company's acquisition of certain operations of Laiki Bank, these tax losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of the Company by 2028 at an income tax rate of 12.5%.

Recognition of deferred tax assets on unutilised income tax losses is supported by management's business forecasts, taking into account available information and making various assumptions on future growth rates of customer loans, deposits, funding evolution, loan impairment and pricing, and considering the recoverability of the deferred tax assets within their expiry period.

The assessment of the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Company performed its assessment for the recoverability of its deferred tax asset as at 31 December 2018 taking into account a range of both positive and negative evidence, including the Company's actual and historic performance, the key objectives of the Company's strategy as well as the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business and capital plan, approved by the Board, up to the end of 2022 and projections which have been extrapolated beyond 2022 until the tax losses expiry date end of 2028.

16. **Income tax** (continued)

The positive evidence, among others, includes:
- The Company's strong branch network in Cyprus
- The continuous improvement of the Cyprus economy and sovereign rating

The negative evidence, among others, includes:
- The absolute level of the DTA compared to the Group's equity (c. 13%) and the level of future profitability required for its utilisation
- The level of forecasting over the remaining 10 years of the tax losses expiry date
- Impact of Brexit and instability in the Eurozone
- Legislative changes and the likelihood of future developments and their impact on profitability

The financial projections have taken into account the key objectives of the Group's strategy which are set out below:
- Materially reduce the level of NPEs loans
- Further improve the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

The key assumptions and factors taken into consideration, amongst others, include the following:
- Reduction of NPEs
- Increase in new loan originations and loan repayments
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost, management of liquidity surplus and evolution of interest rate curves/forecasts
- Diversified income streams mainly due to increase in fee and commission income which is an area that the Group is intensifying its effort
- Reduction in the level of operating expenses mainly due to the implementation of digital transformation program underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time
- Decrease in the cost of risk, supported by the asset quality improvement and the recovery of the economy

The above assumptions are based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts. There were no changes in the key assumptions during the year compared to those of 2017.

The internal key variables include, amongst others, the Bank's strategy, plans and planned actions for (i) expansion of certain business lines and other income streams, (ii) capital and liquidity management, (iii) cost management, (iv) loan restructuring activity and NPE portfolio sales, (v) cost of funding and (vi) pricing of deposits and loans.

External key variables mainly include the interest rate evolution which impacts the local and international business activity of the Group, the Eurozone and Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework.

The recoverability assessment performed at 31 December 2018 resulted in an impairment of €79,000 thousand. For the remaining amount of the deferred tax asset of €301,772 thousand as at 31 December 2018, management has concluded that it is probable that there will be sufficient taxable profits in the future to recover the deferred tax asset by the end of 2028.

The Group's financial and capital plan used for the purposes of the 2018 recoverability assessment has been conservatively prepared and various assumptions and variables used are already stressed. The use of alternative assumptions/sensitivity analysis representing reasonably possible alternative outcomes, could impact the recognition of the deferred tax asset of the Group and the recovery period.

The Company has performed sensitivity analysis on the following key assumptions of DTA recoverability assessment for years 2019-2028. The table below shows the impact on DTA carrying value:

16. Income tax (continued)

Key assumption	**Increase / (decrease) of DTA carrying value**	
	2018	2017
	€million	€million
Reduction of yield on customer loans and advances by 10 bps	(14)	-
Increase in cost of customer deposits by 10 bps	(18)	-
Increase of ECL cost by 10 bps on gross loans	(11)	-
Increase of yield on customer loans and advances by 10 bps	13	21
Lower new loan origination by 10% of the forecasted growth	(12)	-
Slower pace of NPE decrease by 5% of the forecasted drop	(28)	-
Higher net commission income by 5% on average than the forecasted growth	10	15
Higher average Cost / Income ratio by 100 bps than the forecasted ratio	(8)	-

For year-end 2018, the sensitivity results that indicate a decrease in the carrying value of the DTA would not result in any increase in the recoverable period as the loss expiry date is 31 December 2028, which is the considered recoverable period. At the same time, the sensitivity results that indicate an increase in the carrying value of the DTA are not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

The recoverability assessment for year end 2017 indicated the recoverable period for deferred tax asset to be 31 December 2027, a year earlier than the expiry date of losses. As a result, the sensitivity results that indicated a decrease in the carrying value of the DTA did not have a material impact on its carrying value considering also that the recoverability assessment has shown sufficient headroom over and above the negative sensitivity impacts. The sensitivity results that indicated an increase in the carrying value of the DTA were not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

The sensitivity results that could lead to a decrease in the carrying value of the DTA are not individually significant enough to extent the recoverable period. The sensitivity results that could lead to a decrease in the carrying value of the DTA are not individually significant enough to extend the recoverable period since based on the recoverability assessment the tax losses are utilised based on their expiry date, end of 2028. At the same time, the sensitivity results that could lead to an increase in the carrying value of the DTA are not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period. At the same time, the sensitivity results that could lead to an increase in the carrying value of the DTA are not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of deferred tax assets into deferred tax credits. The law amendment covers the income tax losses transferred from Laiki Bank to the Company in March 2013. The law amendment, which entered into force on 15 March 2019, applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'. The legislation enacted on 1 March 2019 has not been taken into account for the purpose of the year end recoverability assessment. Further information is disclosed in Note 51.

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

16. **Income tax** (continued)

Deferred tax

The net deferred tax assets arises from:

	2018	2017
	€000	€000
Difference between capital allowances and depreciation	**(8,135)**	(7,304)
Property revaluation	**(12,758)**	(13,312)
Unutilised income tax losses carried forward	**301,772**	383,492
Net deferred tax assets	**280,879**	362,876

Deferred tax assets	**301,772**	383,492
Deferred tax liabilities	**(20,893)**	(20,616)
Net deferred tax assets	**280,879**	362,876

The deferred tax assets relate to operations in Cyprus.

The movement of the net deferred tax assets is set out below:

	2018	2017
	€000	€000
1 January	**362,876**	429,817
Deferred tax recognised in the income statement	**(82,551)**	(67,040)
Deferred tax recognised in the statement of comprehensive income	**554**	99
31 December	**280,879**	362,876

The Company offsets income tax assets and liabilities if and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities.

The analysis of the net deferred tax expense recognised in the income statement is set out below:

	2018	2017
	€000	€000
Difference between capital allowances and depreciation	**831**	182
Reversal of previously recognised deferred tax assets	**81,720**	66,858
	82,551	67,040

The analysis of the net deferred tax recognised in other comprehensive income in the statement of comprehensive income is set out below:

	2018	2017
	€000	€000
Timing differences on property revaluation – income	**554**	99

17. Earnings per share

	2018	2017
	€000	€000
Basic and diluted losses per share		
Loss for the year (€ thousand)	**(44,186)**	(602,577)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8,922,945**	8,922,945
Basic and diluted losses per share (€ cent)	**(0.5)**	(6.8)

18. Cash, balances with central banks and loans and advances to banks

	2018	2017
	€000	€000
Cash	**153,667**	143,327
Balances with central banks	**4,456,615**	2,846,228
	4,610,282	2,989,555

Loans and advances to banks	**440,198**	1,134,494
Allowance for expected credit losses	**(731)**	-
	439,467	1,134,494

An analysis of the movement of the gross carrying amount and ECL of balances with central banks is presented in the table below:

	Gross carrying amount	ECL
	Stage 1	Stage 1
2018	**€000**	**€000**
1 January	2,846,228	(5,872)
Net increase	1,610,387	-
Changes to models and inputs used for ECL calculation	-	5,872
31 December	**4,456,615**	**-**

An analysis of the movement of the gross carrying amount of loans and advances to banks is presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
2018	**€000**	**€000**	**€000**	**€000**
1 January	1,101,490	-	58,002	**1,159,492**
Net increase	(661,292)	-	(58,002)	**(719,294)**
31 December	**440,198**	**-**	**-**	**440,198**

An analysis of the movement of the change on the ECL of the above financial assets is presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
2018	**€000**	**€000**	**€000**	**€000**
1 January	-	-	(24,998)	**(24,998)**
Impact of adopting IFRS 9 at 1 January 2018	(20)	-	-	**(20)**
Restated balance at 1 January	(20)	-	(24,998)	**(25,018)**
Changes to models and inputs used for ECL calculation	(711)	-	-	**(711)**
Decrease	-	-	24,998	**24,998**
31 December	**(731)**	**-**	**-**	**(731)**

18. Cash, balances with central banks and loans and advances to banks (continued)

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2018 which amount to €162,675 thousand (2017: €152,538 thousand) (Note 41).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 44.13.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

19. Investments

	2018	2017
	€000	€000
Investments		
Investments mandatorily measured at FVPL	**9,800**	1,224
Investments at FVOCI	**210,852**	-
Investments at amortised cost	**393,083**	-
Investments available-for-sale	**-**	626,291
Investments classified as loans and receivables	**-**	48,658
	613,735	676,173

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	2018	2017
	€000	€000
Investments pledged as collateral		
Investments at FVOCI	**600,291**	-
Investments at amortised cost	**137,296**	-
Investments available-for-sale	**-**	290,129
	737,587	290,129

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

The maximum exposure to credit risk for debt securities is disclosed Note 44.1 and the debt securities' price risk sensitivity analysis is disclosed in Note 45.

There were no reclassifications of investments during the year.

The credit rating analysis of investments is disclosed in Note 44.13.

19. **Investments** (continued)

Investments at fair value through profit or loss

	Investments mandatorily measured at FVPL		Other investments at fair value through profit or loss		Total	
	2018	2017	**2018**	2017	**2018**	2017
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**9,106**	-	**-**	-	**9,106**	-
Equity securities	**381**	1,224	**-**	-	**381**	1,224
Mutual funds	**313**	-	**-**	-	**313**	-
	9,800	1,224	**-**	-	**9,800**	1,224
Debt securities						
Cyprus government	**500**	-	**-**	-	**500**	-
Bank and other corporations	**8,606**	-	**-**	-	**8,606**	-
	9,106	-	**-**	-	**9,106**	-
Unlisted	**9,106**	-	**-**	-	**9,106**	-
Equity securities						
Listed on Cyprus Stock Exchange	**-**	1,224	**-**	-	**-**	1,224
Listed on other stock exchanges	**381**	-	**-**	-	**381**	-
	381	1,224	**-**	-	**381**	1,224
Mutual funds						
Unlisted	**313**	-	**-**	-	**313**	-

The investments classified as mandatory measured at FVPL are classified as such since they failed to meet the SPPI criteria.

The unlisted mutual funds are presented in Level 3 hierarchy in Note 21.

19. **Investments** (continued)

Investments at FVOCI

	2018	2017
	€000	€000
Debt securities	**806,122**	-
Equity securities (including preference shares)	**5,021**	-
	811,143	-

Debt securities		
Cyprus government	**316,044**	-
Other governments	**299,876**	-
Banks and other corporations	**190,202**	-
	806,122	-
Listed on other stock exchanges	**806,122**	-
Geographic dispersion by country of issuer		
Cyprus	**316,044**	-
France	**282,691**	-
Other European countries	**81,011**	-
Supranational organisations	**20,049**	-
Other countries	**106,327**	-
	806,122	-

Equity securities (including preference shares)		
Listed on Cyprus Stock Exchange	**1,388**	-
Listed on other stock exchanges	**167**	-
Unlisted	**3,466**	-
	5,021	-

19. Investments (continued)

Investments at FVOCI (continued)

An analysis of the movement of debt instruments before ECL is presented in the table below:

2018	Stage 1
	€000
1 January	902,046
New assets acquired in the year	186,605
Assets derecognised and redeemed in the year	(251,498)
Change in fair value	(33,782)
Interest accrued	(4,428)
Foreign exchange adjustments	7,765
31 December	**806,708**

An analysis of changes on the ECL is presented in the table below:

2018	Stage 1
	€000
1 January	(854)
Changes to models and inputs used for ECL calculation (Note 15)	268
31 December	**(586)**

At 1 January 2018 the Company irrevocably made the election to classify its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value included in the table above amounts to €5,021 thousand at 31 December 2018 and is equal to their fair value. The dividend income amounts to €123 thousand for the year 2018 and has been recognised in the income statement.

During the year 2018 an amount of €5,451 thousand of equity investments measured at FVOCI have been disposed of as part of the Group's strategy to dispose of non-core assets. The cumulative gain transferred to retained earnings amounts to €173 thousand. There were no other transfers from OCI to retained earnings during the year.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €126 thousand at 31 December 2018. The fair value gain that would have been recognised in the consolidated income statement if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €217 thousand.

19. Investments (continued)

Investments at amortised cost

	2018	2017
	€000	€000
Debt securities	**530,379**	-
Cyprus government	**119,189**	-
Other governments	**123,799**	-
Banks and other corporations	**103,457**	-
European Financial Stability Facility and European Investment Fund	**183,934**	-
	530,379	-
Listed on the Cyprus Stock Exchange	**48,292**	-
Listed on other stock exchanges	**482,087**	-
	530,379	-
Geographic dispersion by country of issuer		
Cyprus	**119,189**	-
Germany	**64,184**	-
Other European countries	**69,814**	-
Other countries	**80,190**	-
UK	**13,068**	-
Supranational organisations	**183,934**	-
	530,379	-

An analysis of changes in the gross carrying amount (before ECL) is presented in the table below:

2018	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
1 January	-	48,658	**48,658**
New assets acquired in the year	522,398	-	**522,398**
Assets derecognised and redeemed in the year	(43,000)	-	**(43,000)**
Fair value due to hedging relationship	58	530	**588**
Accrued interest	2,773	(206)	**2,567**
31 December	482,229	48,982	**531,211**

19. Investments (continued)

Investments at amortised cost (continued)

An analysis of changes on the ECL is presented in the table below:

2018	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
1 January	-	(1,843)	**(1,843)**
Change to models and inputs used for ECL calculation (Note 15)	(142)	1,153	**1,011**
31 December	**(142)**	**(690)**	**(832)**

Investments available-for-sale

	2018	2017
	€000	€000
Debt securities	-	901,692
Equity securities (including preference shares)	-	14,341
Mutual funds	-	387
	-	916,420

Debt securities	**2018**	2017
	€000	€000
Cyprus government	-	451,029
French government	-	281,979
Other governments	-	22,462
Banks and other corporations	-	146,222
	-	901,692
Listed on the Cyprus Stock Exchange	-	451,029
Listed on other stock exchanges	-	450,163
Unlisted	-	500
	-	901,692
Geographic dispersion by country of issuer		
Cyprus	-	451,529
France	-	281,979
Other European Union countries	-	75,573
European Financial Stability Facility and European Investment Fund	-	11,443
Supranational organisations	-	9,058
Other countries	-	72,110
	-	901,692

19. **Investments** (continued)

Investments available-for-sale (continued)

Equity securities	**2018**	2017
	€000	€000
Listed on the Cyprus Stock Exchange	**-**	5,023
Listed on other stock exchanges	**-**	546
Unlisted	**-**	8,772
	-	14,341

At 31 December 2017 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Available-for-sale mutual funds were mainly unlisted and issued in other countries.

Investments classified as loans and receivables

At 31 December 2017 investments classified as loans and receivables amounted to €48,658 thousand. They were issued by the Cyprus government and they were listed on the CSE.

20. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2018			2017		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**92,087**	**271**	**2,808**	94,271	375	115
Currency swaps	**1,219,749**	**3,405**	**6,342**	1,455,855	1,103	14,160
Interest rate swaps	**57,652**	**471**	**422**	106,268	216	873
Currency options	**12,704**	**8**	**382**	396	18	402
Interest rate caps/floors	**1,650,000**	**462**	**-**	-	-	-
	3,032,192	**4,617**	**9,954**	1,656,790	1,712	15,550
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,016,083**	**20,137**	**29,029**	1,171,424	16,315	35,420
	1,016,083	**20,137**	**29,029**	1,171,424	16,315	35,420
Total	**4,048,275**	**24,754**	**38,983**	2,828,214	18,027	50,970

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, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

20. Derivative financial instruments (continued)

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a small portion of the derivatives' notional amount (positive market value of the derivative contract) compared to the total notional amount of the derivative contracts. In order to manage credit risk, the Company sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

Interest rate risk is explained in Note 45. The interest rate risk is managed through the use of plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Company converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Company converts floating rate assets/liabilities to fixed.

Currency risk is explained in Note 45. In order to eliminate the risk, the Company hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

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.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

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.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either buy or sell the underlying values at a specified price or level on or before a specified date.

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

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Company's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Company's exposure to credit or market risk.

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

Hedge accounting

The Company elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Company implements the amended IFRS 7 hedge disclosure requirements.

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Company also uses derivatives for economic hedging (hedging the changes in interest rates, exchange rates or other risks) 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.

20. Derivative financial instruments (continued)

Hedge accounting (continued)

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the income statement.

Fair value hedges
The Company uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI and fixed rate customer loans and deposits.

Hedges of net investments
The Company's balance sheet is affected by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas branches. The Company hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas associates and joint ventures and forward exchange rate contracts.

As at 31 December 2018, deposits amounting to €9,843 thousand (2017: €9,819 thousand) have been designated as hedging instruments.

2018	**Gains/(losses) attributable to hedged risk**		**Hedged in-effectiveness**
	Hedged items	**Hedging instrument**	
Derivatives qualifying for hedge accounting	€000	€000	€000
Fair value hedges			
- Interest rate swaps	11,103	(10,028)	(1,075)

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

2018	**Carrying amount of hedged items**		**Accumulated amount of fair value hedging gains/(losses) on the hedged item**	
	Hedged items	**Hedging instrument**		
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	€000	€000	€000	€000
Fair value hedges - Interest rate swaps				
- debt securities	770,768	-	11,657	-
- subordinated loan stock	-	270,930	-	(555)
Total	**770,768**	**270,930**	**11,657**	**(555)**

For assets hedged using fair value hedges the fixed rate is 3.08% and the floating rate is 1.65%. For liabilities hedged using fair values hedges, the fixed rate is 9.25% and the floating rate 8.86%.

20. **Derivative financial instruments** (continued)

Hedge accounting (continued)

The maturity of the Company's contract amount of the derivatives is presented in the table below:

2018	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total contract amount
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	81,378	10,263	446	-	-	**92,087**
Currency swaps	1,179,201	40,102	446	-	-	**1,219,749**
Interest rate swaps	-	-	-	57,652	-	**57,652**
Currency options	12,704	-	-	-	-	**12,704**
Interest rate caps/floors	-	-	-	1,650,000	-	**1,650,000**
	1,273,283	**50,365**	**892**	**1,707,652**	**-**	**3,032,192**
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	-	-	77,619	729,702	208,762	**1,016,083**
	-	**-**	**77,619**	**729,702**	**208,762**	**1,016,083**
Total	**1,273,283**	**50,365**	**78,511**	**2,437,354**	**208,762**	**4,048,275**

21. Fair value measurement

The following table presents the carrying value and fair value of the Company's financial assets and liabilities.

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	€000	**€000**	€000	€000
Financial assets				
Cash and balances with central banks	**4,610,282**	**4,610,282**	2,989,555	2,989,555
Loans and advances to banks	**439,467**	**433,961**	1,134,494	1,133,759
Investments mandatorily measured at FVPL	**9,800**	**9,800**	1,224	1,224
Investments at FVOCI	**811,143**	**811,143**	-	-
Investments at amortised cost	**530,379**	**538,631**	-	-
Investments available-for-sale	**-**	**-**	916,420	916,420
Investments classified as loans and receivables	**-**	**-**	48,658	55,104
Derivative financial assets	**24,754**	**24,754**	18,027	18,027
Loans and advances to customers	**10,906,576**	**10,773,648**	12,986,757	13,770,094
Balances with Group companies	**916,856**	**916,856**	1,067,856	1,067,856
Financial assets classified as held for sale	**1,154,108**	**1,154,108**	-	-
Other financial assets	**112,518**	**112,518**	69,486	69,486
	19,515,883	**19,385,701**	19,232,477	20,021,525
Financial liabilities				
Obligations to central banks and deposits by banks	**1,258,816**	**1,258,816**	1,416,049	1,416,049
Repurchase agreements	**248,945**	**263,511**	257,322	281,951
Derivative financial liabilities	**38,983**	**38,983**	50,970	50,970
Customer deposits	**16,843,558**	**16,849,222**	15,982,905	16,008,225
Balances with Group companies	**105,148**	**105,148**	286,722	286,722
Subordinated loan stock	**270,930**	**276,527**	268,485	300,980
Other financial liabilities	**127,657**	**127,657**	139,794	139,794
	18,894,037	**18,919,864**	18,402,247	18,484,691

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

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

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

21. **Fair value measurement** (continued)

For assets and liabilities that are recognised in the Financial Statements at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments and non-financial assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and the Company's own credit quality respectively.

The Company calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Company, to the Company's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Company calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Company and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard LGD assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Company does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments at FVPL, investments at FVOCI and investments at amortised cost
Investments which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

Loans and advances to customers
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan.

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

21. **Fair value measurement** (continued)

Repurchase agreements
Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Company is greater than the amount borrowed, the fair value calculation of these repurchase agreements only takes into account the time value of money.

Loans and advances to banks
Loans and advances to banks with maturity over one year are discounted using an appropriate risk free rate plus the credit spread of each counterparty. For short-term lending, the fair value is approximated by the carrying value.

Deposits by banks
Since almost all deposits by banks are very short-term, the fair value is an approximation of the carrying value.

Subordinated loan stock
The current issue of the Company is liquid with quoted prices in an active market.

Investment properties
The fair value of investment properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

21. **Fair value measurement** (continued)

The following table presents the fair value measurement hierarchy of the Company's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

2018	Level 1	Level 2	Level 3	**Total**
Assets measured at fair value	€000	€000	€000	**€000**
Freehold property				
Offices and other commercial properties	-	-	184,571	**184,571**
Loans and advances to customers measured at FVPL	-	-	395,572	**395,572**
Trading derivatives				
Forward exchange rate contracts	-	271	-	**271**
Currency swaps	-	3,405	-	**3,405**
Interest rate swaps	-	471	-	**471**
Currency options	-	8	-	**8**
Interest rate caps/floors	-	462	-	**462**
	-	4,617	-	**4,617**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	20,137	-	**20,137**
Investments mandatorily measured at FVPL	381	-	9,419	**9,800**
Investments at FVOCI	811,143	-	-	**811,143**
Balances with Group companies	-	-	761,529	**761,529**
	811,524	24,754	1,351,091	**2,187,369**
Other financial assets not measured at fair value				
Loans and advances to banks	-	433,961	-	**433,961**
Balances with Group companies	-	-	155,327	**155,327**
Investments at amortised cost	484,417	54,214	-	**538,631**
Loans and advances to customers	-	-	10,773,648	**10,773,648**
	484,417	488,175	10,928,975	**11,901,567**

21. Fair value measurement (continued)

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €12,134 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €5,263 thousand in their fair value. For investments mandatorily measured at fair value through profit and loss categorised as Level 3, for one investment with a carrying amount of €8,606 thousand, a change in the conversion factor by 10% would result in a change in the value of the debt securities by €861 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 45.

2018	Level 1	Level 2	Level 3	**Total**
Liabilities measured at fair value				
Trading derivatives	€000	€000	€000	**€000**
Forward exchange rate contracts	-	2,808	-	**2,808**
Currency swaps	-	6,342	-	**6,342**
Interest rate swaps	-	422	-	**422**
Currency options	-	382	-	**382**
	-	9,954	-	**9,954**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	29,029	-	**29,029**
Balances with Group companies	-	-	105,148	**105,148**
	-	38,983	105,148	**144,131**
Other financial liabilities not measured at fair value				
Deposits by banks	-	428,816	-	**428,816**
Repurchase agreements	-	263,511	-	**263,511**
Customer deposits	-	-	16,849,222	**16,849,222**
Subordinated loan stock	276,527	-	-	**276,527**
	276,527	692,327	16,849,222	**17,818,076**

21. **Fair value measurement** (continued)

2017	Level 1	Level 2	Level 3	**Total**
Assets measured at fair value	€000	€000	€000	**€000**
Freehold properties				
Offices and other commercial properties	-	-	183,539	**183,539**
	-	-	183,539	**183,539**
Trading derivatives				
Forward exchange rate contracts	-	99	-	**99**
Currency swaps	-	1,103	-	**1,103**
Interest rate swaps	-	216	-	**216**
Currency options	-	18	-	**18**
	-	1,436	-	**1,436**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	16,315	-	**16,315**
Net investments-forward exchange rate contracts	-	276	-	**276**
	-	16,591	-	**16,591**
Investments at fair value through profit or loss				
Trading investments	1,224	-	-	**1,224**
Investments available-for-sale	907,232	-	9,188	**916,420**
	908,456	18,027	192,727	**1,119,210**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1,133,759	-	**1,133,759**
Investments at amortised cost	-	55,104	-	**55,104**
Loans and advances to customers	-	-	13,770,094	**13,770,094**
Balances with Group companies	-	-	1,067,856	**1,067,856**
	-	1,188,863	14,837,950	**16,026,813**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €7,123 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €712 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 45.

21. Fair value measurement (continued)

2017 **Liabilities measured at fair value**	Level 1	Level 2	Level 3	**Total**
Trading derivatives	€000	€000	€000	**€000**
Forward exchange rate contracts	-	114	-	**114**
Currency swaps	-	14,160	-	**14,160**
Interest rate swaps	-	873	-	**873**
Currency options	-	402	-	**402**
	-	15,549	-	**15,549**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	35,420	-	**35,420**
Net investments-forward exchange rate contracts	-	1	-	**1**
	-	35,421	-	**35,421**
	-	50,970	-	**50,970**
Other financial liabilities not measured at fair value				
Deposits by banks	-	486,049	-	**486,049**
Repurchase agreements	-	281,951	-	**281,951**
Customer deposits	-	-	16,008,225	**16,008,225**
Balances with Group companies	-	-	286,722	**286,722**
Subordinated loan stock	300,980	-	-	**300,980**
	300,980	768,000	16,294,947	**17,363,927**

The cash and balances with central banks and the funding from central banks are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently and they are categorised as Level 2. The carrying value of other assets and other liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3. The other assets and other liabilities are of a financial nature.

During the years 2018 and 2017 there were no significant transfers between Level 1 and Level 2.

21. Fair value measurement (continued)

Movements in Level 3 assets measured at fair value

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Company requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 assets which are measured at fair value is presented below:

	2018				2017		
	Own use properties	**Loans and advances to customers**	**Financial instruments**	**Balances with Group companies**	Investment properties	Own use properties	Financial instruments
	€000	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**183,539**	**389,862**	**9,188**	**1,067,856**	11,625	181,754	7,400
Additions	**2,638**	**35,601**	**-**	**-**	-	1,008	724
Disposals	**-**	**-**	**-**	**-**	(10,000)	-	(572)
Transfers from stock of property (Note 27)	**-**	**-**	**-**	**-**	-	129	-
Net gains from fair value changes recognised in the statement of other comprehensive income	**-**	**-**	**231**	**-**	-	2,808	2,267
Depreciation charge for the year	**(1,606)**	**-**	**-**	**-**	-	(1,578)	-
Impairment charge for the year (Note 25)	**-**	**-**	**-**	**-**	-	(582)	-
Revaluation losses	**-**	**-**	**-**	**-**	(1,625)	-	-
Net gains on loans and advances to customers measured at FVPL (Note 11)	**-**	**16,125**	**-**	**-**	-	-	-
Net gains on balances with Group companies measured at FVPL (Note 11)	**-**	**-**	**-**	**75,138**	-	-	-
Repayments	**-**	**(62,809)**	**-**	**(226,138)**	-	-	-
Interest on loans	**-**	**16,793**	**-**	**-**	-	-	-
Foreign exchange adjustments	**-**	**-**	**-**	**-**	-	-	(631)
31 December	**184,571**	**395,572**	**9,419**	**916,856**	-	183,539	9,188

21. Fair value measurement (continued)

Valuation policy and sensitivity analysis

Own use properties

The valuation technique mainly applied by the Company is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Company also utilises the income capitalisation approach. The key inputs used for the valuations of own use properties are presented in the tables below.

21. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	2018	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m^2**	**m^2**	**Years**
Cyprus	**184,571**	€26-€277	n/a	€821-€1,895	6%	€600-€6,557	€145-€1,220	390-51,947	122-11,109	19-78

21. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	2017	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m^2**	**m^2**	**Years**
Cyprus	**183,539**	€26-€277	n/a	€821-€1,895	6%	€600-€6,557	€145-€1,220	390-51,947	122-11,109	18-77

Sensitivity analysis
Most of the Company's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach would result in a significantly higher/lower fair value of the properties.

22. Loans and advances to customers

	2018	2017
	€000	€000
Gross loans and advances to customers measured at amortised cost	**12,357,454**	16,351,720
Allowance for ECL/provisions for impairment of loans and advances to customers (Note 44.9)	**(1,846,450)**	(3,364,963)
Loans and advances to customers measured at amortised cost	**10,511,004**	12,986,757
Loans and advances to customers measured at FVPL	**395,572**	-
	10,906,576	12,986,757

Loans and advances to customers pledged as collateral are disclosed in Note 46.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL and of the provisions for impairment of loans and advances to customers are set out in Note 44.

23. Balances and transactions with Group companies

Receivable balances with Group companies

Name of Group company	**2018**	2017
	€000	€000
The Cyprus Investment and Securities Corporation Ltd (CISCO)	**2,198**	3,451
General Insurance of Cyprus Ltd	**1,122**	606
EuroLife Ltd	**867**	527
Kermia Ltd	**1,978**	1,978
Finerose Properties Ltd	**70**	60
Hydrobius Ltd	**22,985**	27,754
Bank of Cyprus (Channel Islands) Ltd	**-**	3
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	**15,298**	29,580
MC Investment Assets Management LLC	**2,631**	2,631
Kyprou Finance (NL) B.V.	**-**	57,136
Bank of Cyprus UK Ltd	**-**	29,445
Obafemi Holdings Ltd	**-**	6,534
S.Z. Eliades Leisure Ltd	**5,108**	4,114
Bank of Cyprus Holding PLC	**18**	-
Fortuna Astrum Ltd	**7,528**	9,283
Stamoland Properties Ltd	**5,702**	6,015
Nicosia Mall Holdings (NMH) Limited	**89,822**	61,405
Group property companies in Cyprus	**760,512**	826,380
Other Group companies in Cyprus	**1,017**	954
Total	**916,856**	1,067,856

23. Balances and transactions with Group companies (continued)

2018	**Gross carrying amount**	**ECL**
	€000	**€000**
Stage 1	11,885	-
Stage 3	95,649	54,665
POCI	102,458	-
Total balances with Group Companies at amortised cost	209,992	54,665
Balances with Group Companies measured at FVPL	761,529	-
	971,521	**54,665**

The classification of the receivable balances with related companies depends on how these are managed as part of the business model the Company operates under, and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)).

The ECL relates to impairments recognised in prior years.

The net gains on balances with Group companies during 2018 amount to €75,138 thousand, which relate to fair value amounting to €23,138 thousand and €52,000 thousand reversal of impairment recognised in 2014 on the receivable balance from Kyprou Finance (NL) B.V (Note 11).

	2017
	€000
Neither past due nor impaired	762,785
Impaired	305,071
Total	1,067,856

In November 2018, the Company disposed of its subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Ltd. As at the reporting date, Kyprou Finance is in the process of dissolution. Further information is disclosed in Notes 49 and 50.2.

23. Balances and transactions with Group companies (continued)

In 28 September 2017, the Company acquired a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Further information is disclosed in Note 50.3.1.

Payable balances with Group companies

Name of Group company	2018	2017
	€000	€000
JCC Payment Systems Ltd	**22,407**	20,561
The Cyprus Investment and Securities Corporation Ltd (CISCO)	**4,048**	6,528
General Insurance of Cyprus Ltd	**12,307**	17,447
EuroLife Ltd	**27,360**	27,978
Kermia Properties & Investments Ltd	**5,692**	5,710
Kermia Ltd	**4,502**	3,255
Bank of Cyprus (Channel Islands) Ltd	**-**	63
Kyprou Zois (branch of EuroLife Ltd)	**1,249**	575
Kyprou Commercial S.A.	**1,651**	1,651
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	**1,284**	12,380
MC Investment Assets Management LLC	**1,507**	1,852
Cytrustees Investment Public Company Ltd	**64**	1,247
Kyprou Finance (NL) B.V.	**-**	112,244
Bank of Cyprus UK Ltd	**-**	64,036
Nicosia Mall Holdings (NMH) Limited	**840**	4,084
BOC Asset Management Ltd	**354**	375
Bank of Cyprus Holdings Public Limited Company	**734**	143
Obafemi Holdings Ltd	**256**	229
Group property companies in Cyprus	**1,475**	-
Group property companies in Romania	**-**	135
Other Group companies in Cyprus	**19,418**	6,229
Total	**105,148**	286,722

23. Balances and transactions with Group companies (continued)

Credit balances with Bank of Cyprus UK Ltd at 31 December 2017 include amounts of €35,446 in regards to UK regulatory matters due by the Company to Bank of Cyprus UK Ltd. Further information is disclosed in Note 38.

Dividends received from subsidiary companies and associates

	2018	2017
	€000	€000
EuroLife Ltd	18,000	13,000
General Insurance of Cyprus Ltd	12,000	10,000
JCC Payment Systems Ltd	3,750	5,250
Kermia Properties & Investments Ltd	55	548
Kermia Ltd	-	271
Labancor Ltd	167	41
CNP Cyprus Insurance Holdings Ltd	5,362	774
	39,334	29,884

Transactions with Group companies

	2018	2017
	€000	€000
Interest income	18,725	14,975
Interest expense	1,462	2,315
Fee and commission income	6,114	5,042
Other income	222	299
Other operating expenses	17,323	2,739

24. Investments in associates

Carrying value of the investments in associates

	Percentage holdings	2018	2017
	(%)	€000	€000
CNP Cyprus Insurance Holdings Ltd	49.9	95,068	95,068
Interfund Investments Plc	-	-	2,225
Aris Capital Management LLC	30.0	-	-
Rosequeens Properties Limited	33.3	-	-
Rosequeens Properties SRL	33.3	-	-
M.S. (Skyra) Vassas Ltd	15.0	-	-
D.J. Karapatakis & Sons Limited	7.5	-	-
Rodhagate Entertainment Ltd	7.5	-	-
Fairways Automotive Holdings Ltd	45.0	-	-
		95,068	97,293

Investments in associates

CNP Cyprus Insurance Holdings Ltd
As part of the acquisition of certain operations of Laiki Bank in 2013, 49.9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Company.

The main financial highlights of the associate are as follows:

	2018	2017
	€000	€000
Total assets	717,515	707,796
Total liabilities	(487,786)	(475,794)
Net assets, including value of in-force business	229,729	232,002

CNP Cyprus Insurance Holdings Ltd holds deposits with the Company amounting to €21,055 thousand (2017: €19,547 thousand). The transactions between CNP Cyprus Insurance Holdings Ltd and the Company are presented in the table below:

	2018	2017
	€000	€000
Interest expense paid by the Company	129	139
Other expenses paid by the Company	92	92
Other income received by the Company	1	-

Interfund Investments Plc
In May 2018, the Company sold its holding of 23.1% in its associate Interfund Investment PLC, which is a closed end investment company in Cyprus, listed in the CSE. The loss on disposal amounts to €191 thousand.

24. Investments in associates (continued)

Investment in associates (continued)

Rosequeens Properties Limited and Rosequeens Properties SRL
The Company effectively owns 33.3% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Company fully impaired its investment during previous years.

Aris Capital Management LLC
The Company's holding in Aris Capital Management LLC of 30.0% was transferred to the Company following the acquisition of certain operations of Laiki Bank. The investment is considered to be fully impaired and its value is restricted to the previous years.

M.S. (Skyra) Vassas Ltd
In the context of its loan restructuring activities, the Company acquired 15.0% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Company considers that it exercises significant influence over the Skyra Vassas group as the Company has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
In the context of its loan restructuring activities, the Company acquired 7.5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Company considers that it exercises significant influence over the two companies as the Company has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

Fairways Automotive Holdings Ltd
In the context of its loan restructuring activities, the Company acquired 45.0% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Company considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

25. Property and equipment

2018	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	184,774	14,822	**199,596**
Additions	4,031	6,757	**10,788**
Disposals and write-offs	-	(31)	**(31)**
Depreciation charge for the year (Note 14)	(2,233)	(5,243)	**(7,476)**
Net book value at 31 December	**186,572**	**16,305**	**202,877**

1 January 2018			
Cost or valuation	219,528	103,710	**323,238**
Accumulated depreciation	(34,754)	(88,888)	**(123,642)**
Net book value	**184,774**	**14,822**	**199,596**

25. Property and equipment (continued)

	Property	Equipment	**Total**
	€000	€000	**€000**
31 December 2018			
Cost or valuation	223,559	106,122	**329,681**
Accumulated depreciation	(36,987)	(89,817)	**(126,804)**
Net book value	**186,572**	**16,305**	**202,877**

2017	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	183,741	16,147	**199,888**
Additions	1,324	3,601	**4,925**
Revaluation	2,808	-	**2,808**
Transfers from stock of property (Note 27)	129	-	**129**
Disposals and write-offs	(35)	(219)	**(254)**
Depreciation charge for the year (Note 14)	(2,611)	(4,707)	**(7,318)**
Impairment charge for the year (Note 15)	(582)	-	**(582)**
Net book value at 31 December	**184,774**	**14,822**	**199,596**

1 January 2017			
Cost or valuation	219,939	105,716	**325,655**
Accumulated depreciation	(36,198)	(89,569)	**(125,767)**
Net book value	**183,741**	**16,147**	**199,888**

	Property	Equipment	**Total**
	€000	€000	**€000**
31 December 2017			
Cost or valuation	219,528	103,710	**323,238**
Accumulated depreciation	(34,754)	(88,888)	**(123,642)**
Net book value	**184,774**	**14,822**	**199,596**

The net book value of the Company's property comprises:

	2018	2017
	€000	€000
Freehold property	**184,571**	183,539
Improvements on leasehold property	**2,001**	1,235
	186,572	184,774

Freehold property includes land amounting to €76,951 thousand (2017: €76,951 thousand) for which no depreciation is charged.

25. Property and equipment (continued)

The Company's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The Company performed revaluations as at 31 December 2017. As a result, a net gain on revaluation of €2,808 thousand was recognised in the statement of comprehensive income and an impairment loss of €582 thousand was recognised in the income statement for the year ended 31 December 2017. The valuations at year end 31 December 2017 were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 21.

As at 31 December 2018 and 2017 there are charges against freehold property of the Company with carrying value €20,711 thousand (2017: €20,850 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2018 would have amounted to €133,297 thousand (2017: €132,265 thousand).

26. Intangible assets

Computer software

	2018	2017
	€000	€000
Net book value at 1 January	**30,927**	17,681
Additions	**22,454**	20,511
Disposals and write-offs	**(1,784)**	(22)
Amortisation charge for the year (Note 14)	**(10,591)**	(7,243)
Net book value at 31 December	**41,006**	30,927

1 January		
Cost	**140,943**	121,187
Accumulated amortisation	**(110,016)**	(103,506)
Net book value	**30,927**	17,681

31 December		
Cost	**161,543**	140,943
Accumulated amortisation	**(120,537)**	(110,016)
Net book value	**41,006**	30,927

27. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2018 an impairment loss of €7,937 thousand (2017: €35,932 thousand) was recognised in 'Impairment of non-financial instruments' in the income statement. At 31 December 2018, stock of €183,877 thousand (2017: €200,606 thousand) is carried at net realisable value which is approximately its fair value less costs to sell.

27. Stock of property (continued)

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

The carrying value of the stock of property is analysed in the tables below:

	2018	2017
	€000	€000
Net book value at 1 January	**652,963**	494,998
Additions	**245,265**	264,517
Disposals	**(101,657)**	(70,491)
Transfers to own use properties (Note 25)	**-**	(129)
Transfer to disposal groups held for sale (Note 29)	**(45,251)**	-
Impairment (Note 15)	**(7,937)**	(35,932)
Net book value at 31 December	**743,383**	652,963

The table below shows the result on disposal of stock of property in the year:

	2018	2017
	€000	€000
Net proceeds	**110,849**	78,081
Carrying value of stock of property disposed of	**(101,657)**	(70,491)
Net gains on disposal of stock of property (Note 40)	**9,192**	7,590

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2018	**€000**	**€000**	**€000**	**€000**
Residential properties	145,484	24,483	-	**169,967**
Offices and other commercial properties	81,341	44,347	343	**126,031**
Manufacturing and industrial properties	13,594	38,434	-	**52,028**
Hotels	16,967	484	-	**17,451**
Land (fields and plots)	369,776	7,452	-	**377,228**
Properties under construction	678	-	-	**678**
Total	**627,840**	**115,200**	**343**	**743,383**

2017				
Residential properties	119,331	28,994	-	**148,325**
Offices and other commercial properties	72,139	38,882	558	**111,579**
Manufacturing and industrial properties	19,580	33,427	-	**53,007**
Hotels	17,390	493	-	**17,883**
Land (fields and plots)	315,443	6,345	-	**321,788**
Properties under construction	381	-	-	**381**
Total	**544,264**	**108,141**	**558**	**652,963**

28. Prepayments, accrued income and other assets

	2018	2017
	€000	€000
Receivables relating to disposal of operations	**85,606**	36,282
Taxes refundable	**12,329**	23,251
Debtors	**8**	240
Prepaid expenses	**196**	223
Other assets	**42,034**	56,457
	140,173	116,453

An analysis of the changes in the gross carrying amount of the financial assets included within prepayments, accrued income and other assets is presented in the table below:

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	€000	**€000**	**€000**	**€000**
1 January	3,529	36,282	38,173	**77,984**
New assets acquired in the year	54,760	-	-	**54,760**
Net increase/(decrease)	4,657	(5,436)	(6,850)	**(7,629)**
31 December	**62,946**	**30,846**	**31,323**	**125,115**

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	€000	**€000**	**€000**	**€000**
1 January	-	-	14,923	**14,923**
Changes to models and inputs used for ECL calculations	-	-	4,099	**4,099**
31 December	**-**	**-**	**19,022**	**19,022**

As at 31 December 2018, the receivable relating to the disposal of the UK subsidiary amounts to €54,760 thousand. Half of the consideration was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 50.2.1). The receivable relating to the disposal of the Ukrainian operations in 2014 amounted to €30,846 thousand and the deferred consideration is due to be paid to the Company under a repayment programme which has been extended from June 2019 to December 2022. The receivable is fully secured.

During 2018, credit losses of €5,370 thousand was recognised in relation to other assets of which €4,099 thousand relate to ECL for the year and the remaining €1,271 thousand relate to write-offs (2017: reversal of impairment €1,895 thousand) (Note 15).

29. Non-current assets and disposal groups held for sale

	2018	2017
	€000	€000
Gross loans and advances to customers at amortised cost (Note 44.7)	**2,711,960**	-
Allowance for ECL	**(1,557,852)**	-
	1,154,108	-
Stock of property (Note 27)	**45,251**	-
	1,199,359	-

29. Non-current assets and disposal groups held for sale (continued)

The disposal group held for sale comprises loans and advances to customers and stock of property of Projects Helix and Velocity as further analysed below. The disposal group has been classified as held for sale as management is committed to sell it and has proceeded with an active programme to complete this plan. The plan is expected to be completed within 12 months from the classification date.

During 2018, the Company has reached an agreement for the sale of a portfolio (the 'Portfolio') of loans and advances to customers (known as 'Project Helix', or the 'Transaction'). The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by the Company. The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC, together with its consolidated subsidiaries 'Apollo', the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio.

As at 31 December 2018, the Portfolio including stock of property had a net book value of €1.2 billion. At completion, the Company will receive a gross cash consideration of c.€1.4 billion. The Company will participate in the senior debt in relation to such financing in an amount which has been syndicated down to €50 million, from the initial level of €450 million.

In March 2019, the Company received approval from the ECB for the Significant Risk Transfer (SRT) benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. Completion is currently expected to occur in the early second quarter of 2019.

In addition, the Company has entered into an agreement for the sale of loans and advances to customers of a gross book value of €33 million (carrying value: €6 million) known as project 'Velocity'. The sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2019.

Further analysis of the loans and advances to customers portfolio, which is included in this disposal group, is disclosed in Note 44.7.

30. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

	2018	2017
	€000	€000
Main Refinancing Operations (MRO)	**-**	100,000
Targeted Longer-Term Refinancing Operations (TLTRO II)	**830,000**	830,000
	830,000	930,000

As at 31 December 2018, ECB funding was at €830 million that was borrowed from the 4-year TLTRO II.

The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. The interest rate applicable to the amount borrowed by the Company under the TLTRO II transactions will be 0% as eligible net lending in the pre-specified period did not exceed the benchmark.

In addition to TLTRO as at 31 December 2017 funding from central banks also included an amount of €100 million borrowed through the MRO. In January 2018, the Company raised an additional €10 million through the MRO bringing the funding from the MRO to €110 million. The total amount borrowed from the MRO was fully repaid during April 2018.

Details on encumbered assets related to the above funding facilities are disclosed in Note 46.

31. Customer deposits

	2018	2017
	€000	€000
By type of deposit		
Demand	**6,708,852**	6,016,510
Savings	**1,352,452**	934,058
Time or notice	**8,782,254**	9,032,337
	16,843,558	15,982,905
By geographical area		
Cyprus	**16,843,558**	15,982,905
By currency		
Euro	**14,961,025**	13,764,246
US Dollar	**1,482,867**	1,727,947
British Pound	**292,640**	326,105
Russian Rouble	**25,529**	49,788
Romanian Lei	**443**	42
Swiss Franc	**7,994**	14,866
Other currencies	**73,060**	99,911
	16,843,558	15,982,905

By customer sector		
Corporate	**1,750,517**	1,529,521
SMEs	**800,671**	665,940
Retail	**10,032,047**	8,670,625
Restructuring		
– Corporate	**69,180**	145,084
– SMEs	**29,299**	40,743
– Retail other	**16,773**	-
Recoveries		
– Corporate	**6,492**	6,615
International banking services	**3,707,713**	4,163,384
Wealth management	**430,866**	760,993
	16,843,558	15,982,905

Deposits by geographical area are based on the originator country of the deposit.

32. Subordinated loan stock

	Contractual interest rate	2018	2017
		€000	€000
Subordinated Tier 2 Capital Note with nominal value of €250 million	9.25% up to 19 January 2022	**270,930**	268,485

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note (the Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing five year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The Note is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market. The fair value as at 31 December 2018 is disclosed in Note 21.

33. Accruals, deferred income and other liabilities

	2018	2017
	€000	€000
Income tax payable and related provisions	**13,259**	11,596
Special defence contribution payable	**4,270**	5,891
Retirement benefit plans liabilities (Note 13)	**8,033**	9,761
Provisions for financial guarantees and commitments (Notes 44.8.1 and 44.8.2)	**27,685**	51,987
Accrued expenses and other provisions	**61,250**	48,298
Deferred income	**18,577**	8,575
Items in the course of settlement	**47,958**	72,241
Other liabilities	**23,469**	35,174
	204,501	243,523

The ECL allowance for financial guarantees and commitments as at 31 December 2018 is analysed by stage in the table below:

2018	ECL allowance
	€000
Stage 1	**1,314**
Stage 2	**2,593**
Stage 3	**23,778**
	27,685

34. Share capital

	2018		2017	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	**47,677,593**	**4,767,759**	47,677,593	4,767,759
Issued				
1 January	**8,922,945**	**892,294**	8,922,945	892,294
Cancellation of shares due to reorganisation	**-**	**-**	(8,922,945)	(892,294)
Issue of shares	**-**	**-**	8,922,945	892,294
31 December	**8,922,945**	**892,294**	8,922,945	892,294

Authorised and issued share capital

All issued ordinary shares carry the same rights.

2018

There were no changes to the authorized or issued share capital during the year ended 31 December 2018.

2017

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved a scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and its shareholders. The scheme of arrangement introduced Bank of Cyprus Holdings Public Limited Company as the new holding company of the Company. Additionally the EGM authorised the directors of the Company to take all actions necessary or appropriate to carry the scheme of arrangement into effect. The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of the Company which amounted to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of the Company (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of the Company, equal to the aggregate nominal value of the Existing Shares so cancelled, and which shall be retained as a non-distributable capital reserve in accordance with the provisions of subsection (e) of section 64 of the Cyprus Companies Law, Cap. 113 (the Reduction of Capital).

Following the reduction of the share capital of the Company, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank pari passu with the existing ordinary shares of the Company. Also, the reserve arising in the books of account of the Company as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of the Company, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of the Company were cancelled and the Company issued and allotted 8,922,944,533 new ordinary shares of nominal value €0.10 each, credited as fully paid to Bank of Cyprus Holdings Public Limited Company.

34. Share capital (continued)

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The share premium as at 31 December 2018 was created in 2014 and 2015 by the issuance of 4,167,234 thousand shares of a nominal value of €0.10 each of a subscription price of €0.24 each, and was reduced by the relevant transaction costs of €32,044 thousand.

Capital reduction reserve

The capital reduction reserve was maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and was not available for distribution to equity holders in the form of a dividend.

The capital reduction reserve was created upon the reduction of the nominal value of ordinary shares from €1.00 each to €0.10 each in 2014. The reduction in capital amounted to €4,280,140 thousand, of which an amount of €2,327,654 thousand was applied against accumulated losses and an amount of €1,952,486 thousand was credited to the capital reduction reserve.

The Company continues to explore opportunities, subject to market conditions, to raise up to 1.5% of Additional Tier 1 (AT1) in the near term to further strengthen the Company's capital base. In preparation for a potential issuance of AT1 capital instruments and following the approval of the Cypriot courts in July 2017 and December 2017, the Company proceeded with the full reduction of its capital reduction reserve in order to eliminate the Company's accumulated losses.

Share-based payments - share options

Following the incorporation of the Bank of Cyprus Holdings Public Limited Company and its introduction as the new holding company of the Company in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of the Bank of Cyprus Holdings Public Limited Company. The Share Option Plan is identical to the Long Term Incentive Plan except that the number of shares in the Bank of Cyprus Holding Public Limited Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,992,945 ordinary shares of a nominal value of €0.10 each and the exercise prices was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

No share options were granted post the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of the Bank of Cyprus Holding Public Limited Company. Any shares related to the Share Option Plan carry rights with regards to control of the company that are only exercisable directly by the employee.

Other equity instruments

	2018	2017
	€000	€000
Reset Perpetual Additional Tier 1 Loan Capital Security	**220,000**	-

On 19 December 2018 Bank of Cyprus Holdings Public Limited Company issued €220,000 thousand of Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the BOCH AT1). On the same date, the Company and Bank of Cyprus Holding Public Limited Company entered into an agreement pursuant to which Bank of Cyprus Holding Public Limited Company on-lent to the company the entire €220 million proceeds of the issue of the BOCH AT1 (the AT1 Loan) on terms substantially identical to the terms and conditions of the BOCH AT1. The AT1 Loan constitutes an unsecured and subordinated obligation of the Company. The interest is at 12.50% and is payable semi-annually. The Company may elect to cancel any interest payment for an unlimited period, and on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. The AT1 Loan is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and each subsequent fifth anniversary; subject to the prior approval of the regulators.

35. Dividends

Based on the SREP decisions of prior years, the Company was under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2018 and 2017.

Following the 2018 SREP decision, BOCH and the Company are still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company and BOCH.

On 14 December 2018, the Board of Directors of the Company approved the declaration of a conditional interim dividend, amounting to €135,000 thousand, in the form of scrip, through the issue of 675,000 thousand of ordinary shares of a nominal value of €0.10 per share to be issued at a premium of €0.10 per share to BOCH Ltd, out of the Company's profits for the financial year of 2016. The declaration of such dividend was conditional and subject to lifting of regulatory restrictions. Specifically, the payment of the aforementioned interim dividend could be effected only if the 2018 SREP decision permitted the Company to make the distribution contemplated by such declaration. The final 2018 SREP decision, received on 27 March 2019, allowed the payment in the form of scrip dividend. The scrip dividend was paid on 27 March 2019 through the issue of 675,000 thousand of ordinary shares of a total issue price of €0.20 per share Bank of Cyprus Holdings Public Limited Company.

36. Retained earnings

For the purpose of dividend distribution, retained earnings determined at the Company level are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals who are domiciled in Cyprus and companies), at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the company on account of the shareholders. During 2018 and 2017 no deemed dividend distribution was paid by the Company.

37. Fiduciary transactions

The Company offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Company is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the balance sheet of the Company unless they are placed with the Company. Total assets under management and custody at 31 December 2018 amounted to €1,004,396 thousand (2017: €885,290 thousand).

38. Pending litigation, claims, regulatory and other matters

The Company in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent restructuring of the Company in 2013 as a result of the Bail-in Decrees, the Company is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees.

38. Pending litigation, claims, regulatory and other matters (continued)

Apart from what is described below, the Company considers that none of these matters is material, either individually or in aggregate. The Company has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Company is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2018 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Company.

38.1 Pending litigation and claims

Investigations and litigation relating to securities issued by the Company
A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of misselling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Company in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

The Company is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be documented that the relevant Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Also, a small number of cases are being heard Cyprus. Provision has been made based on management's best estimate of probable outflows and based on advise of legal counsel.

In July 2018 the Nicosia district Court ruled in favour of the Company in an action against the Company by a Capital Securities holder and rejected the claim to reimburse the plaintiff for alleged damages sustained from investing in the capital securities of the Company. In September 2018 judgement was issued by the district court of Larnaca against the Company with respect to a capital security case. The plaintiffs were seeking compensation against the Company for negligence/fraud/breach of statutory duty in selling to the plaintiffs contingent convertible bonds. The court found against the Company, awarding damages. The Company has filed an appeal against this judgement.

Bail-in related litigation
Depositors
A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Company is defending these actions.

Shareholders
Numerous claims were filed by shareholders in 2013 against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Company appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

38. Pending litigation, claims, regulatory and other matters (continued)

38.1 Pending litigation and claims (continued)

Bail-in related litigation (continued)
Shareholders (continued)
As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. A number of actions for damages have been filed and are still being filed with the District Courts of Cyprus.

Claims based on set-off
Certain claims have been filed by customers against the Company alleging that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company intends to contest such claims.

Laiki Bank depositors and shareholders
The Company has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above. The Company, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees
Occasionally, other claims are brought against the Company in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented).

Legal position of the Company
All above claims are being vigorously disputed by the Company, in close consultation with the appropriate state and governmental authorities. The position of the Company is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

Provident fund case
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company's contribution by virtue of an agreement with the union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Company does not expect a material impact on its financial position.

Employment litigation
Former senior officers of the Company have instituted one claim for unfair dismissal and one for Provident Fund entitlements against the Company and Trustees of the Provident Fund. As at the present date one case had been dismissed as filed out of time, but the plaintiff has subsequently filed a civil action in the District Court on the same grounds as the previous case which was filed in the Labour Disputes Court. The Company does not consider that these cases will have a material impact on its financial position.

Swiss Francs loans litigation in Cyprus and UK
A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Company does not expect that these actions will have a material impact on its financial position.

UK property lending claims
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

38. Pending litigation, claims, regulatory and other matters (continued)

38.1 Pending litigation and claims (continued)

General criminal investigations and proceedings
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. The Company is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Company is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

The Attorney General had filed a criminal case against the Company and five former members of the Board of Directors for alleged market manipulation offences referring to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. On 14 December 2017, the Court found the Company and its former Chief Executive Officer guilty only in relation to the one charge regarding market manipulation and acquitted all accused of all remaining charges. On 5 January 2018 the Court imposed a fine of €120,000 on the Company and a prison sentence of two and a half years on Mr Andreas Eliades. The Company has filed an appeal against both the decision and the fine imposed on it. In September 2018 both the Company and Mr. Andreas Eliades were acquitted.

The Attorney General had also filed a separate criminal case against the Company and six former members of the Board of Directors of the Company for alleged market manipulation offences referring to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. On 18 December 2017, the Criminal Court dismissed the proceedings against the accused following a ruling by the Supreme Court (first instance jurisdiction) which rendered the charges void ab initio. The Attorney General has filed an appeal against the first instance ruling of the Supreme Court. In April 2018 the Supreme court rejected the appeal and thus this is the end of this criminal case.

In January 2017 the Attorney General has filed a criminal case against a number of current and former officers of the Company relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against the Company in this case. Two of the former officers accused, have already been acquitted on the basis of preliminary objections raised by them. The Attorney General has filed an appeal against the acquittals. Meanwhile the hearing of this case has not yet commenced.

38.2 Regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation
The HCMC is currently in the process of investigating matters concerning the Company's investment in Greek Government Bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in the Company's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek Government Bond investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Company.

The Cyprus Securities and Exchange Commission (CySEC) Investigations
The only pending CySEC investigation against the Company concerns possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. It is not expected that any resulting liability or fine will have a material impact on the financial position of the Company.

Commission for the Protection of Competition Investigation
In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the CPC) issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Company.

38. Pending litigation, claims, regulatory and other matters (continued)

38.2 Regulatory matters (continued)

Commission for the Protection of Competition Investigation (continued)
There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017 the CPC imposed a fine of €18 million upon the Company and the Company filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse. In June 2018 the Administrative court accepted Company's position and cancelled the decision as well as the fine imposed upon the Company. The Attorney General has filed an appeal before the Supreme court with respect to such decision.

UK regulatory matters
During 2017 the Company recognised provision of €35,446 thousand on a conduct principle issue. During 2018 additional provision of €6,674 thousand was recognised. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management continues to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at the time.

During 2017 an agreement had been reached between the Company and Bank of Cyprus UK Ltd under which the provisions recognised on the regulatory matters by Bank of Cyprus UK Ltd are reimbursed by the Company. Following the disposal of Bank of Cyprus UK the outstanding liability was transferred back to the Company.

38.3 Provisions for pending litigation, claims, regulatory and other matters

2018	Pending litigation or claims (Note 38.1)	Regulatory matters (Note 38.2)	Other matters	**Total**
	€000	€000	€000	**€000**
1 January	57,389	20,430	5,057	82,876
Increase of provisions including unwinding of discount (Note 14)	20,743	6,674	4,844	32,261
Utilisation of provisions	(9,017)	(8,305)	-	(17,322)
Transfer to the Company following the disposal of Bank of Cyprus UK Ltd	-	16,550	-	16,550
Release of provisions - (Note 14)	-	(9,000)	-	(9,000)
Foreign exchange adjustments	-	(59)	-	(59)
31 December	**69,115**	**26,290**	**9,901**	**105,306**
Provisions expected to be settled within no more than 12 months post reporting date	**2,000**	**15,795**	**-**	**17,795**

2017				
1 January	19,978	3,000	5,057	**28,035**
Increase of provisions including unwinding of discount (Note 14)	41,283	52,876	-	**94,159**
Transfer to Bank of Cyprus UK Ltd for settlement on behalf of the Company	-	(35,446)	-	**(35,446)**
Utilisation of provisions	(2,650)	-	-	**(2,650)**
Release of provisions - (Note 14)	(1,220)	-	-	**(1,220)**
Foreign exchange adjustments	(2)	-	-	**(2)**
31 December	**57,389**	**20,430**	**5,057**	**82,876**
Provisions expected to be settled within no more than 12 months post reporting date	**1,200**	**4,000**	**-**	**5,200**

38. Pending litigation, claims, regulatory and other matters (continued)

38.3 Provisions for pending litigation, claims, regulatory and other matters (continued)

The increase of provisions for regulatory matters during the year ended 31 December 2018 mainly relates to increase in provisions recognised on UK regulatory matter as described in Note 38.2.

The increase of provisions for pending litigation and claims during the year ended 31 December 2018 mainly relates to increase in provision recognised on investigations and litigations relating to securities issued by the Company as detailed in Note 38.1.

Other matters include other provisions for various open examinations requests of the Company, by governmental and other Public bodies.

Some information usually required by the IAS 37 (Provisions Contingent Liabilities and Contingent Assets) is not disclosed on the ground that it can be expected to prejudice seriously the outcome of the litigation.

39. Contingent liabilities and commitments

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

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Company (Note 44).

39.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2018 amount to €27,133 thousand (2017: €38,270 thousand).

39.2 Other contingent liabilities

The Company, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Company may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been made, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable (Note 44.8.1).

40. Net cash flow from operating activities

	2018	2017
	€000	€000
Profit / (loss) before tax	**35,173**	(532,682)
Adjustments for:		
Credit losses to cover credit risk on loans and advances to customers and net gains on derecognition of financial assets measured at amortised cost	**298,794**	776,865
Depreciation of property and equipment	**7,476**	7,318
Amortisation of intangible assets	**10,591**	7,243
Impairment of property held for own use	**-**	582
Impairment of non-financial assets	**1,368**	-
Credit (gains)/losses of other financial instruments	**(1,070)**	5,302
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	**(25,418)**	(22,653)
(Profit)/loss on sale and write-offs of property and equipment and intangible assets	**(91)**	204
Net gains on disposal of investment properties and investment properties held for sale	**-**	(29)
Net losses from revaluation of investment properties and investment properties held for sale	**-**	1,625
(Gain)/loss on disposal/dissolution of subsidiaries and associates	**(4,332)**	465
Dividend income	**(39,457)**	(30,078)
Net gains on disposal of investments at FVOCI debt securities	**(19,484)**	
Impairment of investments in subsidiaries	**4,320**	57,611
Net gains on balances with Group companies	**(75,138)**	-
Impairment of balances with Group companies	**-**	1,272
Net gains on disposal of available-for-sale investments in equity securities	**-**	(1,506)
Net gains on disposal of available-for-sale investments in debt securities	**-**	(2,104)
Loss from revaluation of debt securities designated as fair value hedges	**22,821**	14,150
Net gains on disposal of stock of property	**(9,192)**	(7,590)
Impairment of stock of property	**7,937**	35,932
Interest on subordinated loan stock	**23,325**	22,175
Interest on funding from central banks	**3**	28
	237,626	334,130
Change in:		
Loans and advances to banks	**34,215**	58,016
Deposits by banks	**(57,233)**	58,312
Obligatory balances with central banks	**(10,137)**	(10,536)
Customer deposits	**860,653**	937,815
Debit balances with Group companies	**(38,985)**	499,624
Credit balances with Group companies	**(33,884)**	(250,709)
Loans and advances to customers measured at amortised cost	**63,116**	79,462
Loans and advances to customers measured at FVPL	**(5,710)**	-
Other assets	**19,296**	40,424
Accrued income and prepaid expenses	**27**	(14)
Other liabilities and pending litigation, claims, regulatory and other matters	**(16,907)**	56,760
Accrued expenses and deferred income	**22,954**	(398)
Derivative financial instruments	**(18,714)**	4,937
Investments at fair value through profit or loss	**(8,576)**	10,578
Repurchase agreements	**(8,377)**	(45)
Proceeds on disposals of stock of property	**110,849**	78,081
	1,150,213	1,896,437
Tax received	**10,330**	10,692
Net cash flow from operating activities	**1,160,543**	1,907,129

40. Net cash flow from operating activities (continued)

Non-cash transactions

2018

Repossession of collaterals
During the year ended 31 December 2018, the Company acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €245,265 thousand (2017: €264,517 thousand) (Note 27).

Increase in the shareholding of Nicosia Mall Holdings (NMH) Ltd
During 2018, the Company increased its controlling interest from 51% to 64% in Nicosia Mall Holdings (NMH) Ltd.

2017
Closure of the operations of Bank of Cyprus branch in Romania
In accordance with the Company's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to others entities of the Group.

Acquisition of Nicosia Mall Holdings (NMH) Ltd
During the year ended 31 December 2017 the Company acquired 51% interest in the share capital of NMH Ltd as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 50.3.1.

Net cash flow from operating activities – interest and dividends

	2018	2017
	€000	€000
Interest paid	**(210,328)**	(175,728)
Interest received	**597,008**	734,566
Dividends received	**39,457**	30,078
	426,137	588,916

Changes in liabilities arising from financing activities

2018	Funding from central banks	Subordinated loan stock	**Total**
	€000	€000	**€000**
1 January	930,000	268,485	**1,198,485**
Cash flows	(100,000)	(23,125)	**(123,125)**
Other non-cash movements	-	25,570	**25,570**
31 December	**830,000**	**270,930**	**1,100,930**

2017			
1 January	850,014	-	**850,014**
Cash flows	79,986	246,500	**326,486**
Other non-cash movements	-	21,985	**21,985**
31 December	**930,000**	**268,485**	**1,198,485**

41. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	2017
	€000	€000
Cash and non-obligatory balances with central banks	**4,447,607**	2,837,017
Loans and advances to banks with original maturity less than three months	**323,963**	984,064
	4,771,570	3,821,081

Analysis of cash and balances with central banks and loans and advances to banks

	2018	2017
	€000	€000
Cash and non-obligatory balances with central banks	**4,447,607**	2,837,017
Obligatory balances with central banks (Note 18)	**162,675**	152,538
Total cash and balances with central banks (Note 18)	**4,610,282**	2,989,555

Loans and advances to banks with original maturity less than three months	**323,963**	984,064
Restricted loans and advances to banks	**115,504**	117,426
Other loans and advances to banks	**-**	33,004
Total loans and advances to banks (Note 18)	**439,467**	1,134,494

Restricted loans and advances to banks include to collaterals under derivative transactions of €42,631 thousand (2017: €59,997 thousand) which are not immediately available for use by the Company, but are released once the transactions are terminated.

42. Operating leases – The Company as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 and 2017 are presented below:

	2018	2017
	€000	€000
Within one year	**1,957**	2,274
Between one and five years	**2,542**	3,578
After five years	**47**	85
	4,546	5,937

The above mainly relate to property leases for the Company's branches and offices in Cyprus.

43. Analysis of assets and liabilities by expected maturity

	2018			2017		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
Assets	**€000**	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**4,447,607**	**162,675**	**4,610,282**	2,837,017	152,538	2,989,555
Loans and advances to banks	**333,593**	**105,874**	**439,467**	1,036,779	97,715	1,134,494
Derivative financial assets	**4,148**	**20,606**	**24,754**	1,495	16,532	18,027
Investments	**118,270**	**1,233,052**	**1,351,322**	22,986	943,316	966,302
Loans and advances to customers	**1,515,258**	**9,391,318**	**10,906,576**	3,248,565	9,738,192	12,986,757
Balances with Group companies	**129,848**	**787,008**	**916,856**	310,302	757,554	1,067,856
Prepayments, accrued income and other assets	**4,249**	**135,924**	**140,173**	23,957	92,496	116,453
Stock of property	**179,000**	**564,383**	**743,383**	178,933	474,030	652,963
Property, equipment and intangible assets	**-**	**243,883**	**243,883**	-	230,523	230,523
Investments in associates	**-**	**95,068**	**95,068**	-	97,293	97,293
Investments in Group companies	**-**	**254,688**	**254,688**	-	259,372	259,372
Deferred tax assets	**-**	**301,772**	**301,772**	26,000	357,492	383,492
Non-current assets held for sale	**1,199,359**	**-**	**1,199,359**	-	-	-
	7,931,332	**13,296,251**	**21,227,583**	7,686,034	13,217,053	20,903,087
Liabilities						
Deposits by banks	**171,016**	**257,800**	**428,816**	351,066	134,983	486,049
Funding from central banks	**-**	**830,000**	**830,000**	100,000	830,000	930,000
Repurchase agreements	**80,692**	**168,253**	**248,945**	-	257,322	257,322
Derivative financial liabilities	**12,459**	**26,524**	**38,983**	15,283	35,687	50,970
Customer deposits	**2,946,714**	**13,896,844**	**16,843,558**	3,105,628	12,877,277	15,982,905
Balances with Group companies	**104,388**	**760**	**105,148**	142,097	144,625	286,722
Accruals, deferred income and other liabilities and pending litigation, claims, regulatory and other matters	**245,502**	**64,305**	**309,807**	237,579	88,820	326,399
Subordinated loan stock	**-**	**270,930**	**270,930**	-	268,485	268,485
Deferred tax liabilities	**-**	**20,893**	**20,893**	-	20,616	20,616
	3,560,771	**15,536,309**	**19,097,080**	3,951,653	14,657,815	18,609,468

43. Analysis of assets and liabilities by expected maturity (continued)

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

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. The latter would be the case where there is secured borrowing, requiring the pledging of bonds and these bonds mature before the maturity of the secured borrowing. The maturity of bonds is then extended to cover the period of the secured borrowing.

Trading investments are classified in the 'less than one year' time band.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The stage 3 loans, are classified in the 'over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits in Cyprus maturing within one year is classified in the 'over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they don't have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

44. Risk management – Credit risk

In the ordinary course of its business the Company is exposed to credit risk which is monitored through various control mechanisms, in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Company.

The Credit Risk Management department sets the Company's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and the quality of the Company's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

Credit Risk Management department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that credit sanctioning function is being properly managed.

The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate.

The credit risk exposure of the Company is diversified both geographically and across the various sectors of the economy. The Credit Risk Management Department determines the prohibitive dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Company's significant judgement, estimates and assumptions regarding the determination of the level of provision for impairment are described in Note 5 'Significant and other judgements estimates and assumptions' of these Financial Statements.

44. Risk management – Credit risk (continued)

The Market Risk department assesses the credit risk relating to investments in liquid assets (mainly loans and advances to banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the Assets and Liabilities Committee (ALCO) for approval.

44.1 Maximum exposure to credit risk and collateral and other credit enhancements

The Company's maximum exposure to credit risk is analysed by geographic area as follows:

On-balance sheet	2018	2017
	€000	€000
Cyprus	**19,299,587**	18,934,865
Other countries	**56,931**	138,333
	19,356,518	19,073,198

Off-balance sheet		
Cyprus	**2,834,466**	2,980,446
Other countries	**60,592**	86,600
	2,895,058	3,067,046

Total on and off-balance sheet		
Cyprus	**22,134,053**	21,915,311
Other countries	**117,523**	224,933
	22,251,576	22,140,244

44. Risk management – Credit risk (continued)

44.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Company offers guarantee facilities to its customers under which the Company may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Company to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers
The Credit Risk Department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Company are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Company's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments
Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

The Company has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Company sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

44. Risk management – Credit risk (continued)

44.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2018	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Company							Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 18)	**4,456,615**	-	-	-	-	-	-	-	**4,456,615**
Loans and advances to banks (Note 18)	**439,467**	12,220	-	-	-	-	-	12,220	**427,247**
FVPL debt securities (Note 19)	**9,106**	-	-	-	-	-	-	-	**9,106**
Debt securities classified at amortised cost and FVOCI (Note 19)	**1,336,501**	-	-	-	-	-	-	-	**1,336,501**
Derivative financial instruments (Note 20)	**24,754**	-	-	-	-	-	-	-	**24,754**
Loans and advances to customers (Note 22)	**10,906,593**	419,735	291,662	209,274	15,722,540	1,315,573	(8,239,069)	9,719,715	**1,186,878**
Loans and advances to customers classified as held for sale (Note 29)	**1,154,108**	2,726	14,283	13,156	2,371,672	13,307	(1,374,545)	1,040,599	**113,509**
Debtors (Note 28)	**8**	-	-	-	-	-	-	-	**8**
Balances with Group companies (Note 23)	**916,856**	-	-	-	-	-	-	-	**916,856**
Other assets	**112,510**	-	-	31,768	48,900	46,683	(96,505)	30,846	**81,664**
On-balance sheet total	**19,356,518**	**434,681**	**305,945**	**254,198**	**18,143,112**	**1,375,563**	**(9,710,119)**	**10,803,380**	**8,553,138**
Contingent liabilities									
Acceptances and endorsements	**5,561**	323	-	34	4,506	492	-	5,355	**206**
Guarantees	**755,241**	120,139	985	4,563	152,272	34,958	-	312,917	**442,324**
Commitments									
Documentary credits	**24,297**	3,115	-	10	6,440	5,143	-	14,708	**9,589**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,109,959**	30,197	8,490	810	346,736	41,288	-	427,521	**1,682,438**
Off-balance sheet total	**2,895,058**	**153,774**	**9,475**	**5,417**	**509,954**	**81,881**	**-**	**760,501**	**2,134,557**
	22,251,576	**588,455**	**315,420**	**259,615**	**18,653,066**	**1,457,444**	**(9,710,119)**	**11,563,881**	**10,687,695**

As at 31 December 2018 the contingent liabilities and commitments include exposures relating to loans and advances to customers classified as held for sale amounting to €3,656 thousand which largely relate to the Cyprus geographical area.

44. Risk management – Credit risk (continued)

44.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2017	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Company							Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 18)	**2,846,228**	-	-	-	-	-	-	-	**2,846,228**
Loans and advances to banks (Note 18)	**1,134,494**	-	-	-	-	-	-	-	**1,134,494**
Debt securities classified as available-for-sale and loans and receivables (Note 19)	**950,350**	-	-	-	-	-	-	-	**950,350**
Derivative financial instruments (Note 20)	**18,027**	-	-	-	-	-	-	-	**18,027**
Loans and advances to customers (Note 22)	**12,986,757**	333,207	275,111	258,848	18,408,178	747,362	(8,564,126)	11,458,580	**1,528,177**
Debtors (Note 28)	**240**	-	-	-	-	-	-	-	**240**
Balances with Group companies (Note 23)	**1,067,856**	-	-	-	-	-	-	-	**1,067,856**
Other assets	**69,246**	-	-	37,798	-	-	(1,516)	36,282	**32,964**
On-balance sheet total	**19,073,198**	**333,207**	**275,111**	**296,646**	**18,408,178**	**747,362**	**(8,565,642)**	**11,494,862**	**7,578,336**
Contingent liabilities									
Acceptances and endorsements	**7,274**	790	-	-	4,691	79	-	5,560	**1,714**
Guarantees	**773,596**	85,099	464	3,736	153,700	11,405	-	254,404	**519,192**
Commitments							-		
Documentary credits	**29,630**	1,139	7	190	7,550	486	-	9,372	**20,258**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,256,546**	38,068	5,563	1,543	365,487	36,266	-	446,927	**1,809,619**
Off-balance sheet total	**3,067,046**	**125,096**	**6,034**	**5,469**	**531,428**	**48,236**	**-**	**716,263**	**2,350,783**
	22,140,244	**458,303**	**281,145**	**302,115**	**18,939,606**	**795,598**	**(8,565,642)**	**12,211,125**	**9,929,119**

44. Risk management – Credit risk (continued)

44.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Company's risk appetite statement imposes stricter concentration limits and the Company is taking actions to run down those exposures which are in excess of the internal limits over time.

The Company categorises its loans using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from the Company of up to €260 thousand, excluding professional property loans;
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Company in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million;
- Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Company in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

Fair value adjustment on initial recognition
The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

Industry concentrations geographical analysis of the Company's loans and advances to customers are presented in the table below. Following the disposal of the UK subsidiary during 2018, the loans in Romania, Russia, Greece and the remaining portfolio in UK are disclosed within 'Other Countries'.

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	1,447,623	3,834	**1,451,457**	**(24,096)**	**1,427,361**
Manufacturing	437,030	3,089	**440,119**	**(6,439)**	**433,680**
Hotels and catering	877,501	3,806	**881,307**	**(20,354)**	**860,953**
Construction	991,122	416	**991,538**	**(14,661)**	**976,877**
Real estate	980,152	21,644	**1,001,796**	**(16,231)**	**985,565**
Private individuals	6,234,765	11,324	**6,246,089**	**(135,603)**	**6,110,486**
Professional and other services	855,371	23,646	**879,017**	**(30,020)**	**848,997**
Other sectors	720,876	773	**721,649**	**(8,114)**	**713,535**
	12,544,440	**68,532**	**12,612,972**	**(255,518)**	**12,357,454**

44. Risk management – Credit risk (continued)

44.2 Credit risk concentration of loans and advances to customers (continued)

2017	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	1,969,360	8,951	**1,978,311**	**(71,636)**	**1,906,675**
Manufacturing	630,101	7,404	**637,505**	**(19,968)**	**617,537**
Hotels and catering	1,283,512	6,349	**1,289,861**	**(47,257)**	**1,242,604**
Construction	2,310,057	5,816	**2,315,873**	**(144,899)**	**2,170,974**
Real estate	1,760,498	111,730	**1,872,228**	**(89,647)**	**1,782,581**
Private individuals	6,677,670	11,889	**6,689,559**	**(195,686)**	**6,493,873**
Professional and other services	1,166,920	25,164	**1,192,084**	**(53,527)**	**1,138,557**
Other sectors	1,000,451	35,906	**1,036,357**	**(37,438)**	**998,919**
	16,798,569	**213,209**	**17,011,778**	**(660,058)**	**16,351,720**

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	3,352,576	67,395	**3,419,971**	**(43,452)**	**3,376,519**
SMEs	1,188,456	501	**1,188,957**	**(16,536)**	**1,172,421**
Retail					
- housing	2,871,294	-	**2,871,294**	**(45,016)**	**2,826,278**
- consumer, credit cards and other	940,388	615	**941,003**	**2,965**	**943,968**
Restructuring					
- corporate	531,462	21	**531,483**	**(7,907)**	**523,576**
- SMEs	560,806	-	**560,806**	**(11,637)**	**549,169**
- retail housing	498,601	-	**498,601**	**(4,481)**	**494,120**
- retail other	328,952	-	**328,952**	**(8,588)**	**320,364**
Recoveries					
- corporate	164,821	-	**164,821**	**(7,439)**	**157,382**
- SMEs	630,968	-	**630,968**	**(26,178)**	**604,790**
- retail housing	697,212	-	**697,212**	**(40,577)**	**656,635**
- retail other	480,733	-	**480,733**	**(39,923)**	**440,810**
International banking services	192,646	-	**192,646**	**(2,158)**	**190,488**
Wealth management	105,525	-	**105,525**	**(4,591)**	**100,934**
	12,544,440	**68,532**	**12,612,972**	**(255,518)**	**12,357,454**

44. Risk management – Credit risk (continued)

44.2 Credit risk concentration of loans and advances to customers (continued)

2017	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	3,306,747	151,776	**3,458,523**	**(74,824)**	**3,383,699**
SMEs	1,219,350	1,104	**1,220,454**	**(14,566)**	**1,205,888**
Retail					
- housing	3,007,487	-	**3,007,487**	**(30,274)**	**2,977,213**
- consumer, credit cards and other	1,085,146	727	**1,085,873**	**(14,348)**	**1,071,525**
Restructuring					
- major corporate	1,292,607	33,860	**1,326,467**	**(55,850)**	**1,270,617**
- corporate	777,460	-	**777,460**	**(15,303)**	**762,157**
- SMEs	1,085,221	-	**1,085,221**	**(37,096)**	**1,048,125**
- retail housing	437,892	-	**437,892**	**(6,319)**	**431,573**
- retail other	226,623	-	**226,623**	**(8,037)**	**218,586**
Recoveries					
- corporate	1,709,190	25,742	**1,734,932**	**(179,336)**	**1,555,596**
- SMEs	950,171	-	**950,171**	**(69,852)**	**880,319**
- retail housing	652,421	-	**652,421**	**(52,206)**	**600,215**
- retail other	737,566	-	**737,566**	**(94,367)**	**643,199**
International banking services	256,554	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	**54,134**	**(4,675)**	**49,459**
	16,798,569	**213,209**	**17,011,778**	**(660,058)**	**16,351,720**

The fair value adjustment on initial recognition for loans and advances to customer included in the Cyprus geographical area amounts to €255,331 thousand (2017: €649,778 thousand).

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €67,930 thousand (2017: €69,616 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €76,303 thousand (2017: €98,660 thousand).

44. Risk management – Credit risk (continued)

44.3 Credit risk concentration of loans and advances to customers classified as held for sale

Industry and business lines concentrations and geographical analysis of Company's loans and advances to customers at amortised cost classified as held for sale are presented in the table below.

2018	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	373,351	-	**373,351**	**(12,213)**	**361,138**
Manufacturing	202,193	-	**202,193**	**(7,216)**	**194,977**
Hotels and catering	258,529	-	**258,529**	**(11,960)**	**246,569**
Construction	995,430	-	**995,430**	**(74,233)**	**921,197**
Real estate	409,632	55,225	**464,857**	**(11,765)**	**453,092**
Private individuals	218,531	-	**218,531**	**(9,098)**	**209,433**
Professional and other services	140,748	-	**140,748**	**(5,941)**	**134,807**
Other sectors	191,463	6,011	**197,474**	**(6,727)**	**190,747**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

44. Risk management – Credit risk (continued)

44.3 Credit risk concentration of loans and advances to customers classified as held for sale (continued)

2018	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	15,249	-	**15,249**	**(584)**	**14,665**
SMEs	2,841	-	**2,841**	**-**	**2,841**
Retail					
- consumer, credit cards and other	128	-	**128**	**(1)**	**127**
Restructuring					
- major corporate	859,214	-	**859,214**	**(24,379)**	**834,835**
- corporate	216,866	-	**216,866**	**(4,858)**	**212,008**
- SMEs	272	-	**272**	**-**	**272**
- retail other	5,773	-	**5,773**	**(210)**	**5,563**
Recoveries					
- corporate	1,274,835	61,236	**1,336,071**	**(86,644)**	**1,249,427**
- SMEs	374,336	-	**374,336**	**(17,991)**	**356,345**
- retail housing	635	-	**635**	**(115)**	**520**
- retail other	39,720	-	**39,720**	**(4,371)**	**35,349**
International banking services	8	-	**8**	**-**	**8**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

There were no loans and advances to customers classified as held for sale at 31 December 2017.

44. Risk management – Credit risk (continued)

44.4 Currency concentration of loans and advances to customers

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
	€000	€000	**€000**	**€000**	**€000**
Euro	11,982,965	55,865	**12,038,830**	**(251,171)**	**11,787,659**
US Dollar	300,718	-	**300,718**	**(276)**	**300,442**
British Pound	37,955	11,735	**49,690**	**(248)**	**49,442**
Russian Rouble	81	-	**81**	**-**	**81**
Romanian Lei	-	932	**932**	**-**	**932**
Swiss Franc	203,026	-	**203,026**	**(3,242)**	**199,784**
Other currencies	19,695	-	**19,695**	**(581)**	**19,114**
	12,544,440	**68,532**	**12,612,972**	**(255,518)**	**12,357,454**

2017	Cyprus	United Kingdom	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
	€000	€000	€000	**€000**	**€000**	**€000**
Euro	15,986,620	16,025	181,245	**16,183,890**	**(642,226)**	**15,541,664**
US Dollar	228,660	-	-	**228,660**	**(525)**	**228,135**
British Pound	74,707	14,880	92	**89,679**	**(423)**	**89,256**
Russian Rouble	229	-	-	**229**	**(1)**	**228**
Romanian Lei	-	-	967	**967**	**-**	**967**
Swiss Franc	451,883	-	-	**451,883**	**(14,525)**	**437,358**
Other currencies	56,470	-	-	**56,470**	**(2,358)**	**54,112**
	16,798,569	**30,905**	**182,304**	**17,011,778**	**(660,058)**	**16,351,720**

44. Risk management – Credit risk (continued)

44.5 Currency concentration of loans and advances to customers classified as held for sale

	Cyprus	Other Countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
2018	€000	€000	**€000**	**€000**	**€000**
Euro	2,638,647	61,236	**2,699,883**	**(129,898)**	**2,569,985**
US Dollar	20,593	-	**20,593**	**(123)**	**20,470**
British Pound	2,469	-	**2,469**	**(18)**	**2,451**
Swiss Franc	90,951	-	**90,951**	**(8,239)**	**82,712**
Other currencies	37,217	-	**37,217**	**(875)**	**36,342**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

44.6 Credit quality of loans and advances to customers

The following tables present the Company's loans and advances to customers at amortised cost by staging and by business line concentration.

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Gross loans at amortised cost before fair value adjustment on initial recognition	6,034,868	1,921,255	3,837,060	819,789	**12,612,972**
Fair value adjustment on initial recognition	(77,738)	(20,673)	(33,901)	(123,206)	**(255,518)**
Gross loans at amortised cost after fair value adjustment on initial recognition	**5,957,130**	**1,900,582**	**3,803,159**	**696,583**	**12,357,454**

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	2,214,826	793,252	319,063	92,830	**3,419,971**
SMEs	738,691	346,148	93,172	10,946	**1,188,957**
Retail					
- housing	2,259,976	300,101	300,584	10,633	**2,871,294**
- consumer, credit cards and other	591,242	199,099	130,527	20,135	**941,003**
Restructuring					
- corporate	48,943	92,534	303,955	86,051	**531,483**
- SMEs	55,295	52,573	406,369	46,569	**560,806**
- retail housing	6,883	3,745	473,444	14,529	**498,601**
- retail other	5,140	1,226	304,076	18,510	**328,952**
Recoveries					
- corporate	-	-	120,234	44,587	**164,821**
- SMEs	-	-	515,542	115,426	**630,968**
- retail housing	-	-	512,175	185,037	**697,212**
- retail other	89	-	313,529	167,115	**480,733**
International banking services	69,620	78,109	41,352	3,565	**192,646**
Wealth management	44,163	54,468	3,038	3,856	**105,525**
	6,034,868	**1,921,255**	**3,837,060**	**819,789**	**12,612,972**

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	(25,159)	(11,564)	(5,752)	(977)	**(43,452)**
SMEs	(10,652)	(4,150)	(1,112)	(622)	**(16,536)**
Retail					
- housing	(43,528)	(97)	(1,246)	(145)	**(45,016)**
- consumer, credit cards and other	3,248	352	(375)	(260)	**2,965**
Restructuring					
- corporate	(199)	(1,988)	(2,687)	(3,033)	**(7,907)**
- SMEs	28	(580)	(3,931)	(7,154)	**(11,637)**
- retail housing	(119)	(3)	(2,796)	(1,563)	**(4,481)**
- retail other	34	(40)	(3,971)	(4,611)	**(8,588)**
Recoveries					
- corporate	-	-	(1,654)	(5,785)	**(7,439)**
- SMEs	-	-	(2,073)	(24,105)	**(26,178)**
- retail housing	-	-	(3,200)	(37,377)	**(40,577)**
- retail other	-	-	(4,695)	(35,228)	**(39,923)**
International banking services	(303)	(1,164)	(195)	(496)	**(2,158)**
Wealth management	(1,088)	(1,439)	(214)	(1,850)	**(4,591)**
	(77,738)	**(20,673)**	**(33,901)**	**(123,206)**	**(255,518)**

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	2,189,667	781,688	313,311	91,853	**3,376,519**
SMEs	728,039	341,998	92,060	10,324	**1,172,421**
Retail					
- housing	2,216,448	300,004	299,338	10,488	**2,826,278**
- consumer, credit cards and other	594,490	199,451	130,152	19,875	**943,968**
Restructuring					
- corporate	48,744	90,546	301,268	83,018	**523,576**
- SMEs	55,323	51,993	402,438	39,415	**549,169**
- retail housing	6,764	3,742	470,648	12,966	**494,120**
- retail other	5,174	1,186	300,105	13,899	**320,364**
Recoveries					
- corporate	-	-	118,580	38,802	**157,382**
- SMEs	-	-	513,469	91,321	**604,790**
- retail housing	-	-	508,975	147,660	**656,635**
- retail other	89	-	308,834	131,887	**440,810**
International banking services	69,317	76,945	41,157	3,069	**190,488**
Wealth management	43,075	53,029	2,824	2,006	**100,934**
	5,957,130	**1,900,582**	**3,803,159**	**696,583**	**12,357,454**

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

An analysis of changes in the gross loans at amortised cost after fair value adjustment on initial recognition by staging including the loans and advances to customers classified as held for sale is presented in the table below. Details on the loans and advances to customers classified as held for sale are disclosed in Note 44.7.

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
1 January	3,604,676	4,341,872	6,676,775	1,308,500	**15,931,823**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Restated balance at 1 January	3,609,744	4,348,466	8,026,818	1,636,292	**17,621,320**
Transfers to stage 1	2,180,460	(1,952,997)	(227,463)	-	**-**
Transfers to stage 2	(222,094)	415,356	(193,262)	-	**-**
Transfers to stage 3	(164,046)	(435,234)	599,280	-	**-**
Write-offs	(12,256)	(21,814)	(2,024,916)	(556,097)	**(2,615,083)**
Interest accrued and other adjustments	100,505	39,183	529,669	109,977	**779,334**
New assets originated or purchased and drawdowns of existing facilities	1,399,625	184,878	110,971	33,044	**1,728,518**
Assets derecognised or repaid (excluding write-offs)	(927,833)	(585,852)	(818,924)	(112,836)	**(2,445,445)**
Changes to contractual cash flows due to modifications resulting in derecognition	(22)	(65)	(654)	1,511	**770**
31 December	**5,964,083**	**1,991,921**	**6,001,519**	**1,111,891**	**15,069,414**

For revolving facilities, overdraft and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New Assets originated' and if negative change is reported as 'Asset derecognised or repaid'.

Loans and advances to customers at amortised cost after fair value adjustment on initial recognition, in the corporate and retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking services and Wealth management) including loans and advances to customers classified as held for sale are presented in the table below:

2018	**Corporate**	**Retail**
	€000	**€000**
1 January	2,822,022	4,048,153
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	33,867	22,650
Restated balances at 1 January 2018	2,855,889	4,070,803
Transfers in/(out) of business line	358,019	(305,898)
Interest accrued, foreign exchange and other adjustments	172,622	144,670
Write-offs	(80,160)	(25,188)
New assets originated or purchased	870,620	446,855
Assets derecognised or repaid (excluding write-offs)	(852,997)	(561,675)
Changes to contractual cash flows due to modifications not resulting to derecognition	(192)	305
31 December	**3,323,801**	**3,769,872**

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

The following table presents the credit quality of the Company's loans and advances to customers at amortised cost by geographical concentration:

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By staging	€000	€000	**€000**	**€000**	**€000**
Stage 1	6,023,870	10,998	**6,034,868**	**(77,738)**	**5,957,130**
Stage 2	1,921,234	21	**1,921,255**	**(20,673)**	**1,900,582**
Stage 3	3,779,547	57,513	**3,837,060**	**(33,901)**	**3,803,159**
POCI	819,789	-	**819,789**	**(123,206)**	**696,583**
	12,544,440	**68,532**	**12,612,972**	**(255,518)**	**12,357,454**

The following table presents the credit quality of the Company's loans and advances to customers as presented in the 2017 financial statements in accordance with IAS 39 based on credit rate analysis.

	2017		
	Gross loans before fair value adjustment	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000
Neither past due nor impaired	9,601,362	(140,405)	9,460,957
Past due but not impaired	2,044,987	(29,554)	2,015,433
Impaired	5,365,429	(490,099)	4,875,330
	17,011,778	(660,058)	16,351,720

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

2017	Grade 1	Grade 2	Grade 3	Total
	€000	€000	€000	€000
Cyprus	7,031,139	1,384,121	1,158,512	9,573,772
United Kingdom	16,025	744	10,607	27,376
Romania	-	-	214	214
	7,047,164	1,384,865	1,169,333	9,601,362

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

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

	2017	
	Impaired	Past due but not impaired
Past due analysis:	€000	€000
- no arrears	401,719	-
- up to 30 days	141,329	414,720
- 31 to 90 days	20,880	254,157
- 91 to 180 days	26,340	121,247
- 181 to 365 days	73,073	248,755
- over one year	4,702,088	1,006,108
	5,365,429	2,044,987

Impaired loans and advances to customers

	2017	
	Gross loans and advances	Fair value of collateral
	€000	€000
Cyprus	5,198,278	3,297,979
Greece	15,341	7,041
Russia	13,691	13,692
United Kingdom	3,213	-
Romania	134,906	19,825
	5,365,429	3,338,537

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

44.6.1 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of the Company. These are corporate, retail and SMEs. Corporate and SME clients include legal entities. Retail includes individuals.

Scoring models use internal and external data to assess and “score” borrowers, predict future performance and manage limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower’s behaviour is also used.

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

44.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

Credit score is one of the factors employed on new clients and on management of existing clients. The credit score of the borrower is used to assess the predicted credit risk for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring improves credit decision quality, adjudication timeframes and consistency in the credit decision process and facilitates risk-based pricing.

Borrower scores define the rating of the borrower from a range of 1-7 and 8 is defined as defaulted. The historical 12-months default rates (PDs) are calculated per rating. These defaults rates are assumed to be the 12-month probability of default for the scored borrowers. The following table maps PD bands to various risk levels for corporate, retail and SME exposures.

Unrated loans for corporate are assessed using a decision tree methodology based on customer's characteristics such as days past due and gross book value. Unrated loans for retail include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customer for corporate and SME legal entities and new lending for retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

Rating	12-month PD		
	Corporate legal entities	Retail individuals	SME legal entities
	%	%	%
1	2.46	1.49	0.88
2	3.04	1.87	1.85
3	3.37	3.20	2.57
4	3.74	5.42	3.84
5	4.21	7.92	6.49
6	7.47	13.37	9.03
7	12.28	29.54	18.17

Low rating exposures demonstrate a good capacity to meet financial commitments, with low probability of default. Medium risk rating exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. High rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below show the gross loans after fair value adjustment on initial recognition in Cyprus, using the corporate legal entities, SMEs legal entities and retail individual definition as per the internal rating of the Company. Loans and advances to customers classified based on the internal credit rating grades include €67,381 thousand managed in Cyprus but originated in other countries.

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

44.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

Corporate legal entities	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	203,010	51,808	**254,818**
Rating 2	485,028	110,127	**595,155**
Rating 3	398,722	61,739	**460,461**
Rating 4	429,053	223,243	**652,296**
Rating 5	184,338	62,825	**247,163**
Rating 6	174,717	12,577	**187,294**
Rating 7	123,716	16,911	**140,627**
Unrated	184,900	573,703	**758,603**
New customers	259,165	19,023	**278,188**
	2,442,649	**1,131,956**	**3,574,605**
Total Stage 3 and POCI			**1,233,394**
			4,807,999

Retail individuals	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	279,305	67,286	**346,591**
Rating 2	686,960	94,836	**781,796**
Rating 3	930,261	99,008	**1,029,269**
Rating 4	423,067	74,341	**497,408**
Rating 5	330,270	76,060	**406,330**
Rating 6	174,645	52,359	**227,004**
Rating 7	42,216	51,842	**94,058**
Unrated	-	3,470	**3,470**
New lending	259,495	36,397	**295,892**
	3,126,219	**555,599**	**3,681,818**
Total Stage 3 and POCI			**2,709,494**
			6,391,312

44. Risk management – Credit risk (continued)

44.6 Credit quality of loans and advances to customers (continued)

44.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

2018			
SMEs legal entities	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	55,500	30,751	**86,251**
Rating 2	87,460	31,678	**119,138**
Rating 3	51,932	17,992	**69,924**
Rating 4	41,757	15,644	**57,401**
Rating 5	40,685	22,250	**62,935**
Rating 6	35,414	32,538	**67,952**
Rating 7	37,283	36,180	**73,463**
Unrated	-	19,080	**19,080**
New customers	37,717	6,918	**44,635**
	387,748	**213,031**	**600,779**
Total Stage 3 and POCI			**556,403**
			1,157,182

44.7 Credit quality of loans and advances to customers classified as held for sale

The following tables present the credit quality of the Company's loans and advances at amortised cost classified as held for sale by business line concentration.

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Gross loans at amortised cost before fair value adjustment on initial recognition	7,148	94,600	2,222,931	526,434	**2,851,113**
Fair value adjustment on initial recognition	(195)	(3,261)	(24,571)	(111,126)	**(139,153)**
Gross loans at amortised cost after fair value adjustment on initial recognition	**6,953**	**91,339**	**2,198,360**	**415,308**	**2,711,960**

44. Risk management – Credit risk (continued)

44.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	165	-	14,343	741	**15,249**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	3	**128**
Restructuring					
- corporate	2,110	85,783	722,631	48,690	**859,214**
- SMEs	2,038	8,817	187,831	18,180	**216,866**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,575	198	**5,773**
Recoveries					
- corporate	-	-	967,761	368,310	**1,336,071**
- SMEs	-	-	300,509	73,827	**374,336**
- retail housing	-	-	484	151	**635**
- retail other	-	-	23,427	16,293	**39,720**
International banking services	-	-	8	-	**8**
	7,148	**94,600**	**2,222,931**	**526,434**	**2,851,113**

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	-	-	(584)	-	**(584)**
Retail					
- consumer, credit cards and other	-	-	-	(1)	**(1)**
Restructuring					
- corporate	-	(2,722)	(13,730)	(7,927)	**(24,379)**
- SMEs	(195)	(539)	(1,470)	(2,654)	**(4,858)**
- retail other	-	-	(132)	(78)	**(210)**
Recoveries					
- corporate	-	-	(4,900)	(81,744)	**(86,644)**
- SMEs	-	-	(3,473)	(14,518)	**(17,991)**
- retail housing	-	-	-	(115)	**(115)**
- retail other	-	-	(282)	(4,089)	**(4,371)**
	(195)	**(3,261)**	**(24,571)**	**(111,126)**	**(139,153)**

44. Risk management – Credit risk (continued)

44.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018					
By business line	€000	€000	€000	€000	**€000**
Corporate	165	-	13,759	741	**14,665**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	2	**127**
Restructuring					
- corporate	2,110	83,061	708,901	40,763	**834,835**
- SMEs	1,843	8,278	186,361	15,526	**212,008**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,443	120	**5,563**
Recoveries					
- corporate	-	-	962,861	286,566	**1,249,427**
- SMEs	-	-	297,036	59,309	**356,345**
- retail housing	-	-	484	36	**520**
- retail other	-	-	23,145	12,204	**35,349**
International banking services	-	-	8	-	**8**
	6,953	**91,339**	**2,198,360**	**415,308**	**2,711,960**

44. Risk management – Credit risk (continued)

44.7 Credit quality of loans and advances to customers classified as held for sale (continued)

The following table presents the credit quality of the Company's loans and advances to customers at amortised cost classified as held for sale by geographical concentration:

2018	Cyprus	Other countries	**Total**	**Fair value adjustment on initial recognition**	**Gross loans at amortised cost after fair value adjustment on initial recognition**
By staging	€000	€000	**€000**	**€000**	**€000**
Stage 1	7,148	-	**7,148**	**(195)**	**6,953**
Stage 2	94,600	-	**94,600**	**(3,261)**	**91,339**
Stage 3	2,161,695	61,236	**2,222,931**	**(24,571)**	**2,198,360**
POCI	526,434	-	**526,434**	**(111,126)**	**415,308**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

Corporate legal entities	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 2	2,452	-	**2,452**
Rating 3	722	4,468	**5,190**
Rating 6	3,000	951	**3,951**
Unrated	-	80,402	**80,402**
New customers	99	-	**99**
	6,273	**85,821**	**92,094**
Total Stage 3 and POCI			**2,363,960**
			2,456,054

Retail	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 4	10	-	**10**
Rating 5	670	2,276	**2,946**
Rating 7	-	2,092	**2,092**
	680	**4,368**	**5,048**
Total Stage 3 and POCI			**234,237**
			239,285

44. Risk management – Credit risk (continued)

44.7 Credit quality of loans and advances to customers classified as held for sale (continued)

SMEs legal entities	Stage 1	Stage 2	Total
	€000	€000	**€000**
Rating 7	-	129	**129**
Unrated	-	362	**362**
New customers	-	659	**659**
	-	**1,150**	**1,150**
Total Stage 3 and POCI			**15,471**
			16,621

44.8 Contingent liabilities and commitments

The Company enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

44.8.1 Contingent liabilities

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	**€000**
Exposures				
1 January	306,775	252,230	221,865	**780,870**
Transfers to Stage 1	48,097	(32,459)	(15,638)	**-**
Transfers to stage 2	(9,298)	26,050	(16,752)	**-**
Transfers to stage 3	(2,528)	(6,749)	9,277	**-**
Net increase/(decrease)	63,063	(44,996)	(38,135)	**(20,068)**
31 December	**406,109**	**194,076**	**160,617**	**760,802**

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	**€000**
ECL				
1 January	877	2,095	43,214	**46,186**
Impact of adopting IFRS 9 at 1 January 2018	(796)	(1,865)	(14,158)	**(16,819)**
Restated balance at 1 January	81	230	29,056	**29,367**
Transfers to stage 1	77	(47)	(30)	**-**
Transfers to stage 2	(16)	290	(274)	**-**
Transfers to stage 3	(887)	(3,890)	4,777	**-**
Charge for the year*	1,047	4,228	(9,751)	**(4,476)**
31 December	**302**	**811**	**23,778**	**24,891**
Individually assessed	35	149	23,778	**23,962**
Collectively assessed	267	662	-	**929**
	302	**811**	**23,778**	**24,891**

* The charge for the year mainly relates to changes to models and inputs

44. **Risk management – Credit risk** (continued)

44.8 **Contingent liabilities and commitments** (continued)

44.8.1 **Contingent liabilities** (continued)

The outstanding contingent liabilities by geography are disclosed in the table below:

	Stage 1	Stage 2	Stage 3	**Total**
	€000	€000	€000	**€000**
Cyprus	406,109	158,630	135,814	**700,553**
Other countries	-	35,446	24,803	**60,249**
Total	**406,109**	**194,076**	**160,617**	**760,802**

The credit quality of contingent liabilities as per the internal rating system of the Company is disclosed in the table below.

Corporate legal entities	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	78,723	63	**78,786**
Rating 2	28,878	24	**28,902**
Rating 3	41,333	1,356	**42,689**
Rating 4	27,406	2,569	**29,975**
Rating 5	22,468	40	**22,508**
Rating 6	4,811	418	**5,229**
Rating 7	10,717	420	**11,137**
Unrated	44,109	145,101	**189,210**
New customers	86,675	-	**86,675**
	345,120	**149,991**	**495,111**
Total Stage 3			**155,784**
			650,895

SME legal entities	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	10,951	2,515	**13,466**
Rating 2	4,520	1,233	**5,753**
Rating 3	1,343	192	**1,535**
Rating 4	4,243	900	**5,143**
Rating 5	2,797	673	**3,470**
Rating 6	4,898	1,588	**6,486**
Rating 7	1,901	1,429	**3,330**
Unrated	-	13,211	**13,211**
New customers	30,336	555	**30,891**
	60,989	**22,296**	**83,285**
Total Stage 3			**2,824**
			86,109

44. Risk management – Credit risk (continued)

44.8 Contingent liabilities and commitments (continued)

44.8.1 Contingent liabilities (continued)

Retail individuals	Stage 1 €000	Stage 2 €000	**Total €000**
Unrated	-	21,789	**21,789**
	-	**21,789**	**21,789**
Total Stage 3			**2,009**
			23,798

44.8.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Exposures				
1 January	1,184,110	883,737	218,329	**2,286,176**
Transfers to stage 1	232,355	(205,220)	(27,135)	**-**
Transfers to stage 2	(150,375)	172,014	(21,639)	**-**
Transfers to stage 3	(10,820)	(12,993)	23,813	**-**
Net increase/ (decrease)	97,946	(222,036)	(27,830)	**(151,920)**
31 December	**1,353,216**	**615,502**	**165,538**	**2,134,256**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
ECL				
1 January	25	22	5,754	**5,801**
Impact of adopting IFRS 9 at 1 January 2018	367	1,204	(3,672)	**(2,101)**
Restated balance at 1 January 2018	392	1,226	2,082	**3,700**
Transfers to stage 1	282	(203)	(79)	**-**
Transfers to stage 2	(265)	754	(489)	**-**
Charge for the year*	603	5	(1,514)	**(906)**
31 December	1,012	1,782	-	**2,794**
Individually assessed	78	71	-	**149**
Collectively assessed	934	1,711	-	**2,645**
	1,012	**1,782**	**-**	**2,794**

*The charge in the year mainly relates to changes to models and inputs

Commitments by geography are presented in the table below:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Cyprus	1,353,216	615,502	165,195	**2,133,913**
Other countries	-	-	343	**343**
Total	**1,353,216**	**615,502**	**165,538**	**2,134,256**

44. Risk management – Credit risk (continued)

44.8 Contingent liabilities and commitments (continued)

44.8.2 Commitments (continued)

The credit quality of commitments in Cyprus, as per the internal rating system of the Company is disclosed in the table below:

Corporate legal entities	Stage 1	Stage 2	Total
	€000	€000	**€000**
Rating 1	175,811	7,993	**183,804**
Rating 2	155,851	5,246	**161,097**
Rating 3	85,480	15,600	**101,080**
Rating 4	54,717	5,614	**60,331**
Rating 5	28,247	1,969	**30,216**
Rating 6	10,853	1,982	**12,835**
Rating 7	11,606	2,167	**13,773**
Unrated	77,057	198,058	**275,115**
New customers	103,441	2,604	**106,045**
	703,063	**241,233**	**944,296**
Total Stage 3			**137,557**
			1,081,853

SME legal entities	Stage 1	Stage 2	Total
	€000	€000	**€000**
Rating 1	83,581	54,630	**138,211**
Rating 2	31,666	14,277	**45,943**
Rating 3	12,873	3,432	**16,305**
Rating 4	19,947	15,805	**35,752**
Rating 5	10,731	5,295	**16,026**
Rating 6	27,252	28,475	**55,727**
Rating 7	5,109	13,091	**18,200**
Unrated	-	23,122	**23,122**
New customers	25,035	733	**25,768**
	216,194	**158,860**	**375,054**
Total Stage 3			**12,672**
			387,726

44. **Risk management – Credit risk** (continued)

44.8 **Contingent liabilities and commitments** (continued)

44.8.2 **Commitments** (continued)

Retail individuals	Stage 1	Stage 2	**Total**
	€000	€000	**€000**
Rating 1	84,297	43,628	**127,925**
Rating 2	122,073	67,980	**190,053**
Rating 3	85,405	38,570	**123,975**
Rating 4	50,785	18,416	**69,201**
Rating 5	16,026	7,423	**23,449**
Rating 6	5,475	5,054	**10,529**
Rating 7	1,240	3,466	**4,706**
Unrated	-	26,481	**26,481**
New lending	68,658	4,391	**73,049**
	433,959	**215,409**	**649,368**
Total Stage 3			**15,309**
			664,677

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale

The movement in ECL of loans and advances, including the loans and advances to customers held for sale, is as follows:

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Cyprus	€000	€000	€000	€000	**€000**
1 January	20,840	29,510	2,654,800	500,027	**3,205,177**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,561	1,294,541	326,152	**1,632,322**
Impact of adopting IFRS 9 at 1 January	(6,660)	32,744	235,471	52,373	**313,928**
Restated balance at 1 January	19,248	68,815	4,184,812	878,552	**5,151,427**
Transfer from Romania branch	-	-	-	22,176	**22,176**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,096	(26,375)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Foreign exchange and other adjustments	-	-	1,601	317	**1,918**
Write-offs	(13,693)	(20,303)	(1,961,979)	(552,912)	**(2,548,887)**
Interest (provided) not recognised in the income statement	-	-	141,719	17,521	**159,240**
New assets originated or purchased*	6,345	-	-	5,581	**11,926**
Assets derecognised or repaid (excluding write-offs)*	832	(3,760)	(107,462)	(9,868)	**(120,258)**
Write-offs*	2,334	5,369	68,483	11,690	**87,876**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,691	36,336	380,988	61,123	**482,138**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
Impact on transfer between stages during the year*	(39,842)	294	110,778	(1,680)	**69,550**
31 December	**26,233**	**73,870**	**2,783,232**	**431,924**	**3,315,259**
Individually assessed	6,326	17,411	147,327	22,206	**193,270**
Collectively assessed	19,907	56,459	2,635,905	409,718	**3,121,989**
	26,233	**73,870**	**2,783,232**	**431,924**	**3,315,259**

* Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Other countries	€000	€000	€000	€000	**€000**
1 January	9	-	105,276	23,575	**128,860**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	33	55,502	1,640	**57,175**
Impact of adopting IFRS 9 at 1 January	100	4,215	933	33	**5,281**
Restated balance at 1 January	109	4,248	161,711	25,248	**191,316**
Transfer to Cyprus operations	-	-	-	(22,176)	**(22,176)**
Transfers to Stage 2	-	28	(28)	-	**-**
Foreign exchange and other adjustments	-	-	(194)	1	**(193)**
Write offs	1	(42)	(65,335)	(832)	**(66,208)**
Interest (provided) not recognised in the income statement	-	-	5,197	-	**5,197**
New assets originated or purchased*	(1)	-	-	-	**(1)**
Assets derecognised or repaid (excluding write-offs)*	-	(3)	(4,209)	(89)	**(4,301)**
Write-offs*	-	6	944	3	**953**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	33	(4,212)	(9,079)	(2,155)	**(15,413)**
Impact on transfer between stages during the year*	(7)	(25)	(99)	-	**(131)**
31 December	**135**	**-**	**88,908**	**-**	**89,043**
Individually assessed	-	-	31,225	-	**31,225**
Collectively assessed	135	-	57,683	-	**57,818**
	135	**-**	**88,908**	**-**	**89,043**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'.

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Total	€000	€000	€000	€000	**€000**
1 January	20,849	29,510	2,760,076	523,602	**3,334,037**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Impact of adopting IFRS 9 at 1 January (Note 6.5)	(6,560)	36,959	236,404	52,406	**319,209**
Restated balance at 1 January	19,357	73,063	4,346,523	903,800	**5,342,743**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,124	(26,403)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Foreign exchange and other adjustments	-	-	1,407	318	**1,725**
Write offs	(13,692)	(20,345)	(2,027,314)	(553,744)	**(2,615,095)**
Interest (provided) not recognised in the income statement	-	-	146,916	17,521	**164,437**
New assets originated or purchased*	6,344	-	-	5,581	**11,925**
Assets derecognised or repaid (excluding write-offs) *	832	(3,763)	(111,671)	(9,957)	**(124,559)**
Write offs*	2,334	5,375	69,427	11,693	**88,829**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,724	32,124	371,909	58,968	**466,725**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
Impact on transfer between stages during the year*	(39,849)	269	110,679	(1,680)	**69,419**
31 December	**26,368**	**73,870**	**2,872,140**	**431,924**	**3,404,302**
Individually assessed	6,326	17,411	178,552	22,206	**224,495**
Collectively assessed	20,042	56,459	2,693,588	409,718	**3,179,807**
	26,368	**73,870**	**2,872,140**	**431,924**	**3,404,302**

* Individual components of the 'Impairment loss net of reversals on loans and advances to customers' as disclosed in Note 15.

The above tables do not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and ECL on financial guarantees which are part of other liabilities on the balance sheet. There were no loans and advances to customers classified as held for sale as at 31 December 2017.

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of credit losses of loans and advances to customers includes credit losses relating to loans and advances to customers classified as held for sale. Their balance at 31 December 2018 by staging and geographical area is presented in the table below:

	Stage 1	Stage 2	Stage 3	POCI	**Total**
31 December 2018	€000	€000	€000	€000	**€000**
Cyprus	3,441	43,977	1,271,559	188,482	**1,507,459**
Other countries	-	-	50,393	-	**50,393**
Total	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**
Collectively assessed	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
1 January	3,170,162	5,685	217,300	**3,393,147**
Foreign exchange and other adjustments	77,233	(24)	3,116	**80,325**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Applied in writing off impaired loans and advances	(831,708)	(33)	(105,913)	**(937,654)**
Interest accrued on impaired loans and advances	(97,951)	(2)	(1,406)	**(99,359)**
Collection of loans and advances previously written off	5,975	-	-	**5,975**
Charge for the year (Note 15)	925,161	(2,650)	12,810	**935,321**
31 December	**3,236,103**	**2,953**	**125,907**	**3,364,963**
Individual impairment	**2,367,205**	**2,944**	**113,495**	**2,483,644**
Collective impairment	**868,898**	**9**	**12,412**	**881,319**

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The provision for impairment of loans and advances, including the loans and advances to customers held for sale, by business line is presented in the table below:

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Corporate	8,322	16,005	116,622	5,142	**146,091**
SMEs	5,621	3,333	14,234	320	**23,508**
Retail					
- housing	4,052	1,028	28,109	301	**33,490**
- consumer, credit cards and other	4,848	4,655	25,878	1,878	**37,259**
Restructuring					
- corporate	1,803	42,745	402,181	21,621	**468,350**
- SMEs	1,507	5,472	253,499	24,326	**284,804**
- retail housing	23	102	138,799	4,309	**143,233**
- retail other	127	53	171,882	9,479	**181,541**
Recoveries					
- corporate	-	-	696,310	147,552	**843,862**
- SMEs	-	-	538,148	83,209	**621,357**
- retail housing	-	-	248,429	59,651	**308,080**
- retail other	-	-	226,379	72,396	**298,775**
International banking services	52	462	10,180	1,175	**11,869**
Wealth management	13	15	1,490	565	**2,083**
	26,368	**73,870**	**2,872,140**	**431,924**	**3,404,302**

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of the ECL allowance for the loans and advances to customers in the corporate and retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking service and Wealth management) including ECL allowance for loans and advances to customers held for sale is presented in the table below:

2018	**Corporate**	**Retail**
	€000	**€000**
1 January	**106,153**	**115,197**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	**33,867**	**22,651**
Impact of adopting IFRS 9 at 1 January	**40,270**	**40,645**
Restated balance at 1 January	**180,290**	**178,493**
Transfer in/(out) of the business line	**18,978**	**(95,078)**
Write-offs	**(80,160)**	**(25,188)**
Interest (provided) not recognised in the income statement	**1,788**	**1,531**
New assets originated or purchased*	**5,987**	**1,385**
Assets derecognised or repaid (excluding write-offs) *	**(36,005)**	**(10,796)**
Write-offs*	**772**	**8,018**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	**(1,156)**	**17,962**
Changes to contractual cash flows due to modifications not resulting in derecognition*	**7**	**827**
Impact on transfer between stages during the year*	**17,368**	**(6,678)**
31 December	**107,869**	**70,476**

As from 1 January 2018, to comply with the requirements of IFRS 9, relating to the measurement and presentation of the gross carrying amount and accumulated allowance for impairment as impacted from interest income on impaired loans, the gross carrying amounts of the loans have been increased by an amount of €1,689,497 thousand and an equivalent adjustment was effected on the accumulated allowance for impairment. There was no impact on the net carrying amount of the customer loans and advances from this charge in the presentation.

During 2018 the total non-contractual write-offs recorded by the Company amounted to €2,264,902 thousand (2017: €466,248 thousand).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

At 31 December 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective assessed provisions calculation for loans and advances to customers other than those classified as held for sale is c.32% under the baseline scenario (2017: c.34%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation for loans and advances to customers other than those classified as held for sale has been estimated to be on average seven years under the baseline scenario (2017: average of six years).

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case.

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

For Stage 3 customers, the calculation of individually assessed provision is the weighted average of three scenarios; base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows ((including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures. In the case of loans held for sale the Company has taken into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL. Amounts previously written off which are expected to be recovered through sale are presented in 'Recoveries of loans and advances to customers previously written off' in Note 15.

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

Any positive cumulative average future change in forecasted property values was capped to zero for 2018 and 2017. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue the Company maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses of loans and advances.

Sensitivity analysis
The Company has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents 99% of the total portfolio of the Group (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2018.

The Company uses three different economic scenarios in the ECL calculation: a base, an adverse and a favourable scenario with weights 50%, 30% and 20% respectively. The same scenarios determined at 31 December 2018 were used for the scenarios determined on 1 January 2018 (the transition date to IFRS 9).

44. Risk management – Credit risk (continued)

44.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

Sensitivity analysis (continued)
The Company has altered the weights of the economic scenarios and changed the collateral realisation periods and the impact on the ECL for both individually and collectively assessed ECL calculations, as at 31 December 2018 as presented in the table below:

	Increase / (decrease) on ECL for loans and advances to customers at amortised cost
	€000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	4,963
Decrease the adverse weight by 5% and increase the favourable weight by 5%	(4,956)
Increase the expected recovery period by 1 year	50,898
Decrease the expected recovery period by 1 year	(49,821)
Increase the collateral realisation haircut by 5%	89,682
Decrease the collateral realisation haircut by 5%	(81,862)
Increase in the PDs of stages 1 & 2 by 20%	12,733
Decrease in the PDs of stages 1 & 2 by 20%	(11,126)

The Company has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 31 December 2017. The impact on the provisions for impairment of loans and advances is presented below:

	Increase / (decrease) on provisions for impairment of loans and advances
	€000
Increase the timing of recovery from collaterals by 1 year for all customers	120,700
Decrease the timing of recovery from collaterals by 1 year for all customers	(121,875)
Increase haircuts by 5% on all customers	179,447
Decrease haircuts by 5% on all customers	(169,291)
Increase the average expected recovery period by 1 year and decrease of haircuts by 5% on all customers	(47,199)
Decrease the average expected recovery period by 1 year and increase haircuts by 5% on all customers	59,748

The comparative information is not comparable to current period information since the assumptions used, are different under IAS 39 compared to those of IFRS 9.

44. Risk management – Credit risk (continued)

44.10 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2018 and 2017 by taking possession of collateral held as security, was as follows:

	2018	2017
	€000	€000
Residential property	65,398	77,932
Commercial and other property	271,628	386,501
	337,026	464,433

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Company as at 31 December 2018 amounted to €736,202 thousand (2017: €1,451,912 thousand).

The disposals of repossessed assets during 2018 amounted to €127,914 thousand (2017: €29,499 thousand).

44.11 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Company decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Company.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to categorise the facility as credit-impaired as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

Rescheduled loans and advances are those facilities for which the Company has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Company reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Company has developed and deployed restructuring solutions, which are suitable for the borrower and acceptable for the Company.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

44. Risk management – Credit risk (continued)

44.11 Forbearance (continued)

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears; that is forbearance of the arrears and capitalisation of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.

Long-term restructuring solutions can include the following:

- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

44. Risk management – Credit risk (continued)

44.11 Forbearance (continued)

Stage 2 and Stage 3 loans after fair value adjustments on initial recognition that were forborne during the year amounted to €480,437 thousand. Their related modification loss amounted to €7,009 thousand.

Facilities that have cured since their modification and are classified as Stage 1 at 31 December 2018 amount to €31,138 thousand and their corresponding ECL amount to €220 thousand.

Facilities that reverted to Stage 2 and Stage 3 having once cured amount to €165,379 thousand and their corresponding ECL amounts to €6,495 thousand at 31 December 2018.

44.12 Rescheduled loans and advances to customers

The below table presents the movement of the Group's rescheduled loans and advances to customers measured at amortised cost including those classified as held for sale (by geography). The rescheduled loans related to loans and advances classified as held for sale amounts to €1,412,802 thousand.

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
1 January	6,272,946	18,854	**6,291,800**
Rescheduled loans measured at FVPL on adoption of IFRS 9	(341,765)	-	**(341,765)**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	416,093	3,678	**419,771**
Restated balance at 1 January	6,347,274	22,532	**6,369,806**
Transfer between geographical areas	6,254	(6,254)	**-**
New loans and advances rescheduled in the year	240,660	220	**240,880**
Assets no longer classified as rescheduled (including repayments)	(1,472,701)	(98)	**(1,472,799)**
Applied in writing off rescheduled loans and advances	(727,759)	(3,963)	**(731,722)**
Interest accrued on rescheduled loans and advances	166,922	919	**167,841**
Foreign exchange adjustments	5,820	(2)	**5,818**
31 December	**4,566,470**	**13,354**	**4,579,824**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
1 January	7,401,870	277	79,218	**7,481,365**
New loans and advances rescheduled in the period	402,521	89	3,424	**406,034**
Assets no longer classified as rescheduled (including repayments)	(1,326,918)	(103)	(52,034)	**(1,379,055)**
Applied in writing off rescheduled loans and advances	(461,468)	(2)	(13,076)	**(474,546)**
Interest accrued on rescheduled loans and advances	278,858	16	1,382	**280,256**
Foreign exchange adjustments	(21,917)	(10)	(327)	**(22,254)**
31 December	**6,272,946**	**267**	**18,587**	**6,291,800**

44. Risk management – Credit risk (continued)

44.12 Rescheduled loans and advances to customers (continued)

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

The below tables present the Company's rescheduled loans and advances to customers by industry sector, geography and credit quality classification excluding those classified as held for sale, as well as impairment provisions and tangible collateral held for rescheduled loans.

Credit quality

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	508,664	120	**508,784**
Stage 2	376,794	24	**376,818**
Stage 3	2,001,947	13,210	**2,015,157**
POCI	266,263	-	**266,263**
31 December	**3,153,668**	**13,354**	**3,167,022**

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Neither past due nor impaired	3,158,894	207	79	**3,159,180**
Past due but not impaired	1,218,160	1	-	**1,218,161**
Impaired	1,895,892	59	18,508	**1,914,459**
	6,272,946	**267**	**18,587**	**6,291,800**

Fair value of collateral

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	480,611	101	**480,712**
Stage 2	327,142	21	**327,163**
Stage 3	1,631,012	11,204	**1,642,216**
POCI	248,691	-	**248,691**
	2,687,456	**11,326**	**2,698,782**

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Neither past due nor impaired	2,818,937	170	93	**2,819,200**
Past due but not impaired	1,020,063	-	-	**1,020,063**
Impaired	1,437,734	-	9,948	**1,447,682**
31 December	**5,276,734**	**170**	**10,041**	**5,286,945**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

44. Risk management – Credit risk (continued)

44.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration

2018	Cyprus	Other countries	**Total**
By economic activity	€000	€000	**€000**
Trade	245,919	-	**245,919**
Manufacturing	84,267	-	**84,267**
Hotels and catering	123,596	1	**123,597**
Construction	373,539	-	**373,539**
Real estate	221,011	13,186	**234,197**
Private individuals	1,761,663	166	**1,761,829**
Professional and other services	249,607	-	**249,607**
Other sectors	94,066	1	**94,067**
	3,153,668	**13,354**	**3,167,022**

2018			
By business line			
Corporate	337,316	13,163	**350,479**
SMEs	207,000	43	**207,043**
Retail			
- housing	568,879	-	**568,879**
- consumer, credit cards and other	172,559	124	**172,683**
Restructuring			
- corporate	353,210	24	**353,234**
- SMEs	363,465	-	**363,465**
- retail housing	382,478	-	**382,478**
- retail other	177,241	-	**177,241**
Recoveries			
- corporate	64,698	-	**64,698**
- SMEs	139,309	-	**139,309**
- retail housing	222,244	-	**222,244**
- retail other	117,573	-	**117,573**
International banking services	43,698	-	**43,698**
Wealth management	3,998	-	**3,998**
	3,153,668	**13,354**	**3,167,022**

44. Risk management – Credit risk (continued)

44.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
By business line	€000	€000	€000	€000	**€000**
Corporate	98,485	154,531	94,157	3,306	**350,479**
SMEs	67,513	63,170	71,887	4,473	**207,043**
Retail					
- housing	246,922	45,090	271,988	4,879	**568,879**
- consumer, credit cards and other	46,012	17,148	107,184	2,339	**172,683**
Restructuring					
- corporate	7,903	44,505	236,389	64,437	**353,234**
- SMEs	31,579	27,729	281,415	22,742	**363,465**
- retail housing	3,800	871	369,482	8,325	**382,478**
- retail other	1,468	153	171,789	3,831	**177,241**
Recoveries					
- corporate	-	-	49,759	14,939	**64,698**
- SMEs	-	-	102,355	36,954	**139,309**
- retail housing	-	-	165,738	56,506	**222,244**
- retail other	-	-	76,716	40,857	**117,573**
International banking services	4,174	23,621	14,185	1,718	**43,698**
Wealth management	928	-	2,113	957	**3,998**
	508,784	**376,818**	**2,015,157**	**266,263**	**3,167,022**

44. Risk management – Credit risk (continued)

44.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2017	Cyprus	United Kingdom	Other countries	**Total**
By economic activity	€000	€000	€000	**€000**
Trade	607,700	-	713	**608,413**
Manufacturing	201,377	-	122	**201,499**
Hotels and catering	429,520	2	-	**429,522**
Construction	1,222,591	-	11,933	**1,234,524**
Real estate	862,508	-	5,401	**867,909**
Private individuals	2,221,465	265	-	**2,221,730**
Professional and other services	359,970	-	80	**360,050**
Other sectors	367,815	-	338	**368,153**
	6,272,946	**267**	**18,587**	**6,291,800**

2017				
By business line				
Corporate	795,714	-	14,975	**810,689**
SMEs	344,957	125	-	**345,082**
Retail				
- housing	958,415	-	-	**958,415**
- consumer, credit cards and other	290,308	142	-	**290,450**
Restructuring				
- major corporate	934,096	-	79	**934,175**
- corporate	624,602	-	-	**624,602**
- SMEs	739,537	-	-	**739,537**
- retail housing	301,111	-	-	**301,111**
- retail other	122,749	-	-	**122,749**
Recoveries				
- corporate	569,287	-	3,533	**572,820**
- SMEs	226,158	-	-	**226,158**
- retail housing	171,234	-	-	**171,234**
- retail other	139,851	-	-	**139,851**
International banking services	53,103	-	-	**53,103**
Wealth management	1,824	-	-	**1,824**
	6,272,946	**267**	**18,587**	**6,291,800**

44. Risk management – Credit risk (continued)

44.12 Rescheduled loans and advances to customers (continued)

ECL allowances

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	4,122	-	**4,122**
Stage 2	8,613	-	**8,613**
Stage 3	589,372	7,513	**596,885**
POCI	85,412	-	**85,412**
	687,519	**7,513**	**695,032**

	Cyprus	United Kingdom	Other countries	**Total**
2017	€000	€000	€000	**€000**
Individual impairment	797,975	58	10,416	**808,449**
Collective impairment	594,075	1	-	**594,076**
	1,392,050	**59**	**10,416**	**1,402,525**

44.13 Credit quality of Company assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and loans and advances to banks
Balances with central banks and loans and advances to banks are analysed by Moody's Investors Service rating as follows:

	2018	2017
	€000	€000
Aaa – Aa3	**182,817**	310,227
A1 – A3	**100,478**	554,579
Baa1 – Baa3	**58,029**	127,752
Ba1 – Ba3	**4,472,222**	2,870,600
Caa - C	**12,414**	10,173
Unrated	**32,898**	50,788
Other receivables from banks	**37,224**	56,603
	4,896,082	3,980,722

Band Ba1-Ba3 above includes an amount of €162,675 thousand which relates to obligatory deposits for liquidity purposes with the CBC (2017: 152,538 thousand). As at 31 December 2018, no bank balances are impaired (2017: €33,004 thousand with cumulative impairment loss of €24,998 thousand).

All balances with central banks and loans and advances to banks are classified as stage 1 (Note 18).

44. Risk management – Credit risk (continued)

44.13 Credit quality of Company assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Debt securities

Investments in debt securities are analysed as follows:

	2018	2017
Moody's rating	**€000**	€000
Aaa – Aa3	**818,658**	437,857
A1-A3	**20,166**	-
Baa1 – Baa3	**25,055**	12,306
Ba1-Ba3	**435,176**	499,687
Unrated	**46,552**	500
	1,345,607	950,350
Issued by:		
- Cyprus government	**435,733**	499,687
- Other governments	**423,675**	304,441
- Banks and other corporations	**486,199**	146,222
	1,345,607	950,350
Classified as:		
Investments mandatorily measured at FVPL	**9,106**	-
Investments at FVOCI	**806,122**	-
Investments at amortised cost	**530,379**	-
Available-for-sale investments	**-**	901,692
Loans and receivables	**-**	48,658
	1,345,607	950,350

	FVOCI	**Amortised cost**		
	Stage 1	Stage 1	Stage 2	**Total**
	€000	€000	€000	**€000**
Aaa - Aa3	481,558	337,100	-	**337,100**
A1 - A3	-	11,560	-	**11,560**
Baa1 - Baa3	-	25,055	-	**25,055**
Ba1 - Ba3	316,043	70,841	48,292	**119,133**
Unrated	8,521	-	37,531	**37,531**
	806,122	**444,556**	**85,823**	**530,379**

45. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates property and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk refers to the current or prospective risk to the Company's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated.

Interest rate risk is managed through a Year 1 Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income (when positive). There are different limits for the Euro and the US Dollar.

Sensitivity analysis
The table below sets out the impact on the Company's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies using the assumption of the prevailing market risk policy for the current and the comparative year.

Currency	Interest Rate Scenario	Impact on Net Interest Income in €000	
		2018 (50 bps for Euro and 60 bps for US Dollar)	2017 (60 bps for Euro and US Dollar)
All	Parallel up	32,640	24,470
All	Parallel down	(29,712)	(29,886)
All	Steepening	(25,455)	(25,031)
All	Flattening	27,170	22,895
All	Short up	31,590	25,603
All	Short down	(29,590)	(29,352)
Euro	Parallel up	32,247	24,280
Euro	Parallel down	(28,001)	(28,458)
Euro	Steepening	(23,917)	(22,935)
Euro	Flattening	26,894	22,499
Euro	Short up	31,211	25,378
Euro	Short down	(27,743)	(27,188)
US Dollar	Parallel up	393	190
US Dollar	Parallel down	(1,711)	(1,428)
US Dollar	Steepening	(1,538)	(2,096)
US Dollar	Flattening	276	396
US Dollar	Short up	379	225
US Dollar	Short down	(1,847)	(2,164)

45. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

The table below sets out the impact on the Company's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines:

Currency	Interest Rate Scenario	Impact on Equity in €000	
		2018 (50 bps for Euro and 60 bps for US Dollar)	2017 (60 bps for Euro and US Dollar)
All	Parallel up	(62,222)	(73,930)
All	Parallel down	39,961	8,815
All	Steepening	(37,309)	(84,428)
All	Flattening	11,001	27,502
All	Short up	(31,449)	(12,685)
All	Short down	15,908	4,837
Euro	Parallel up	(63,551)	(75,866)
Euro	Parallel down	87,037	26,724
Euro	Steepening	(36,216)	(81,121)
Euro	Flattening	21,382	52,012
Euro	Short up	(32,584)	(14,551)
Euro	Short down	38,322	19,263
US Dollar	Parallel up	2,659	3,872
US Dollar	Parallel down	(3,558)	(4,547)
US Dollar	Steepening	(1,093)	(3,307)
US Dollar	Flattening	620	2,991
US Dollar	Short up	2,271	3,733
US Dollar	Short down	(3,253)	(4,795)

The aggregation of the impact on equity was performed as per EBA guidelines by adding the negative and 50% of the positive impacts on each scenario.

45. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)
In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Company is also affected by changes in market interest rates. The impact on the Company's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Company's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on profit/(loss) before tax	Impact on equity
Parallel Change in interest rates ((increase)/decrease in net interest income))	€000	€000
2018		
+0.6% for US Dollar +0.5% for Euro +1.0% for British Pound	**(382)**	**(785)**
-0.6% for US Dollar -0.5% for Euro -1.0% for British Pound	**9,980**	**785**
2017		
+0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	**834**	**(3,139)**
-0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other currencies	**(834)**	**3,139**

Currency risk

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by market risk officers.

The Company does not maintain a currency trading book.

The table below sets out the Company's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the Company's branch and subsidiaries whose functional currency is not the Euro. The net assets of foreign operations are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

45. Risk management – Market risk (continued)

Currency risk (continued)

2018	**Change in foreign exchange rate**	**Impact on profit / (loss) after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**+10**	**2,071**	**-**
Russian Rouble	**+20**	**2,049**	**18,060**
Romanian Lei	**+10**	**-**	**(667)**
Swiss Franc	**+10**	**1,138**	**-**
British Pound	**+20**	**671**	**(2,472)**
Japanese Yen	**+10**	**119**	**-**
Other currencies	**+10**	**(74)**	**-**
US Dollar	**-10**	**(1,695)**	**-**
Russian Rouble	**-20**	**(1,366)**	**(12,040)**
Romanian Lei	**-10**	**-**	**546**
Swiss Franc	**-10**	**(931)**	**-**
British Pound	**-20**	**(448)**	**1,648**
Japanese Yen	**-10**	**(97)**	**-**
Other currencies	**-10**	**60**	**-**
2017			
US Dollar	+10	1,109	-
Russian Rouble	+25	2,714	22,323
Romanian Lei	+10	(419)	(407)
Swiss Franc	+20	3,812	-
British Pound	+20	868	(34,079)
Japanese Yen	+10	197	-
Other currencies	+10	(18)	-
US Dollar	-10	(908)	-
Russian Rouble	-25	(1,628)	(13,394)
Romanian Lei	-10	343	333
Swiss Franc	-20	(2,541)	-
British Pound	-20	(578)	22,719
Japanese Yen	-10	(161)	-
Other currencies	-10	14	-

45. Risk management – Market risk (continued)

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments.

Investments in equities are outside the Company's risk appetite. The Company monitors the current portfolio mostly acquired by the Company as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Company as soon as practicable.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Company, whereas changes in the value of equity securities classified as FVOCI affect the equity of the Company.

The table below shows the impact on the profit/loss before tax and on equity of the Company from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

2018	**Change in index**	**Impact on profit/(loss) before tax**	**Impact on equity**
	%	**€000**	**€000**
Cyprus stock exchange	**+25**	**-**	**830**
Other stock exchanges and unlisted	**+20**	**62**	**335**
Cyprus stock exchange	**-25**	**-**	**(830)**
Other stock exchanges and unlisted	**-20**	**(62)**	**(335)**
2017			
Cyprus stock exchange	+25	306	1,256
Athens exchange	+25	-	17
Other stock exchanges and unlisted	+20	37	1,785
Cyprus stock exchange	-25	(306)	(1,256)
Athens exchange	-25	-	(17)
Other stock exchanges and unlisted	-20	(284)	(1,539)

Debt securities price risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Company. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Company invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody's Investors Service rating of the debt securities portfolio of the Company as at 31 December 2018 was A1 (2017: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2018 was Aa1 (2017:Aa1).

45. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)
Changes in the prices of debt securities classified as investments at FVPL affect the profit or loss of the Company, whereas changes in the value of debt securities classified as FVOCI affect the equity of the Company.

The table below indicates how the profit/loss before tax and equity of the Company will be affected from reasonably possible changes in the price of the debt securities held, based on observation of changes in credit risk over the past years.

	Impact on profit / (loss) before tax	Impact on equity
	€000	€000
2018		
+1.5% for Aa3 and above rated bonds	**-**	**7,292**
+7.8% for Cyprus Government bonds	**-**	**24,346**
-1.5% for Aa3 and above rated bonds	**-**	**(7,292)**
-7.8% for Cyprus Government bonds	**-**	**(24,346)**
2017		
+3% for A3 and above rated bonds	-	13,038
+10% for below A3 rated bonds	-	45,614
-3% for A3 and above rated bonds	-	(13,038)
-10% for below A3 rated bonds	-	(45,614)

Other non-equity instruments price risk
The table below shows the impact on the profit/loss before tax and on equity of the Company from a change in the price of other non-equity instruments held, as a result of reasonably possible changes in the relevant stock exchange indices.

2018	Change in index	Impact on profit / (loss) before tax	Impact on equity
	%	€000	€000
Other (non-equity instruments)	**+25**	**2,147**	**-**
Other (non-equity instruments)	**-25**	**(2,147)**	**-**

46. Risk management – Liquidity risk and funding

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

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

46. Risk management – Liquidity risk and funding (continued)

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Company's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Company has developed internal control processes and contingency plans for managing liquidity risk.

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite being the level of risk at which the Company should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting the liquidity position of the Company.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Company.

Group Treasury is responsible for liquidity management at Company level to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to ensure a comfortable liquidity position.

Liquidity is also monitored daily by Market Risk, which is an independent department responsible for monitoring compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market Risk reports to ALCO the regulatory liquidity position of the Company, at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

Liquidity is monitored and managed on an ongoing basis through:

(i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.
(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.
(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags when the ratios deteriorate.
(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Company. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.
(v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
(vi) Recovery Plan: the Group has developed a Recovery Plan (RP). The key objectives of the RP are to set the key Recovery and Early Warning indicators, so as to monitor these consistently and to set in advance a range of recovery options to enable the Company to be adequately prepared to respond to stressed conditions and restore the Company's position.

Monitoring process

Daily

The daily monitoring of customer flows and the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Company's activities. Market Risk prepared a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position, net customer movements and other movements analysed by the main currencies. This report was abolished in June 2018. However, for better monitoring of the liquidity buffer, a new daily report was introduced analysing the internal liquidity buffer and comparing it to the previous day's buffer. This report is made available to Group Treasury and Group Finance. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Company.

Market Risk also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

46. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

Daily (continued)
The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds. The majority of these bonds are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds.

The designing of the stress tests followed best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA SREP. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives and repos.

Weekly
Market Risk prepared weekly reports of Euro and foreign currency liquidity mismatch, which also disclosed the level of the liquidity ratios which were submitted to the CBC. Given these ratios were abolished on the 1 January 2018, CBC abolished these reports on the 15 June 2018 and replaced them with a new one indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

Monthly
Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements, for the Company and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and the percentage of instant access deposits are also presented to the ALCO.

Market Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

Group Treasury prepares a liquidity report which is submitted to the ALCO on a monthly basis. The report indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and the Board Risk Committee quarterly. Market Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly as well as various other liquidity reports, included in the short-term exercise of the SSM per their SREP guidelines.

Annually
The Company prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP).

As part of the Company's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (LCP) for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this Committee and a series of the possible actions that can be taken. This LCP, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated Liquidity Policy with its recommendations to the Board through the Board Risk Committee for approval. The approved Liquidity Policy is notified to the SSM.

Liquidity ratios

The Company LCR presented in the table below, is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. As from 1 January 2018 the minimum requirement is 100%.

46. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

The LCR ratio (unaudited) of the Company was as follows:

	2018	2017
	%	%
End of reporting period	**230**	188
Average monthly ratio	**210**	118
Highest monthly ratio	**230**	188
Lowest monthly ratio	**195**	57

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR of the Company and which became effective on 1 January 2018. The objective of the measure has been to ensure that there will be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that were not subject to any outflow rates under the LCR. The measure was implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018. The second stage required more relaxed outflow and inflow rates compared to the initial ones, and were applicable from 1 July 2018 until 31 December 2018. Specifically, there was a reduction of 50% of the LCR add-on rates as from 1 July 2018. The additional liquidity requirement was implemented up to 31 December 2018. As at 31 December 2018, the Company was in compliance with the LCR add-on requirement.

Main sources of funding

During the year 2018, the Company's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

As at 31 December 2018, ECB funding was at €830 million in the form of 4-year TLTRO II. As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

Any new funding to subsidiaries requires approval from the ECB and the CBC.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

46. Risk management – Liquidity risk and funding (continued)

Collateral requirements

The carrying values of the Company's encumbered assets as at 31 December 2018 and 2017 are summarised below:

	2018	2017
	€000	€000
Cash and other liquid assets	**118,627**	120,525
Investments	**737,587**	315,425
Loans and advances	**2,528,241**	2,976,614
	3,384,455	3,412,564

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

Investments are mainly used as collateral for repurchase transactions with commercial banks, supplementary assets for the covered bond and with the ECB.

Loans and advances indicated as encumbered as at 31 December 2018 and 31 December 2017 are mainly used as collateral for funding from ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,009 million as at 31 December 2018 (2017: €1,001 million) in Cyprus, pledged as collateral for the covered bond issued by the Company in 2011 under its Covered Bond Programme. Furthermore as at 31 December 2018 housing loans of a nominal amount €1,543 million (2017: €1,273 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 30). As at 31 December 2018, no loans were pledged as collateral for deposits of the Republic of Cyprus (2017: €715 million) (Note 30).

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC. Under the Covered Bond Programme, the Company has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bonds have been amended to extend the maturity date to 12 December 2021 and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by the Company. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

The Republic of Cyprus was upgraded to investment grade (BBB-) by S&P Global Ratings in September 2018 and by Fitch Ratings in October 2018. The Cyprus Government bonds became ECB eligible in September 2018.

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Company's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month' time band.

The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Company expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits.

Subordinated loan stock is classified in the relevant time band according to the remaining contractual maturity, ignoring the call date.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Company after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

2018	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	4,541,832	26,857	38,972	87	2,534	**4,610,282**
Loans and advances to banks	330,452	2,657	484	105,874	-	**439,467**
Investments at fair value through profit or loss	5,732	-	-	-	4,068	**9,800**
Loans and advances to customers	2,356,405	200,730	741,481	3,176,791	4,431,186	**10,906,593**
Fair value of net settled derivative assets	3,764	376	8	20,606	-	**24,754**
Non-trading investments	3,013	-	108,969	819,129	410,411	**1,341,522**
Financial assets classified as held for sale	823,140	14,453	71,658	75,722	169,135	**1,154,108**
Other assets	12,020	17,024	8,802	74,672	-	**112,518**
Balances with Group companies	98,902	550	30,396	708,270	78,738	**916,856**
	8,175,260	**262,647**	**1,000,770**	**4,981,151**	**5,096,072**	**19,515,900**
Financial liabilities						
Deposits by banks	118,627	30,083	22,015	439	270,042	**441,206**
Funding from central banks	-	-	-	830,000	-	**830,000**
Repurchase agreements	-	-	90,174	172,803	-	**262,977**
Customer deposits	9,894,848	2,834,384	4,138,341	8,870	-	**16,876,443**
Subordinated loan stock	23,125	-	-	92,500	319,375	**435,000**
Fair value of net settled derivative liabilities	9,343	188	2,929	14,907	11,616	**38,983**
Other liabilities	127,657	-	-	-	-	**127,657**
Balances with Group companies	78,702	12,033	13,752	760	-	**105,247**
	10,252,302	**2,876,688**	**4,267,211**	**1,120,279**	**601,033**	**19,117,513**
Net financial (liabilities) / assets	**(2,077,042)**	**(2,614,041)**	**(3,266,441)**	**3,860,872**	**4,495,039**	**(398,387)**

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2017	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	2,917,182	29,509	34,371	8,493	-	**2,989,555**
Loans and advances to banks	1,001,050	1,188	1,536	110,476	20,244	**1,134,494**
Investments at fair value through profit or loss	734	-	-	-	490	**1,224**
Loans and advances to customers	4,180,600	204,569	616,425	2,949,801	5,035,362	**12,986,757**
Fair value of net settled derivative assets	1,414	69	11	16,369	164	**18,027**
Non-trading investments	19,692	-	10,480	601,319	333,587	**965,078**
Other assets	7,520	1,750	6,750	53,466	-	**69,486**
Balances with Group companies	69,117	118	241,067	696,149	61,405	**1,067,856**
Total financial assets	**8,197,309**	**237,203**	**910,640**	**4,436,073**	**5,451,252**	**19,232,477**
Financial liabilities						
Deposits by banks	185,645	140,361	25,513	460	141,511	**493,490**
Funding from central banks	100,000	-	-	830,000	-	**930,000**
Repurchase agreements	-	-	-	267,524	10,908	**278,432**
Customer deposits	8,773,099	2,935,976	3,908,936	456,120	5,320	**16,079,451**
Subordinated loan stock	23,125	-	-	92,500	362,125	**477,750**
Fair value of net settled derivative liabilities	14,039	992	252	23,789	11,898	**50,970**
Other liabilities	79,566	12,051	21,691	4,820	2,410	**120,538**
Balances with Group companies	104,367	19,422	18,308	144,625	-	**286,722**
	9,279,841	**3,108,802**	**3,974,700**	**1,819,838**	**534,172**	**18,717,353**
Net financial (liabilities) / assets	**(1,082,532)**	**(2,871,599)**	**(3,064,060)**	**2,616,235**	**4,917,080**	**515,124**

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2018	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	241,235	32,188	448	-	-	**273,871**
Contractual amounts payable	(237,967)	(31,933)	(446)	-	-	**(270,346)**
	3,298	**255**	**2**	**-**	**-**	**3,525**
Financial liabilities						
Contractual amounts receivable	997,856	37,174	446	-	-	**1,035,476**
Contractual amounts payable	(1,006,555)	(37,284)	(445)	-	-	**(1,044,284)**
	(8,699)	**(110)**	**1**	**-**	**-**	**(8,808)**

2018						
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	1,985	3,008	568	-	-	**5,561**
Guarantees	115,174	116,697	265,139	206,044	52,187	**755,241**
Commitments						
Documentary credits	5,085	10,649	5,993	885	1,685	**24,297**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,109,959	-	-	-	-	**2,109,959**
	2,232,203	**130,354**	**271,700**	**206,929**	**53,872**	**2,895,058**

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2017	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	403,689	6,552	1,966	-	-	**412,207**
Contractual amounts payable	(402,221)	(6,465)	(1,956)	-	-	**(410,642)**
	1,468	**87**	**10**	**-**	**-**	**1,565**
Financial liabilities						
Contractual amounts receivable	919,721	181,629	1,106	-	-	**1,102,456**
Contractual amounts payable	(933,009)	(182,582)	(1,107)	-	-	**(1,116,698)**
	(13,288)	**(953)**	**(1)**	**-**	**-**	**(14,242)**

2017						
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2,849	3,062	1,363	-	-	**7,274**
Guarantees	132,897	134,110	248,430	167,153	91,006	**773,596**
Commitments						
Documentary credits	3,382	5,447	17,931	505	2,365	**29,630**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,256,546	-	-	-	-	**2,256,546**
	2,395,674	**142,619**	**267,724**	**167,658**	**93,371**	**3,067,046**

47. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

The Company follows the EU Regulations, primarily the CRR and CRDIV and any other decisions or circulars issued by the regulators, ECB and CBC, with respect to the capital adequacy calculations.

The Group and the Company have complied with the minimum capital requirements (Pillar I and Pillar II).

The Pillar 3 Disclosures Report (unaudited) of the Group required with respect to the requirement of the Capital Requirements Regulation (EU) No 575/2013 is published on the Group's website www.bankofcyprus.com (Investor Relations).

48. Related party transactions

Aggregate amounts outstanding at year end and additional transactions

	2018	2017	**2018**	2017
	Number of directors		**€000**	€000
Loans and advances to members of the Board of Directors and connected persons:				
- less than 1% of the Company's net assets per director	**12**	10	**266**	265
Loans and advances to other key management personnel and connected persons			**2,591**	2,885
Total loans and advances as at 31 December			**2,857**	3,150
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,736**	2,736
- connected persons			**121**	414
			2,857	3,150
Interest income for the year			**81**	85
Commission income for the year			**9**	7
Subscriptions and insurance expense for the year			**633**	422

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**1,575**	2,737
- connected persons			**3,122**	3,088
			4,697	5,825
Interest expense on deposits for the year			**41**	64

Accruals and other liabilities as at 31 December with entity providing key management personnel services			**5,108**	5,236
Staff costs, consultancy and other restructuring expenses with entity providing key management personnel services			**14,609**	13,363

48. Related party transactions (continued)

Aggregate amounts outstanding at year end and additional transactions (continued)

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €37 thousand (2017: €76 thousand).

There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €402 thousand (2017: €431 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2018 amounted to €532 thousand (2017: €663 thousand).

At 31 December 2018 the Company has a deposit of €4,068 thousand (2017: €5,367 thousand) with Piraeus Bank SA in which Mr Arne Berggren is a non-executive Director. The Company has also provided certain indemnities to Piraeus Bank SA as part of the disposal of Kyprou Leasing SA in 2015.

Additionally, during the year ended 31 December 2017, the Company has signed an agreement to rent property owned by connected persons to the director Mr Michalis Spanos (resigned on 21 January 2019) covering the period from 1 June 2017 to 31 May 2027 but the contract is expected to be terminated on 1 September 2019. The monthly rental expense amounts to €4 thousand commencing from June 2018. The rental expense for the Company during 2018 amounted to €30 thousand.

There were no other transactions during the years ended 31 December 2018 and 2017 with connected persons of the current members of the Board of Directors or with any members who resigned during the two years.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel on the same terms as those applicable to the rest of the Company's employees and their connected persons on the same terms as those of customers.

Connected persons include spouses, minor children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Company.

48. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	2018	2017
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**2,453**	2,300
Employer's contributions	**98**	91
Retirement benefit plan costs	**216**	202
	2,767	2,593
Other key management personnel emoluments		
Salaries and other short term benefits	**2,443**	2,430
Employer's contributions	**113**	111
Retirement benefit plan costs	**104**	103
Total other key management personnel emoluments	**2,660**	2,644
Total	**5,427**	5,237

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

Executive Directors
The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2018	2017
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**2,256**	2,104
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**197**	196
	2,453	2,300

The retirement benefit plan costs for 2018 amounting to €216 thousand (2017: €202 thousand) relate to: Mr John Patrick Hourican €198 thousand (2017: €184 thousand) and Dr Christodoulos Patsalides €18 thousand (2017: €18 thousand).

48. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Non-executive Directors
Non-executive director fees are reflected as an expense of Bank of Cyprus Holdings Public Limited Company and as a result no non-executive director fees are disclosed. However, these are recharged by the holding company back to the Company and the recharge cost is included within 'Other operating expenses'.

Other key management personnel
The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy Chief Executive Officer and Chief Operating Officer.

49. Subsidiary companies

The main subsidiary companies and branches of the Company, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2018 are:

Company	Country	Activities	Percentage holding (%)
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	Cyprus	UCITS Fund	60
LCP Holdings and Investments Public Ltd	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	N/A
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100
BOC Asset Management Ltd	Cyprus	Management administration and safekeeping of UCITS Units	100
Cyreit Variable Capital Investment Company PLC (Cyreit)	Cyprus	Real Estate investment fund	88

49. Subsidiary companies (continued)

In addition to the above companies, at 31 December 2018 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Belvesi Properties Ltd, Hamura Properties Ltd, Legamon Properties Ltd, Asendo Properties Ltd, Domilas Properties Ltd, Gylito Properties Ltd, Lamezoco Properties Ltd, Noleta Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilero Properties Ltd, Ensolo Properties Ltd, Folimo Properties Ltd, Pelika Properties Ltd, Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Thryan Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Citlali Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Garmozy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Barway Properties Ltd, Cimonia Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Finevo Properties Ltd, Ganina Properties Ltd, Intelamon Properties Ltd, Kenelyne Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Nivoco Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Bokeno Properties Ltd, Flymoon Properties Ltd, Meriaco Properties Ltd, Valecast Properties Ltd, Teresan Properties Ltd, Odolo Properties Ltd, Prodino Properties Ltd, Racotino Properties Ltd, Rondemio Properties Ltd, Rylico Properties Ltd, Vatino Properties Ltd, Virevo Properties Ltd, Sailoma Properties Ltd and Volparo Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2018 BOC PCL had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd and Gosman Properties Ltd.

Cyreit Variable Capital Investment company PLC was incorporated in January 2018 as an alternative investment fund. The Fund is licensed and regulated by the Cyprus Securities and Exchange Commission. The Group has transferred to the Cyreit, following its set-up in March 2018 its 100% holding in Smooland Properties Ltd, Threefield Properties Ltd, Vameron Properties Ltd, Bascot Properties Ltd, Vanemar Properties Ltd, Consoly Properties Ltd, Alomnia Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd, Allodica Properties Ltd, Wiceco Properties Ltd, Primaco Properties Ltd, Arleta Properties Ltd, Kuvena Properties Ltd, Nuca Properties Ltd, Orleania Properties Ltd, Ravenica Properties Ltd, Rouena Properties Ltd, Lancast Properties Ltd and Azemo Properties Ltd. As at 31 December the BOC PCL held 88% shareholding in Cyreit therefore the indirect holding in Cyreit’s subsidiaries at 31 December 2018 is 88%.

49. Subsidiary companies (continued)

Additionally, the Company increased its controlling interest from 51% to 64% in Nicosia Mall Management (NMM) Limited, Nicosia Mall Finance (NMF) Limited, Nicosia Mall Holdings (NMH) Limited and Nicosia Mall Property (NMP) Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services except for Nicosia Mall Property (NMP) Ltd and Cyreit's subsidiaries whose activity is the ownership and management of immovable property.

At 31 December 2018 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Tavoni Properties Ltd, Amary Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Calandomo Properties Ltd, Cramonco Properties Ltd, Monata Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Dorfilo Properties Ltd, Enelo Properties Ltd, Mikosa Properties Ltd, Stormino Properties Ltd, Fodilo Properties Ltd, Jalimo Properties Ltd, Livena Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Petrassimo Properties Ltd, Sendilo Properties Ltd, Stevolo Properties Ltd, Baleland Properties Ltd, Edilia Properties Ltd, Icazo Properties Ltd, Limoro Properties Ltd, Lomenia Properties Ltd, Rofeno Properties Ltd, Samilo Properties Ltd, Vemoto Properties Ltd, Vertilia Properties Ltd and Zenoplus Properties Ltd.

Romania: Selilar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Loneland Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

The Company also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Renalandia Properties Ltd, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd, Fantasio Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Polkima Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, CYCMC I Ltd, CYCMC II Ltd, CYCMC III Ltd and CYCMC IV Ltd.

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Control over CLR Investment Fund Public Ltd (CLR) and its subsidiaries without substantial shareholding

The Company considers that it exercises control over CLR and its subsidiaries (Europrofit Capital Investors Public Limited, Axxel Ventures Limited and CLR Private Equity Limited) through control of the members of the Board of Directors and is exposed to variable returns through its holding.

Dissolution and disposal of subsidiaries

As at 31 December 2018, the following subsidiaries were in the process of dissolution or in the process of being struck off: Bank of Cyprus (Channel Islands) Ltd, Bank of Cyprus Romania (Romanian branch), BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, BOC Ventures Ltd, Buchuland Properties Ltd, Calomland Properties Ltd, Corner LLC, Diners Club (Cyprus) Ltd, Fairford Properties Ltd, Frozenport Properties SRL, Lameland Properties Ltd, Leasing Finance LLC, Loneland Properties SRL, Melgred Properties SRL, Mirodi Properties Ltd, Nallora Properties Ltd, Omiks Finance LLC, Pittsburg Properties Ltd, Salecom Ltd, Sylvesta Properties Ltd, Unknownplan Properties Ltd and Kyprou Finance (NL) B.V.

49. Subsidiary companies (continued)

Dissolution and disposal of subsidiaries (continued)

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Company. The gain on dissolution of the branch in Romania amounts to €3,023 thousand.

Unknownplan Properties SRL, Buchuland Properties SRL, Janoland Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Pittsburg Properties SRL, Samarinda Navigation Co Ltd and Blindingqueen Properties SRL were dissolved during the year ended 31 December 2018. Nelipo Properties Ltd, Zarveto Properties Ltd, Bigwaive Properties Ltd, Jungax Properties Ltd, Bracando Properties Ltd, Kimrar Properties Ltd, Cadomia Properties Ltd, Desogus Properties Ltd, Ecunaland Properties Ltd, Lasmane Properties Ltd, Forsban Properties Ltd, Zedoma Properties Ltd, Carnota Properties Ltd, Fastflow Properties Ltd, Alomco Properties Ltd, Lozzaria Properties Ltd, Basiga Properties Ltd, Belaland Properties Ltd, Bank of Cyprus UK Ltd, BOC Financial Services Ltd, Finacap Properties Ltd, Jomento Properties Ltd and Newington Properties Ltd were disposed of during the year ended 31 December 2018.

Carrying value of investments in subsidiaries

	2018	2017
	€000	€000
1 January	**259,372**	198,708
Contribution to subsidiaries	**175**	120,053
Disposals/dissolution of subsidiaries	**(123,791)**	-
Additions	**123,252**	-
Impairment of investments in subsidiaries (Note 15)	**(4,320)**	(57,611)
Repatriation of capital	**-**	(1,778)
31 December	**254,688**	259,372

During 2018 Bank of Cyprus UK Ltd proceeded with the capitalisation of its property revaluation reserve of €7,955 thousand through the issue of shares to the Company and subsequent reduction of share capital as permitted by the relevant legislation. Similarly, the Company has reclassified to accumulated losses other reserves of €6,059 thousand which is of similar nature.

50. Acquisitions and disposals

50.1 Acquisitions during 2018

There were no acquisitions during the year ended 31 December 2018.

50.2 Disposals during 2018

50.2.1 Disposal of Bank of Cyprus UK Limited

In November 2018, the Company completed the sale of 100% of its subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Limited.

The cash consideration amounts to €120,131 thousand comprising of €115,991 thousand base consideration plus a purchase price adjustment of €4,140 thousand. The disposal resulted in a loss of €3,573 thousand. Half of the base consideration together with the purchase price adjustments was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 28).

50. Acquisitions and disposals (continued)

50.3 Acquisitions during 2017

50.3.1 Acquisition of Nicosia Mall Holdings (NMH) Limited

In the context of the loan restructuring activities, the Company acquired on 28 September 2017 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Nicosia Mall Holdings (NMH) Limited is involved in the construction of the Nicosia Mall. The consideration for the acquisition of 51% share in Nicosia Mall Holdings (NMH) Limited amounts to €7,500 thousand which was used to reduce part of the outstanding facilities and therefore the acquisition did not include any cash consideration. The Company has control over Nicosia Mall Holdings (NMH) Limited.

50.4 Disposals during 2017

There were no material disposals during the year ended 31 December 2017.

51. Events after the reporting period

51.1 Legislative amendments for the conversion of Deferred tax asset (DTA) to Deferred tax credit (DTC)

On 1 March 2019 the Cyprus Parliament adopted legislative amendments on Income Tax Law (the Law) published on the Official Gazette of the Republic on 15 March 2019 (the amendments).

The amendments allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC). To the extent that the DTC are not utilised they are converted into a receivable amount by the credit institution that falls within the scope of these amendments. The law amendments cover the income tax losses transferred from Laiki Bank to the Company in March 2013 within the framework of 'The Resolution of Credit and Other Institutions Law' of 2013.

Under the Law the Company may, potentially and gradually, convert up to an amount of €3,3 billion tax losses to DTC (which led to the creation of DTA amounting to €417 million), with the conversion being based on the tax rate applicable at the time of conversion. The tax losses in excess of the €3,3 billion transferred from Laiki Bank to the Company in March 2013 cannot be utilised by the Company except in cases where there are transfers arising due to reorganisations made prior to 1 October 2019 (subject to the prior approval of the Minister of Finance). The Company paid a consideration for the DTA as part of the consideration paid for the acquisition of certain assets and liabilities of Laiki Bank in 2013.

The law amendment will result in improved regulatory capital treatment of the DTA, under CRR and will increase CET1 by c. 170 bps (unaudited) on a transitional basis, as at 31 December 2018. This improvement includes the impact from the reversal of impairment of the related DTA of €108 million recognised in previous year, which will be reversed in 2019 Income statement

51.2 Resignation of the Company's CEO

On 3 March 2019 the Company's CEO Mr. John Patrick Hourican informed the Board of his decision to leave the Company in September 2019.

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Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of parent company Bank of Cyprus Public Company Ltd (the 'Company'), which are presented in pages 258 to 418 and comprise the balance sheet as at 31 December 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Separate Financial Statements* section of our report. We remained independent of the Company throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of Loans and Advances to Customers including IFRS 9 transition On 1 January 2018, the Company adopted IFRS 9, a new accounting standard for financial instruments. This standard introduced a model of expected credit losses (ECL), rather than the incurred loss model which was previously applied under IAS 39. As at 31 December 2018, gross loans and advances to customers amounted to €12,357m and the related allowance for expected credit losses amounted to €1,846m. The basis of the impairment provision policy is presented in the accounting policies note in the consolidated financial statements of the Company and further analysed in Note 5.2 to the separate financial statements. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that meet the internal definition of significant. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the ECL for loans and advances to customers. As loans and advances to customers comprise a large portion of the Company's assets, and due to the significance of judgement used in estimating both the individual and collective provisions, this is considered to be a key audit matter.	The key judgments and estimates in respect of the timing and measurement of ECL which we focused on include: • The allocation of loans and advances to Stages 1, 2 or 3 using criteria in accordance with the standard; • The interpretations and assumptions used to build the model that calculated ECL; • The completeness and accuracy of data used in the calculation of ECL; • The inputs, assumptions and probability weightings assigned to multiple economic scenarios; • The identification and measurement of individually assessed provisions; and • The accuracy and adequacy of the disclosures in the financial statements. In obtaining sufficient audit evidence we: • Inspected key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation. • Tested the key controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement. • Assessed management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018. • Performed walkthroughs of the processes relevant to the calculation of ECL to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. • Observed the joint audit committee and risk committee meetings where the inputs,

Refer to Note 44 to the separate financial statements.	assumptions, adjustments and outcomes were discussed and approved by the members. • Challenged the criteria used to allocate loans and advances to customers to Stage 1, 2 or 3 in accordance with IFRS 9. We selected a sample of loans and advances to customers in Stage 1, 2 or 3 to verify that they were allocated to the appropriate stage. • Tested the completeness and accuracy of the data through reconciliation to the source systems and testing of inputs. • Involved our credit risk specialists within the engagement team to test the assumptions, inputs and formulas used in a sample of ECL. This testing included assessing the appropriateness of model design and formulas used, recalculating the Probability of Default, Loss Given Default and Exposure at Default. • Involved our credit risk specialists within the engagement team to assess the base case and alternative economic scenarios, including challenging probability weights. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment, interest rates and House Price Index. • Tested a sample of the Company's loan reviews and assessed the measurement of the provisions, involving our valuation specialists to value the collateral. We examined other cash flow assumptions where the level of provision is not dependent on collateral values. We also assessed the timing of estimated cash flows. • Assessed the disclosures made against the relevant accounting standards.
Provisions for Pending Litigation, Claims, Regulatory and Other Matters As at 31 December 2018, provisions for pending litigation, claims, regulatory and other matters amounted to €105m.	In relation to provision for pending litigation, claims, regulatory and other matters, audit focus was placed on the completeness of the exposures, the probability of occurrence assigned to each case and

The accounting policy for provisions is described in the accounting policies note in the consolidated financial statements of the Company and further analysed in Note 5.5 to the separate financial statements. The Company, in the ordinary course of business, is subject to various legal claims, investigations and other proceedings. It also operates in a heavily regulated environment and needs to remain constantly alert to ensure compliance with relevant rules and regulations. Management reviews all existing and potential legal and conduct cases based on the assessment of the probability of economic outflow from the Company in conjunction with the internal compliance and legal departments. The recognition and measurement of provisions in respect of pending litigation, claims, regulatory and other matters require a high level of judgement. Due to the risk that the provisions may be incomplete or inappropriately provided for, and the difficulty in assessing and measuring the quantum from any resulting obligations, this is considered a key audit matter. Refer to Note 38 of the separate financial statements.	the expected cash outflow calculated by the Company. In obtaining sufficient audit evidence we: • Performed walkthroughs of the process relevant to the calculation of provisions for pending litigation, claims, regulatory and other matters to identify key systems, applications and controls within the process. • Obtained a detailed assessment from the Company's internal legal department of potential outcomes for each individual case in excess of €200k. We ensured that this assessment was endorsed by the Company's external legal advisors in Cyprus and Greece. • We evaluated the competence, capability and objectivity of management's external specialists (legal advisors). • Analysed with the head of the internal legal department the list of existing and potential claims, the current progression of existing cases with a range of related outcome possibilities and the consequential exposure for the Company. • Analysed lists of legal cases from each location and tested that sufficient provision has been recorded in the Company's records where the exposure is assessed as probable. • Inspected the board of directors and other committee meeting minutes for evidence of any unidentified legal cases or developments in current cases which may impact the outcome. • Inspected regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances or possible non-compliance with any regulatory requirements. • Analysed working files and results reports for the assessment of customer redress provisions, prepared by the Company's external advisors. • Assessed the disclosures made against the relevant accounting standards.

Going Concern	

As required by IFRSs, Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.
 	
The Directors have determined that the going concern assumption is appropriate and that the Group is taking all necessary measures to maintain its viability of the business into the future. As part of their assessment, the Directors have considered compliance with regulatory measures, recent legislative amendments in Cyprus and the uncertainty in executing the required steps in the Financial and Capital Plan. The Directors have formulated actions as deemed appropriate to ensure the Company is a going concern into the future.
 	
In light of the judgment and uncertainties involved in the delivery of the Financial and Capital Plan and the actions formulated therein, this is considered a key audit matter.
 	
Refer to Management Report in the consolidated financial statements and Note 3 to the separate financial statements.
	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Company's ability to continue as a going concern.
	
	In obtaining sufficient audit evidence we:
	
	• Obtained and read correspondence with the relevant regulators with regards to regulatory capital and liquidity requirements of the Group, in addition to other correspondence such as the findings of the Supervisory Review and Evaluation Process. We have also discussed the findings of the Supervisory Review and Evaluation Process with management of the Company to understand the actions being implemented to address the points raised by the Joint Supervisory Team.
	
	• Met with the members of the Joint Supervisory Team of the European Central Bank to understand their assessment of a number of matters including the following:
	
	    ○ the Group's Financial and Capital Plan and the associated implementation risk present in the Group executing the plan;
	    ○ the ongoing viability of the Group and the associated macro conditions impacting future viability;
	    ○ the findings included in the letter on the Supervisory Review and Evaluation Process; and
	    ○ the Significant Risk Transfer of Project Helix including the nature of its capital accretive impact.
	
	• Considered the significant transactions occurring during 2018 and their ongoing accretive impact in complying with regulatory capital ratios. These executed transactions include:

	- Project Helix, a transaction disposing of a portfolio on non-performing loans, which received confirmation of Significant Risk Transfer from the European Central Bank in March 2019; - the completion of the sale of Bank of Cyprus UK Limited in Q3 2018 to third party investors; and - the issuance of €220m Additional Tier 1 Capital Securities. • Considered the Income Tax Law amendment 28 (I) of 2019 enacted by the Cyprus Parliament in Q1 2019. This legislation has converted the Deferred Tax Asset recognised by the Company on acquisition of the ex-Laiki Bank into a Deferred Tax Credit. This legislation has a capital accretive impact on the Group's ability to meet regulatory capital needs for the next 12 months. • Inspected the Group's 3 year Financial and Capital Plan approved by the Board in February 2019. • Inspected the regulatory capital projections of the Group for the next 12 months which take into consideration the Financial and Capital Plan. • Involved our internal valuation specialists to assess the inputs and assumptions embedded in forecasts of profitability which are included within the Financial and Capital Plan, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group, the Financial and Capital Plan prepared by the Group, the future strategic plans and the past performance of the Group. • Assessed the disclosures made by the Directors in the financial statements in relation to going concern for adequacy.

Recoverability of Deferred Tax Assets The Company has recognised deferred tax assets of €302m in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in the accounting policies note in the consolidated financial statements of the Company and further analysed in Note 5.3 to the separate financial statements. The recoverability and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward. In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of deferred tax assets to be a key audit matter. Refer to Note 16 to the separate financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the profit projections such as macro-economic assumptions, business growth rates, cost reduction and restructuring initiatives. In obtaining sufficient audit evidence we: • Performed a walkthrough of the process for the valuation of the deferred tax asset to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls across processes. • Assessed and tested the supporting calculations of the Group's Financial and Capital Plan which formed the basis of the extended projections until 2028. • Involved our internal valuation specialists within the engagement team to assess and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Company, the future strategy and the past performance. • Compared the actual results with management profit projections and obtained explanations about significant variances to assess the accuracy of the forecasting process. • Assessed the disclosures made against the relevant accounting standards.

Valuation of stock of property The Company has acquired a significant number of properties as a result of restructuring agreements with customers. As at 31 December 2018, the stock of properties amounted to €743m. These properties are accounted by the Company as stock of property in accordance with IAS 2. The basis of the stock of property valuation policy is presented in the accounting policies note in the consolidated financial statements of the Company and further analysed in Note 5.4 to the separate financial statements. In light of the large volume of properties held and the uncertainty around market conditions when estimating the recoverable amount, we have considered the judgement based valuation inputs involved to be a key audit matter. Refer to Note 27 to the separate financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the valuation of the properties held in accordance to IAS2. In obtaining sufficient audit evidence we: • Performed walkthroughs of the processes relevant to the valuation of stock of property to identify key systems, applications and controls within the processes. • Tested the design and operating effectiveness of key controls around the valuation process of stock of property. • Obtained management's assessment of the net realisable value ('NRV') and tested whether the lower of the cost and NRV is considered as the value of the stock of property as at the reporting date, in accordance with IAS 2. • Obtained the valuation reports received by the Company from independent external valuers (management's external specialists) for a sample of properties to determine that the valuations used in the NRV calculation were appropriate. • For a sample of external valuation reports reviewed we assessed the methodology and assumptions by involving our internal valuation specialists. • We evaluated the competence, capability and objectivity of management's external specialists (valuers). • Compared disposal cost assumptions incorporated in the Company's calculation of the NRV to disposals that have occurred during the year. • Performed substantive analytical review procedures, categorising the properties by type and district and comparing the change in the value of each type of property and each district over the year to the changes in Royal Institute of Chartered Surveyors ('RICS') indices. • Assessed the disclosures made against the relevant accounting standards.

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Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Separate Financial Statements

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

In preparing the separate financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors through its Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors through its Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and period of engagement

We were first appointed as auditors of the Company on 18 December 1939 by the Company's Board of Directors. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 80 years.

Consistency of the additional report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate financial statements or the management report.

Other legal requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the separate financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
28 March 2019

Accumulated expected credit losses on loans and advances to customers	Expected credit losses to cover credit risk on loans and advances to customers comprise: (i) allowance for ECL of loans and advances to customers, (ii) the fair value adjustment on initial recognition of loans and advances to customers, (iii) provisions for off-balance sheet exposures (contingent liabilities and commitments) disclosed on the balance sheet within other liabilities and (iv) accumulated fair value adjustments on loans and advances to customers classified at FVPL.
Cost to income ratio	Cost-to-income ratio is calculated as the total staff costs, special levy on deposits on credit institutions in Cyprus and other operating expenses (excluding advisory and other restructuring costs) and (reversals of provisions)/provisions for litigation and regulatory matters) divided by total income.
Expected credit losses (cost of risk)	Expected credit loss (cost of risk) is calculated as the loan provisions charge (as defined) divided by average gross loans and advances to customers (as defined) (the average balance calculated as the average of the opening and closing balance).
Expected credit losses coverage ratio for NPEs	Expected credit losses coverage ratio for NPEs is calculated as the accumulated expected credit losses (as defined) over NPEs (as defined).
Gross loans and advances to customers	Comprises: (i) gross loans and advances to customers measured at amortised cost before fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale) and (ii) loans and advances to customers measured at FVPL, including accumulated fair value adjustments.
Interest earning assets	Interest earning assets is the sum of: cash and balances with central banks, loans and advances to banks, net loans and advances to customers and investments (excluding equities and mutual funds).
Leverage ratio	The leverage ratio is calculated as the tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan provisions charge	Loan provisions charge comprises of: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets.
Net loans to deposits ratio	Net loans to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits. Where applicable, loans and deposits held for sale are added to the numerator and denominator respectively.
New loan originations in Management Report	New lending includes the average YTD change (if positive) for credit cards and overdraft facilities.

Non-performing exposures (NPEs)	The Group in line with the European Banking Authority (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions: (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due. (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy. (iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due. (iv) Performing forborne exposures under probation for which additional forbearance measures are extended. (v) Performing forborne exposures under probation that present more than 30 days past due within the probation period. When a specific part of the exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing.
NPE ratio	NPE ratio is NPEs (as defined) divided by gross loans and advances to customers (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit divided by the average of total assets for the relevant period.
Total income	Comprises total of net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income.

The alternative performance measures described above, have been introduced since 1 January 2018 upon the adoption of IFRS 9 and replaced the alternative performance measures used as at 31 December 2017 which are listed below:

- Accumulated provisions
- Provisioning coverage ratio for 90+ DPD
- Provisioning coverage ratio for NPEs
- Provisioning charge (cost of risk)
- Loans in arrears for more than 90 days (90+ DPD)
- Loans in arrears for more than 90 days (90+ DPD) ratio

Reconciliation of Gross loans	**31 December 2018**	31 December 2017
	€000	€000
Gross loans as per Directors' Report	**15,900,427**	18,754,715
Adjustments:		
Fair value adjustment on initial recognition (Note 46)*	**(322,375)**	(668,485)
Loans and advances to customers classified as non-current assets held for sale (Note 46)	**(2,711,960)**	-
Fair value adjustment on initial recognition on loans and advances to customers classified as non-current assets held for sale (Note 46)	**(139,153)**	-
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	**99,000**	-
Loans and advances to customers measured at fair value through profit and loss (Note 24)	**(395,572)**	-
Gross loans as per the Consolidated Financial Statements (Note 24)	**12,430,367**	18,086,230

* Including fair value adjustment on initial recognition of loans and advances to customers measured at fair value through profit and loss amounting to €60,326 thousand.

Reconciliation of accumulated expected credit losses on loans and advances to customers (ECL)	**31 December 2018**	31 December 2017
	€000	€000
ECL as per Directors' Report	**3,852,218**	4,204,248
Adjustments:		
Fair value adjustment on initial recognition (Note 46)*	**(322,375)**	(668,485)
Loans and advances to customers classified as non-current assets held for sale (Note 46)	**(1,557,852)**	-
Fair value adjustment on initial recognition on loans and advances to customers classified as non-current assets held for sale (Note 46)	**(139,153)**	-
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	**99,000**	-
Provisions for financial guarantees and commitments (Note 35)	**(27,685)**	(51,987)
Allowance for accumulated ECL as per the Consolidated Financial Statements (Note 24)	**1,904,153**	3,483,776

* Including fair value adjustment on initial recognition of loans and advances to customers measured at fair value through profit and loss amounting to €60,326 thousand.

Reconciliation of NPEs	**31 December 2018**
	€000
NPEs as per Directors' Report	**7,418,613**
Adjustments:	
Loans and advances to customers classified as non-current assets held for sale	**(2,749,300)**
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	**99,000**
Loans and advances to customers measured at fair value through profit and loss (Stage 3)	**(160,907)**
POCI (Stage 3)	**(691,815)**
Stage 3 loans and advances to customers as per the Consolidated Financial Statements (Note 46)	**3,915,591**