Pillar 3 Disclosures 2017

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1. Executive Summary

The Executive Summary discloses a high level summary of the risk profile of Bank of Cyprus Holdings Public Limited Company (the 'Company' and, together with its subsidiary, Bank of Cyprus Public Company Limited (the 'Bank', BOC PLC), and the Bank's subsidiaries, the 'Group'), and its interaction with its risk appetite. Risk appetite describes the types and level of risk that the Group chooses to accept in pursuit of its strategy whilst at the same time fulfilling regulatory requirements.

The Group determines its risk appetite considering its strategic objectives of 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 Board of Directors of the Company (the 'Board', of the 'BoD') is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management. The Board Risk committee (RC) monitors the Group's risk profile against the Risk Appetite Statement (RAS) and ensures compliance with risk management strategy, policies and regulations and makes appropriate recommendations to the Board.

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 and the UK operations
- 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 • Focus on terminated portfolios (in Recovery Unit) – "accelerated consensual foreclosures" • Real estate management via REMU • 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 • Increase loan pool for the Additional Credit Claim framework of ECB • Further diversify funding sources
3. Maintain an appropriate capital position	• Internally generate capital • Potential AT1 issuance
4. Focus on core 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 • Careful expansion of UK franchise by leveraging the UK subsidiary
5. Achieve a lean operating model	• Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time
6. Deliver returns	• Deliver appropriate medium term risk-adjusted returns

1. Executive Summary (continued)

The Group has made progress on some key metrics and moved closer to its risk appetite but still continues to operate outside of its risk appetite, in asset quality, concentration limits and operational risk losses. Additional information on the RAS is disclosed in Section 2.4.5.

The following key metrics reflect largely the Group's risk profile.

Key figures and indicators	**31 December 2017**	31 December 2016
Common Equity Tier 1 capital ratio (CET1) (transitional)	**12.7%**	14.5%
CET1 (fully loaded)	**12.2%**	13.9%
Total capital ratio (transitional)	**14.2%**	14.6%
Risk-Weighted Assets (RWA) (€ million)	**17,260**	18,865
RWAs intensity	**73%**	85%
NPE ratio	**47%**	55%
NPE provisioning coverage ratio	**48%**	41%
Cost of risk	[1]**4.0%**	1.7%
Leverage ratio[2]	**10.4%**	13.2%
Liquidity Coverage Ratio	**190%**	49%

[1] An amount of c.€500 million reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk.
[2] Tangible total equity to total assets

- The Common Equity Tier 1 capital (CET1) ratio (transitional basis) stood to 12.7% at 31 December 2017, compared to 14.5% at 31 December 2016. Adjusting for deferred tax assets, the CET1 ratio on a fully-loaded basis totalled 12.2% at 31 December 2017 (31 December 2016: 13.9%). During 2017 the CET1 ratio was negatively affected by the loss for the year and the deferred tax asset phasing-in, despite the reduction in Risk-Weighted Assets (RWAs).
- As at 31 December 2017, the Total Capital ratio stood at 14.2%, above the minimum required (13.00%). The total capital ratio was positively affected by the issuance of €250 million unsecured and subordinated Tier 2 Capital Notes in January 2017 by the Bank and of GBP30 million Tier 2 Capital Loan by the UK subsidiary in December 2017.
- The reduction in RWAs primarily reflects the continued balance sheet management and the reduction of non-performing exposures (NPEs), as well as the increased provisioning charge during 2017. The RWA intensity decreased from 85% to 73%, reflecting both the decrease in NPE exposures and the increase in cash and balances with central banks which have low risk weighting.
- The Group has recorded significant organic NPE reductions for eleven consecutive quarters and expects the organic reduction of NPEs to continue during the coming quarters. In parallel the Group continues to be actively exploring alternative avenues to accelerate this reduction. NPEs as defined by the European Banking Authority (EBA) were reduced by €2.2 billion or 20% during 2017 to €8,804 million at 31 December 2017, accounting for 47% of gross loans, compared to 55% at 31 December 2016.
- The provisioning coverage ratio of NPEs stood at 48% at 31 December 2017, compared to 41% at 31 December 2016. When taking into account tangible collateral at fair value, NPEs are fully covered. The 31 December 2017 NPE provisioning coverage ratio increases from 48% to 51% upon IFRS 9 first time adoption.

1. **Executive Summary** (continued)

- The Group's International Financial Reporting Standards (IFRS) 9 preliminary impact on transition, which is subject to change due to final parameter calibrations, is assessed to a decrease of shareholders' equity of c.€300 million and is primarily driven by credit impairment provisions. The Group will implement the transitional arrangements for regulatory capital purposes which result in only 5% of the estimated IFRS 9 impact affecting the capital ratios during 2018. Allowing for IFRS 9 transitional arrangements the impact is a decrease of c.9 bps on Group capital ratios. On a transitional basis and on a fully phased-in basis after the period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.
- Provisions for 2017 totalled €779 million, up by 111% compared to 2016. The elevated provisioning levels reflect changes in the provisioning assumptions of BOC PCL as a result of the Group's reconsideration of its strategy to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking. The provisioning charge for 2017 accounted for 4.0% of gross loans. An amount of c.€500 million reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk.
- According to the EBA guidelines that govern the Capital Requirements Regulation (CRR) default definition, issued in January 2017, the default definition will gradually evolve to align with the NPE definition by 1 January 2021. The Group, in line with regulatory discussions, intends to early adopt changes that will almost align the EBA CRR definition with the NPE definition as from 1 January 2018. This will result in an increase in RWA, equivalent to a decrease of c.40bps on CET1 ratio and a decrease of c.50 bps on total capital ratio based on 31 December 2017 figures.
- At 31 December 2017 the Group Liquidity Coverage Ratio (LCR) stood at 190% (compared to 49% at 31 December 2016) and was in compliance with the minimum regulatory requirement of 80% (which increased to 100% on 1 January 2018). Following the repayment of ELA the Group improved its liquidity position and achieved compliance with the LCR. The Group and the Bank are currently in compliance with the LCR including the LCR add-on, which was introduced by the Central Bank of Cyprus (CBC) as a macro-prudential measure, effective from 1 January 2018.
- The Group has in place limits to manage concentration risk which can arise, among others, from sector, product, counterparty, currency, collateral and funding source concentration. Appropriate monitoring and reporting processes are in place and are frequently reviewed. There are restrictions on loan concentrations which are imposed by the Cyprus Banking Law, the relevant CBC Directives and the CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's RAS imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of the internal limits over time.

Risk Statement

The Finance Director and the Group Chief Risk Officer have attested in writing that, to the best of their knowledge, the 2017 Pillar 3 disclosures comply with Part Eight of the CRR and the EBA Guidelines related disclosure requirements and have been prepared in accordance with the internal control processes agreed upon at the Board level.

A statement by the Board regarding the internal controls is included within the Annual Corporate Governance Report of 2017 (section 2). In addition, statements approved by the Board describing the Group's overall risk profile associated with the Group strategy and risk management are included within the Directors' Report (sections: Viability statement, Strategy and Outlook, Risk management). The 'concise statement' by the Board is disclosed in the 2017 Directors' report in section 'Statement of Directors' Responsibilities' (page 24), which forms part of the 2017 Annual Report of Bank of Cyprus Holdings Group.

2. Introduction

2.1 Corporate Information

Bank of Cyprus Holdings Public Limited Company (the 'Company') was incorporated in Ireland on 11 July 2016 as a public limited company in accordance with the provisions of the Companies Act 2014 of Ireland.

The Company is the holding company of Bank of Cyprus Public Company Limited (the 'Bank', BOC PCL). The 'Group' comprises the Company, its 100% subsidiary BOC PCL and the subsidiaries of BOC PCL. The principal activities of BOC PCL and its subsidiary companies, the 'BOC group', involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange for debt.

On 19 January 2017 the total issued share capital of the Company was admitted to listing and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

2.2 Pillar III Regulatory Framework

Regulatory framework overview

The Pillar 3 report is prepared in accordance with the CRR and the Capital Requirements Directive IV (CRD IV). The EBA guidelines on Pillar 3 disclosure requirements have been fully adopted.

The CRR and CRD IV establish the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely effective by 2019. In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The current regulatory framework comprises three pillars:

- Pillar I covers the calculation of RWA for credit risk, counterparty risk, market risk and operational risk.
- Pillar II covers the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of a bank's capital adequacy and internal processes.
- Pillar III covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

2.2 Pillar III Regulatory Framework (continued)

Capital requirements

The minimum ratios presented below apply for both, the Bank and the Group. In addition, the ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer.

Minimum Capital Requirements

	2018	2017	2016
Pillar 1	%	%	%
CET1	4.5	4.5	4.5
Tier 1	6.0	6.0	6.0
Total Capital requirement -Pillar 1	**8.0**	**8.0**	**8.0**
Pillar 2			
Pillar 2 requirement	**3.00**	**3.75**	**3.75**
Buffers			
Capital Conservation Buffer (CCB)–*Note 1*	1.875	1.25	2.5
Countercyclical Buffer (CCyB)	*Note 2*	-	-
Other Systematically Important Institutions (O-SII)-*Note 3*	-	-	-
Total minimum requirements CET1	**9.375**	**9.5**	**11.75**
Total Capital requirement	**12.875**	**13.0**	**Not applicable**

Notes:
Based on the provisions of the Macroprudential Oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

1. Following the enactment of the amendments in the Cypriot Banking Law on 3 February 2017, the CCB is gradually phased-in at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 and is fully implemented on 1 January 2019 at 2.5%.

2. In accordance with the provisions of the above law, the CBC determines, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined for all the countries in the European Economic Area (EEA) by their local competent authorities ahead of the beginning of each quarter. The CBC has set the level of the CCyB for Cyprus at 0% for the years of 2016 and 2017 and the six months up to June 2018. The CCyB for the Group has been calculated at zero for the years 2016 and 2017 (Section 5.4).

3. In accordance with the provisions of this law, 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 CBC set the O-SII buffer for the Group at 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 at 2.0% on 1 January 2022.

The capital position of the Bank and the Group at 31 December 2017 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’s overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. 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 Cyprus Securities and Exchange Commission (CySEC) laws and regulations.

2.2 Pillar III Regulatory Framework (continued)

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a Minimum Requirement for Own Funds and Eligible Liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. Although the precise calibration and ultimate designation of the Group's MREL has not yet been finalised, the Bank is monitoring developments in this area very closely.

Basis and frequency of disclosures

The 2017 Pillar 3 Disclosures report (the 'Report') of the Group sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar 3 framework requirements (see Specific References to CRR Articles at the end of the Report). The Report includes, to a large extent, tables prepared in line with the EBA guidelines published on 14 December 2016 (see Specific References to EBA guidelines at the end of the Report), which are now in force for the purposes of this Report.

The Report is published annually and in conjunction with the Group's Annual Financial Report, whilst certain disclosures are published on a more frequent basis if necessary on the Group's website http://www.bankofcyprus.com (Investor Relations), in accordance with regulatory guidelines. The Group publishes semi-annually and quarterly the disclosures required by EBA guidelines GL/2014/14-title VII paragraph 26 (a) and (b). The semi-annual disclosures are included in the Additional Risk and Capital Management Disclosures report (provides additional information on the capital and risk profile of the Group) which is approved by the Board and published together with the Mid-Year Financial Report. The quarterly disclosures are reported in the Group Results announcement which is also approved by the Board.

Verification

This Report is published by the Group as per the formal disclosure policy approved by the Board.

The Group has a policy covering the frequency of disclosures, verification and their overall appropriateness.

Group Compliance Division had an oversight of the framework and assurance procedures and Group Internal Audit performed a review of the process followed by the Group for the preparation of Pillar 3 Disclosures for 2017.

The Pillar 3 report pre its submission to the Board is reviewed and approved by the Executive Committee. The Board, through the Risk and Audit Committees scrutinises and approves the Pillar 3 report. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the disclosures. Further controls and processes about the preparation of periodic reporting are disclosed in the Directors' report of 2017 Annual Report (page 20).

The Report was approved by the Board through the Audit and Risk Committees.

2.3 Governance Arrangements

2.3.1 Recruitment Policy

The Group recognises the benefits of having a diverse BoD which includes and makes use of differences in skills, experience, background, race and gender among the directors. When determining the optimum composition of the BoD, consideration is given to balancing these differences.

The Nominations and Corporate Governance Committee (NCGC) is assigned the responsibility to regularly review the composition of the Board in order to identify, evaluate and select candidates whose skills will complement and add value to the collective knowledge and skills of the Board. Pursuant to this assessment the Committee then makes appropriate recommendations to the BoD in accordance with the Fitness and Probity policy approved by the BoD.

The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Prior to the appointment, the Bank must obtain the approval of the ECB.

Factors considered by the NCGC in its review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject;
- Integrity, honesty and the ability to generate public confidence;
- Demonstrated sound business judgement;
- Knowledge of financial matters including understanding financial statements and financial ratios;
- Knowledge of and experience with financial institutions;
- Risk management experience;
- The competencies and skills that the BoD considers each existing director to possess;
- Possible gaps in knowledge and skills identified by the latest review of the composition of the Board;
- Succession planning;
- The need to attain the targets set by the Diversity Policy of the Group for achieving gender diversity on the BoD within deadlines set by the Diversity Policy (published on the Group’s website).

When considering proposals for the re-election of incumbent directors, the NCGC takes into account the results of the most recent self-assessment of the BoD and the Chairperson’s evaluation of the individual directors, the director’s attendance record in meetings, participation in BoD activities and overall contribution to the functioning of the BoD.

An internal evaluation of the performance of the Board, its committees and individual members is conducted annually, while an external evaluation is carried out triennially. The internal assessment carried out through questionnaires considers overall performance relative to the role of the Board and consists of:

- Completion of online questionnaires by each Director on the role of the Board and its committees
- Completion of online self-assessment of each Director
- Assessment of each Director by the Chairman
- Discussion by the Board of the assessment and recommendations for improvements made in the report

2.3.2 Other Directorships

The NCGC considers amongst other whether a potential director is able to devote the requisite time and attention to the Bank's affairs, prior to the BoD's approval of the individual's appointment.

The CBC Assessment of Fitness and Probity of Directors and Managers Directive of 2014 determines that a director cannot hold more than one of the following combinations:

- One executive directorship with two non-executive directorships.
- Four non-executive directorships.

For the purposes of the above, executive or non-executive directorships held within the same group shall count as a single directorship. Directorships in organisations which do not pursue predominantly commercial objectives do not count for the purposes of the above guidelines.

According to the CBC Directive mentioned above, the CBC may, in exceptional cases and taking into consideration the nature and complexity of the business of the Group, authorise members of the BoD to hold one additional directorship.

The CBC gave permission on appointment to five of the directors to hold one additional non-executive directorship to the above. At present none of the directors hold additional directorships.

Full biographies can be accessed online and in the Annual Corporate Governance Report 2017 which is included in the Annual Financial Report 2017 and is available at www.bankofcyprus.com (Investor Relations).

2.3.3 Diversity

The Board has a balanced and diverse range of skills, knowledge and experience, and has almost achieved its target for female representation. The Board Diversity Policy approved in May 2015 has set as target to achieve 40% female representation on the Board by 2020. At year-end 2017 two female directors were members of the Board (20%) while two more have been appointed (subject to ECB approval) on 23 January 2018 and increased the female representation to 33%. Nationality, gender, age, specialised skills and other relevant qualities are all taken into consideration in order to maintain an appropriate range of balance of skills, experience and background on the Board.

Following review in 2017, the NCGC determined that the skills and experience of the Board were appropriate in areas relevant to the business of the Group such as financial services, strategy development, finance, operations, risk management, business/industry experience, economics, corporate finance, international experience, capital markets, credit, marketing, law, governance, information technology, cybersecurity and dealing with regulators and governments.

Further information on the Group Board Nomination Policy and the Group Board Diversity Policy is contained in the Annual Corporate Governance Report for 2017 and is available at www.bankofcyprus.com.

2.3.4 The Board

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Group. The Group Chief Risk Officer (GCRO) regularly reports to the Board, developments in the risk environment and performance trends.

The Board is also responsible for ensuring that the management maintains an appropriate system of internal controls which provides ongoing assurance of effective operations, internal financial controls and compliance with policies and procedures. The Board exercises the responsibility for approving and monitoring the Group's overall strategy, risk appetite and policies for managing risks through two of its Committees, namely the Board Risk Committee (RC) and the Board Audit Committee (AC).

2.3.5 Board Risk Committee (RC)

The RC monitors the Group's risk profile against the approved Risk Appetite and ensures compliance with risk management strategy, policies and regulations. It reviews management proposals on the desired risk strategy both at individual company as well as at Group level, i.e. the risk appetite/exposure, in each area of risk (market, liquidity, credit, equity, regulatory, information security, operational and capital resources) and makes appropriate recommendations to the Board.

The RC evaluates and reports to the Board on the Group's overall current and future risk appetite and strategy, taking into account the financial and risk profile of the institution and the capacity of the Group to manage and control risk. It assists the Board in overseeing the effective implementation of the risk strategy by senior management, including the development of mechanisms to ensure material exposures that are close to, or exceed approved risk limits are managed and where necessary, mitigated in an effective and timely manner and the identification and escalation of breaches in risk limits and of material risk exposures in a timely manner.

The RC is also responsible for monitoring the effectiveness of the internal risk management framework and its integration with the Bank's decision making process, covering the whole spectrum of the Bank's activities and units, as well as subsidiaries.

The RC currently comprises 3 non-executive directors, two of whom are independent. During 2017 the RC held 19 meetings (2016: 20 meetings).

Additionally the Terms of Reference of the RC include the following:

- Review pricing of products and where prices do not properly reflect risk, present a remedy plan to the BoD;
- Examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
- Submit proposals to the BoD and recommendations for corrective action whenever weaknesses are identified in implementing the risk strategy;
- Appraise the GCRO and the Information Security Officer and submit appraisals to the BoD;
- Approve sufficient resources and budget for the Bank's Risk Management Division (RMD) and the Information Security function;
- Review and approve the organisational structure of the RMD;
- Assess and monitor the independence, adequacy and effectiveness of the RMD and the Information Security Function;
- Advise the BoD on the adequacy and effectiveness of the risk management framework and the information security framework, drawing on the reports of the AC, the RMD and external auditors;
- Advise the BoD on the adequacy, effectiveness and robustness of information and communications systems;
- Advise the BoD on the adequacy of the provisions and effectiveness of strategies and policies with respect to maintaining adequate internal capital and own funds to cover the risks of the Bank;
- Conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the BoD.

The appointment and removal of the GCRO and the Information Security Officer are recommended by the RC and approved by the BoD.

2.3.6 Board Audit Committee (AC)

The AC regularly reviews the adequacy and effectiveness of the system of internal controls and information systems of the Group (being the systems established to identify, assess, manage and monitor financial risk).

Additionally the AC reviews all publications of financial statements and related information of the Group, and reports to the Board on the significant financial reporting issues and estimates and judgements (including impairments) made therein.

The AC comprises of 3 independent non-executive directors. During 2017 the AC held 11 meetings (2016: 12 meetings).

2.3.6 Board Audit Committee (AC) (continued)

The Chairman of the AC also sits on the RC and regular joint meetings of the two Committees take place.

2.3.7 Human Resources & Remuneration Committee

The Human Resources & Remuneration Committee (HRRC) keeps under review an overall remuneration policy for the Group to ensure among others that it is aligned with the Group's capital and liquidity position, as well as the interests of the shareholders; does not encourage excessive risk taking and ensures an appropriate balance between fixed and performance-related remuneration, immediate and deferred.

Further information on the Group Board Committees, their composition, number of meetings, their activities and terms of reference are contained in the Annual Corporate Governance Report for 2017 which is included in the Annual Financial Report 2017.

2.3.8 Reporting and Control

A description of the information flow on risk to the BoD is provided in Appendix II.

2.4 Strategies and Processes to Manage Risks

2.4.1(a) Risk Management Framework

Risk Management Division (RMD) has clear objectives to ensure that the level of risk undertaken by the Group is consistent with its approved risk appetite and business strategy. These objectives aim to:

- Identify the Group's significant risks and ensure that appropriate mitigating strategies are in place.
- Define the Group's risk appetite and ensure that it is consistent with the overall business strategy, as well as the divisional strategies.
- Ensure that risk management is an integral part of the Group's process of strategic decision-making and capital planning.
- Support business decision-making by taking a balanced view on risk, while establishing strong and independent review and challenge structures.
- Assist business lines to improve the control and coordination of risk taking.
- The BRC assesses and monitors the independence, adequacy and effectiveness of the RMD on an ongoing basis. This is achieved e.g. by requesting reviews or reports on specific issues or evaluating changes to policies, procedures or guidelines submitted for approval or review through the GCRO.

These objectives are being achieved through the implementation of a comprehensive and evolving framework for the identification, assessment, monitoring and control of risks within the Group. The framework is based on the following key elements:

a. Risk governance
b. Organisational model
c. Risk appetite
d. Frameworks, policies and circulars
e. Risk culture

2.4.1(b) Effectiveness of Risk Management Framework

The Group's management and BoD are satisfied that the Risk Management Framework is appropriate given the risk profile of the Group and its strategy. Furthermore, it is noted that the Group has in place a process whereby certain confirmations/representations and warranties as to the effectiveness of Risk policies, procedures and monitoring activities, as part of the Corporate Governance Code's (Code) obligations, are provided by all the business lines and subsidiary companies to the BoD through its AC on an annual basis. Furthermore, RMD, having received such quarterly confirmations/representations from the business lines and subsidiary companies, subsequently provides confirmations/representations and warranties as to the effectiveness of Risk policies, procedures and monitoring activities to the BoD through its AC. Board declaration on Risk Management is fulfilled within the Directors' Report of 2017 Annual Report of Bank of Cyprus Holdings Group.

2.4.1(b) Effectiveness of Risk Management Framework (continued)

The Board signs a liquidity and capital adequacy statements on an annual basis as part of the ILAAP and ICAAP. In addition, the BoD (or its delegates) has the responsibility for approving and periodically reviewing the Group's risk Strategy, Risk Appetite Statement and significant Risk Policies, as well as setting appropriate limits and assigning approving authorities.

2.4.2 Risk Inventory

As part of its business activities, the Group faces a variety of risks, the most significant of which are described further in dedicated sections below as well as in the Directors' Report in the 2017 Annual Financial Report. For risks relating to financial instruments, information is also included in Notes 44-47 of the Consolidated Financial Statements of the Company for the year 2017 and in the Additional Risk and Capital Management Disclosures included in the 2017 Annual Financial Report. The Group holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk (including litigation risk) as required by CRR/CRD IV, all of which are defined below.

Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract (actual, contingent or potential claims both on and off balance sheet) with the Group or failure to perform as agreed. Within the general concept of credit risk, the Bank also identifies and manages the following types of risk:

- Counterparty credit risk: the Group's credit exposure products with other counterparties.
- Settlement risk: the risk that a counterparty fails to deliver the terms of a contract with the Group.
- Issuer risk: the risk to earnings arising from a credit deterioration of an issuer of instruments in which the Group has invested.
- Concentration risk: the risk that arises from the uneven distribution of exposures to individual borrowers or by industry, collateral, product, currency, economic sector or geographical regions.
- Country risk: the Group's credit exposure arising from lending and/or investment or the presence of the Group to a specific country.

Market Risk

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the prices of interest rate instruments, Foreign Exchange (FX), the prices of other financial market instruments, the correlations among them and their levels of volatility. Market risk also emanates from the funding and liquidity mix of the Group, as well as from concentrations in the loan portfolio and asset mix. Liquidity and funding are also individual risks that are closely monitored within the broad category of market risk.

Operational Risk

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risk includes – inter alia - actual and/or potential losses caused from human processing errors, system failures (software and hardware), electrical/telecommunications failures, external events, such as natural disasters damaging physical assets, non-compliance with legal and regulatory requirements, and employee fraud, as well as external fraud, or other malicious acts (terrorism, vandalism, sabotage). Information security risks, business resilience and continuity risks, conduct risks, litigation risks defined below, and model risks fall under the scope of Operational Risk. Even though not included in the Basel definition of Operational Risk, reputational risks are also actively identified and managed by the Group within the Operational Risk Management (ORM) framework.

Litigation risk and regulatory matters

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal and other proceedings against the Group, including conduct issuer, which in the event that are not properly dealt with the Group will be exposed. Additional information on Pending litigation, claims and regulatory matters is disclosed in Note 39 of the Consolidated Financial Statements of the Company for 2017.

2.4.3 Risk Management Governance

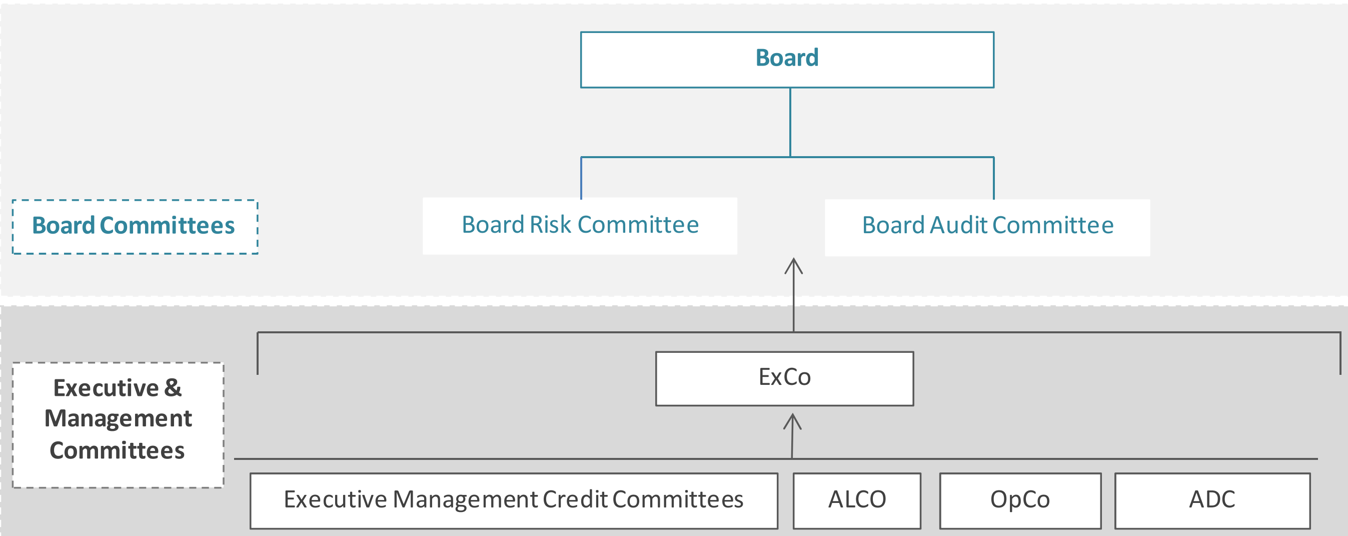
The responsibility for approving and monitoring the Group's overall strategy, risk appetite and policies for managing risks lies with the BoD, which exercises this responsibility through:

- The Board's Risk Committee (RC).
- The Board's Audit Committee (AC).

Additionally, the Group Risk Management Framework is monitored by various executive and management Committees:

- The Group's Executive Committee (ExCo)
- The Group's Operational Committee (OpCo)
- The Group's Asset Acquisition and Disposal Committee (ADC)
- The Group's Asset and Liability Committee (ALCO)
- Executive Management Credit Committees

Board oversight and flow of risk related information



The Board

One of the Board's responsibilities is the approval of Risk Appetite, which is the level of risk the Group chooses to take in pursuit of its business objectives. It also receives regular reporting on the effectiveness of the Group's risk and control processes as well as on the most significant risks and performance trends which facilitate its annual review on Risk Management. The Board also assesses all of the Group's strategic plans which are accompanied by respective risk assessments.

The Board Risk Committee (RC)

The RC advises the BoD on setting the risk appetite and strategy of the Group and ensures they remain appropriate for the Group, while ensuring compliance with the risk management strategy, policies, capital planning and regulatory requirements. Moreover, it determines the principles that should govern the internal risk management framework and ensures its integration with the Group's decision making process. Furthermore, it ensures effective and ongoing monitoring and review of the Group's management or mitigation of risk including the Group's control processes, training and culture, information and communication systems and processes for monitoring and reviewing their continuing effectiveness. The RC receives regular and comprehensive reports on risk methodologies, the effectiveness of the risk management framework, and the Group's risk profile. The Committee also commissions in-depth analyses of significant risk topics.

2.4.3 Risk Management Governance (continued)

The Board Audit Committee (AC)

The AC assists the BoD to fulfil its oversight responsibilities regarding internal controls and compliance, financial reporting, internal and external audit, and communications and reporting. It considers and makes recommendations to the BoD on matters relating to the review and assessment of the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group Internal Audit function.

Executive and Management Committees

Risk related topics are regularly covered by the various Executive and Management Committees in the discharge of their duties. This contributes to the overall monitoring of Risk Management and the GCRO participation in these committees ensures both that the topics are appropriately presented and that Risk Management's position is clearly articulated. Topics regularly covered include:

- Update on significant risks and performance trends.
- Risk perspective on the Group and divisional strategic plans.
- Risk appetite formulation.
- Stress test, International Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) results and analysis.
- Product, sector and country limits.
- Risk policies review.
- Integrated risk monitoring.
- Asset disposal.
- On-boarding of credit risk.

In addition to regular topics, the committees consider ad-hoc papers on current risk topics such as economic and market developments, political events etc.

Senior Management

Certain roles within the Group are critical as they carry specific responsibilities with respect to Risk Management. These include:

Chief Executive Officer (CEO)

The CEO is accountable for leading the development of the Group's strategy and business plans in a manner that is consistent with the approved risk appetite and for managing and organising Executive Management to ensure these are executed. It is the CEO's responsibility to manage the Group's financial and operational performance within the approved risk appetite.

Group Chief Risk Officer (GCRO)

The GCRO leads the Risk Function across the Group including overseas and local subsidiaries. He is responsible to clearly articulate the Risk Management objectives and to promote the development and implementation of a consistent Group wide risk management framework. The GCRO is also expected to challenge business strategy and overall risk taking and its governance within the Group and independently bring his findings, where necessary, to the RC. Specific responsibilities include:

- Preparing and recommending the Group's risk appetite to the Board through the RC.
- Developing, operating and maintaining a comprehensive risk management framework to monitor and manage the risk profile of the Group against the approved risk appetite and providing accurate and timely reporting on that.
- Providing regular briefings and guidance to the Group Executive and other Group Committees to ensure that they are aware of the over-arching risk management framework and that they have a clear understanding of their accountabilities for risk and control.
- Informing the RC on a monthly basis on the aggregate risk profile of the Group.

2.4.3 Risk Management Governance (continued)

- Participating and reporting (as appropriate) in the Group's ExCo, the ADC (holds veto power), the ALCO (holds veto power and the right to escalate to the BRC), the OpCo and the Credit Committee 3 (CC3) (the highest executive credit committee as an observer with veto power). His representatives (Credit Risk Assessment Department) are observers in other credit committees with equal power of veto.
- Participating directly or through the managers delegated to act on his behalf (Manager Risk Division Operations, International Risk Management & Other Subsidiaries Manager, Market Risk Manager, Manager Operational Risk Management, Manager Information Security) to the following subsidiary committees:

  a. BOC UK Board of Directors (upon invitation), Audit & Risk Committees, Credit & Advances Committees, ALCO, Information Security Forum, Conduct & Risk Committee.
  b. General Insurance of Cyprus (GIC) Audit & Risk Committee and ALCO.
  c. EuroLife Risk Committee and ALCO.
  d. JCC Risk Committee.
  e. BoC Asset Management Company BoD and Risk Committee.
- Overseeing the effectiveness of the implementation of the Group's RMD policies.
- Reviewing and recommending appropriate limits for all identified risks.
- Ensuring the implementation of the Information Security Policy and Program.

Three Lines of Defence

The Bank has established the Three Lines of Defence model as a framework for effective risk management and control which depicts the relationship of RMD with other internal control functions as well as the front line.

First Line of Defence

The first line of defence against impending risks lies with the front line. Front line includes all units that on-board risk into the Bank including those that enter into business transactions with the customers or other client facing areas as well as all associated support functions including Finance, Treasury, Technology and Operations. Front lines are responsible to:

- Identify all the risks in their activities and develop appropriate policies, procedures and controls to govern these activities.
- Operate within all limits applicable to their operations as cascaded from the RAS.
- Escalate risk events through their management hierarchy to RMD or Group Compliance as appropriate.

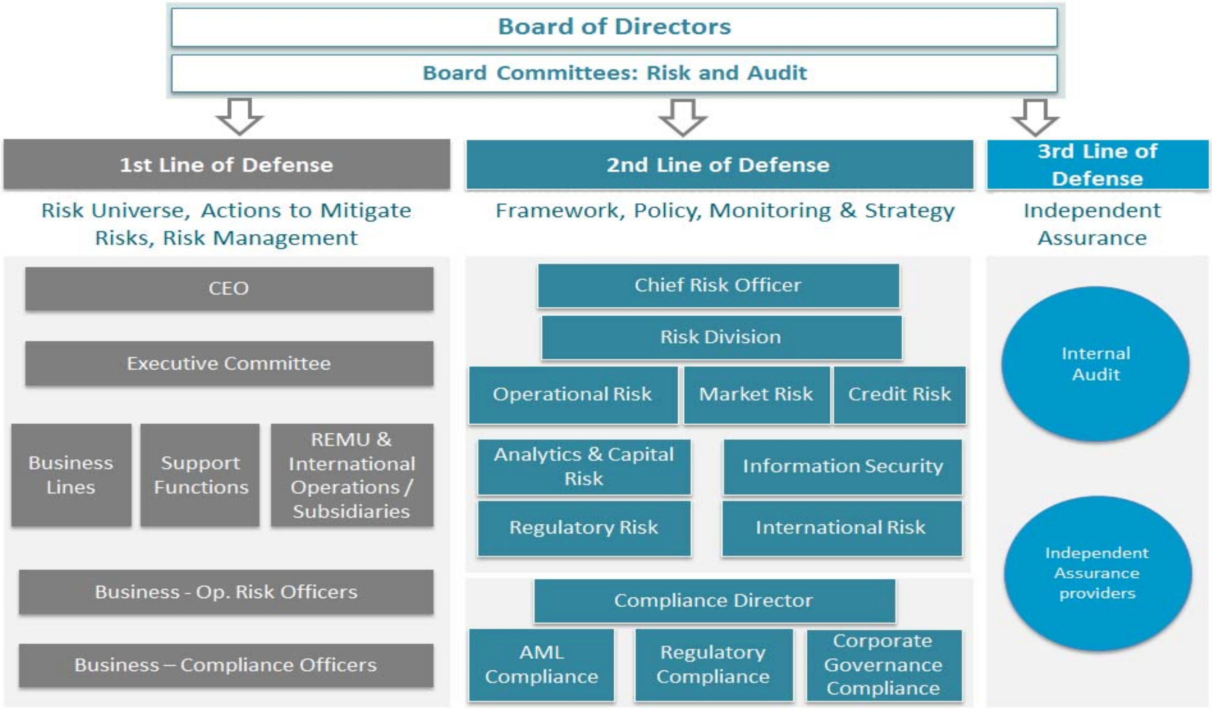
Second Line of Defence

The second line of defence consists of the Risk Management and Compliance units of the Bank, which are responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives whilst being consistent with the risk appetite of the Bank. They are also responsible for monitoring the performance of the first line and ensure their adherence to policies, limits or other mandates in place. Lastly, the second line of defence can also take additional measures, if required, so as to reduce existing, new or evolving risks.

2.4.3 Risk Management Governance (continued)

Third Line of Defence

Group Internal Audit (GIA) comprises the third line of defence. GIA provides independent assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks.



2.4.4 Risk Culture

A robust risk culture is a substantial determinant of whether the Bank will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Bank has been building is reflected in its policies and procedures and these are closely aligned to its risk appetite. Risk culture is manifested in the institutions norms, its day-to-day decisions that indicate how risk is identified, understood, discussed and acted upon. The Group has focused on the implementation of a firm-wide risk culture through the following:

1. Setting the correct tone from the top by communicating the need for a strong risk culture both from the BoD and its committees as well as from senior management.
2. Encouraging responsibility of the risks the Bank is facing at all levels of the organisation through clear ownership and accountability.
3. Implementing formal risk education presentations and training across the Bank including front-line personnel.
4. Changes in job content and descriptions of key personnel.
5. Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
6. Placing the Bank's reputation at the centre of all decision-making.
7. Setting up of a Risk Training & Development Unit so as to promote risk awareness and develop risk management competencies to all Bank's employees via structured advanced risk training programmes that support the elements of a sound risk culture.
8. Commenting and getting involved in the risk reward and incentive schemes proposed within the Bank (this is an area of further focus for 2018).

In regards to day to day business, the Bank supports its risk culture by adhering to the following:

- Risk is taken within the defined risk appetite which entails a detailed review and approval by the Senior Management, RC and ultimately the BoD. Any deviations are properly recorded and accounted for.
- Risk taken must to be adequately mitigated.
- Risk should be continuously monitored and managed.

2.4.5 Risk Appetite Statement (RAS)

Introduction

Risk appetite describes the amount, types and level of risk that the Group chooses to accept in pursuit of its strategy whilst at the same time fulfilling regulatory requirements, both under regular and stressed conditions. The formulation of risk appetite considers the Group's risk capacity, its financial position, the strength of its core earnings and the resilience of its reputation and brand.

Through the Group's RAS formulation process, the Group is in a position to:

- Ensure that proper governance around RAS is followed.
- Set the risk appetite by risk type.
- Define the measurement and methodology of each risk type.
- Provide guidance as to the monitoring, reporting, escalation and resolution of the current risk profile of the Group. The current risk profile represents the amount or type of risk to which the Group is currently exposed.

The RAS considers, but is not limited to, the following risks which are briefly described below:

2.4.5 Risk Appetite Statement (RAS) (continued)

- Capital position: sets the capital ratios and minimum levels of CET1 and Total Capital which reflect, as a minimum, the applicable SREP requirements at each time.
- Earnings: sets requirements on the quality of earnings which is measured through a set of specific ratios.
- Credit risk: deals with asset quality through specific indicators such as the NPE ratio, NPE coverage, provisioning charge and sets various limits on bond exposures. Overall, the Group does not have a strategy of knowingly engaging in higher credit risks to achieve returns.
- Market risk: sets limits on market risk losses and property exposures aiming to ensure that no major and material losses from market price related moves are suffered.
- Concentration risk: primarily sets name and sector concentration limits aiming to ensure that uneven distribution of exposures to particular sectors are avoided.
- Funding & liquidity: these areas provide for adherence to regulatory requirements and set specific limits for asset encumbrance, funding sources, LCR and NSFR ratios. Further information and the Funding & liquidity RAS limits are disclosed below and in section 4.2.3.
- Operational risk: sets limits on aggregate operational losses which are then broken down to lower limits across sub-categories of operational risk including, among others, fraud, legal, compliance, reputational and money laundering. The Group maintains controls in place to monitor and manage such risks.
- Determines specific cyber risk and information security requirements. The Group has a very low appetite for threats and losses arising from cyber-attacks or internally malicious actions.

The RAS is subject to an annual review process during the period which the Group's financial plan as well as the business lines strategic plans are being devised. The interaction between these processes ensures that the RAS requirements are adhered to or in cases where amendments are required in the latter these are identified, assessed and put forward for BoD approval. It is further noted that Risk Management carries out its own assessment on the Group's financial plan through:

- Analysis of the financial plan from the early stages of its development.
- Analysis of front line business strategies through direct communication and interaction with the business lines.
- GCRO's participation in strategy discussion sessions at Executive Management level.

This process, which results in the identification of risks and associated mitigating actions (see further analysis in Section 2.4.6), interacts in both the financial plan and RAS review process. The risk assessment is submitted to ExCo, RC and BoD to supplement the discussion on the Group's financial plans.

Going forward, the RAS will be cascaded into business line risk appetite statements which will reflect their own business plans whilst at the same time ensuring compliance with the overall risk appetite of the Group.

During 2017, the RAS was revised to accommodate primarily the following changes:

- Capital Ratios were amended to reflect the new minimum capital ratios required as per the decision of SREP 2017.
- References on loans in arrears for more than 90 days (90+ DPD) in terms of coverage and stock reduction were removed and emphasis remained on the NPE corresponding ones.
- Shipping and leveraged transactions concentration limits were set at 3% and 15% of the loan portfolio respectively.
- Operational Risk losses limits were amended as follows:
  - The aggregate operational losses limit was set at 4% of the average income per annum which is a level that is considered prudent enough, as it is almost four times lower than the capital requirement for operational risk.
  - The above loss limit was then allocated between conduct and other operational risk losses at a ratio of 75% to 25%.

RAS is in place for all active subsidiaries. These statements are subject to subsidiary board approval and if a statement deviates due to market specific requirements the subsidiary operates in or employs a different methodology from the Group RAS, then, escalation to the GCRO takes place for consideration and further action.

2.4.5 Risk Appetite Statement (RAS) (continued)

Reporting, Monitoring and Escalation

The Group RAS dashboard is reported on a quarterly basis through the Risk Report to the ExCo, RC and Board. The dashboard is accompanied with a relevant commentary which indicates:

- All violations present at the time.
- The nature of each violation (legacy, incident based, etc.).
- Whether management has taken or will take remedial steps.

Although the Board is recipient of the RAS dashboard, the RC can bring to the Board's attention any issues it deems necessary. It is further noted that the GCRO informs the RC on a monthly basis on the aggregate risk profile of the Group.

Position as at December 2017

During 2017 the Group took further steps to move closer to its risk appetite but continues to operate outside of its risk appetite in areas such as:

- Asset quality with significant legacy issues continues to be stressed and the current level of NPEs is not within the Group's risk appetite.
- Concentration limits (name and sector) due to legacy positions that are currently being worked down.
- Operational risk losses.
- Cyber and information security risks that are in the process of being mitigated.

The RAS is not static. It is continuously monitored and evaluated against the Group's performance so as to ensure it reflects its business model.

2.4.6 Business Lines, Risk Profile and Key Performance Indicators

Business lines and risk profile

The Bank consists of 5 business lines in Cyprus:

(i) Consumer and Small Medium Enterprise (SME) Banking,
(ii) Corporate Banking,
(iii) International Banking (including Wealth & Markets Division (IB, W&M)),
(iv) Restructuring and Recoveries Division (RRD), and
(v) Real Estate Management Unit (REMU)

In addition, the Group considers Bank of Cyprus UK Ltd (100% subsidiary) as a separate business line (Section 3).

The Group continues its efforts for further deleveraging and disposal of non-core assets and operations in Greece, Romania and Russia. The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) are disclosed in the Directors' report of 2017 Annual Report of Bank of Cyprus Holdings Group (page 10).

Furthermore the business lines and the markets they operate-in are set out below:

- Consumer/Retail – all personal customers and small businesses with facilities from the Bank 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 Bank in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million; and
- 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 Bank in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.
- 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 and investment banking and depository services.

2.4.6 Business Lines, Risk Profile and Key Performance Indicators (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.
- REMU manages properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, and executives exit strategies in order to monetise these assets.

The RRD unit was set up in 2014, in an effort to address the high level of delinquent loans. As a result, customers from Consumer and SME Banking and Corporate Banking have been transferred to RRD. RRD works closely with both Consumer and SME Banking and Corporate Banking, to monitor SME and corporate customer groups for potential transfers from the relevant banking division to RRD, or from RRD back to the relevant banking division. During the year an internal reorganisation of the RRD was executed with the aim of boosting resources on both the Retail and SME portfolios of RRD in order to further improve pace and sustainability in these portfolios. Additionally, the Group has created an incremental servicing engine powered by Pepper Cyprus Limited, to support the Bank in resolving non-performing loans from its SME and retail portfolios.

The Credit Risk Management Department (CRM) 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.

CRM, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that the 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 CRM determines the prohibited/high risk/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their level of riskiness.

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.

The Credit Risk Management 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.

The Market Risk Department (MR) 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 ALCO for approval.

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.

2.4.6 Business Lines, Risk Profile and Key Performance Indicators (continued)

Risk Management assesses the various business lines strategies on an annual basis aiming to identify risks and to ensure that both mitigating actions are in place and adherence to the Group's risk appetite is achieved. Certain broad risk areas are applicable across business lines and determine the ongoing interaction with Risk Management:

Commitments	Risks	Risk Guidance
Loan book	• Asset quality • Impact on profitability • Sector concentration • Conduct risk • Impact on provisions	• Maintain prudent underwriting and client on-boarding standards • Maintain strict adherence to policies and procedures including reporting and escalation • Maintain momentum in reducing legacy concentration positions
NPE reduction	• Non-viable solutions to customers leading to re-defaults and escalating costs • Sector concentration • Conduct risk • Impact on provisions	• Targets have been set and monitoring process in place • Tighter monitoring of early arrears and significant customers • Use successful past experience
Macro environment deterioration	• Impact on property prices, cost of risk, sovereign spreads and asset quality	• Appropriate hedging • Reduce property related risk
Information security/Digitisation	• Cyber risk of a connected banking ecosystem • Digital integration might create new "unknown" pockets of operational risks • Human risks	• Full engagement of the Information Security department engaged. • Careful planning / design of operating environment in consultation with all stakeholders

Further information on business overview is disclosed in the Directors' report (page 13) in 2017 Annual Report of Bank of Cyprus Holdings Group.

2.4.6 Business Lines, Risk Profile and Key Performance Indicators (continued)

Key performance indicators

The below table shows the Group's performance in relation to Key Performance Indicators (KPIs) vis-a-vis the medium-term targets approved by the Board.

Group Key Performance Indicators[1]		Actual 2016	Actual 2017	Medium-Term Guidance
Asset Quality				
	NPEs ratio	55%	**47%**	**<25%**
	NPEs coverage ratio	41%	**48%**	**>50%**
	Cost of Risk (Provisioning charge)[2]	1.7%	**4.0%**[2]	**<1.0%**
Capital	CET1 ratio	14.5%	**12.7%**	**>13%**[3,4]
	Total capital ratio	14.6%	**14.2%**	**>15%**[3,4]
Profitability	Total income	€963 million	**€907 million**	**Total income to grow in excess of cost**[5]
	Cost to Income ratio	41%	**47%**	
	Net fee and commission income / total income	17%[6]	**20%**	**>20%**
Balance Sheet	Total assets	€22.2 billion	**€23.6 billion**	**>€25 billion**
Earnings per share	EPS (€ cent)	14.27	**(123.72)**	

The strategic focus of the Group is to reshape its business model to grow in the core Cypriot market through prudent new lending and carefully developing the UK franchise. The Bank's capital position remains adequate and 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 Bank's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects.

2.4.7 Risk Management Division

The RMD division is structured so as to:

- Ensure that all main risks have proper ownership, management, monitoring and clear reporting. Therefore, a number of specialised risk departments operate under the GCRO.
- Maintain the Division's independence which ensures that it carries its responsibilities in an unbiased manner.
- Promote proper empowerment in key risk areas that will assist in the creation of a robust risk culture.

The Risk Division's expanded role, among other, includes:

- The provision of tools and methodologies for risk management to the business units.
- The promotion of risk awareness through the engagement of business units in the identification, measurement and mitigation of risks as appropriate.
- The reporting of losses from risks identified to Executive Management and the Regulatory Authorities.
- The collection and monitoring of Key Risk Indicators (KRIs).

[1] The NIM and the Net Loans to Deposits (L/D) targets have been removed. A new target on Total Income has been included in the key metrics considering the focus of the Group on the total revenue generation and the shift of income to other lines of the Income Statement. The L/D ratio has been removed as it is not considered representative following the efforts of the Group to comply with the LCR ratio including the LCR add-on.

[2] An amount of c.€500 million reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk.

[3] Allowing for IFRS 9 transitional arrangements for regulatory capital purposes in line with EU Regulation (2018 - 5%, 2019 - 15%, 2020 - 30%, 2021 - 50% and 2022 - 75%).

[4] Including the impact of the adoption of the changes aligning the EBA CRR default definition with the NPE definition.

[5] Excluding the special levy and SRF contribution.

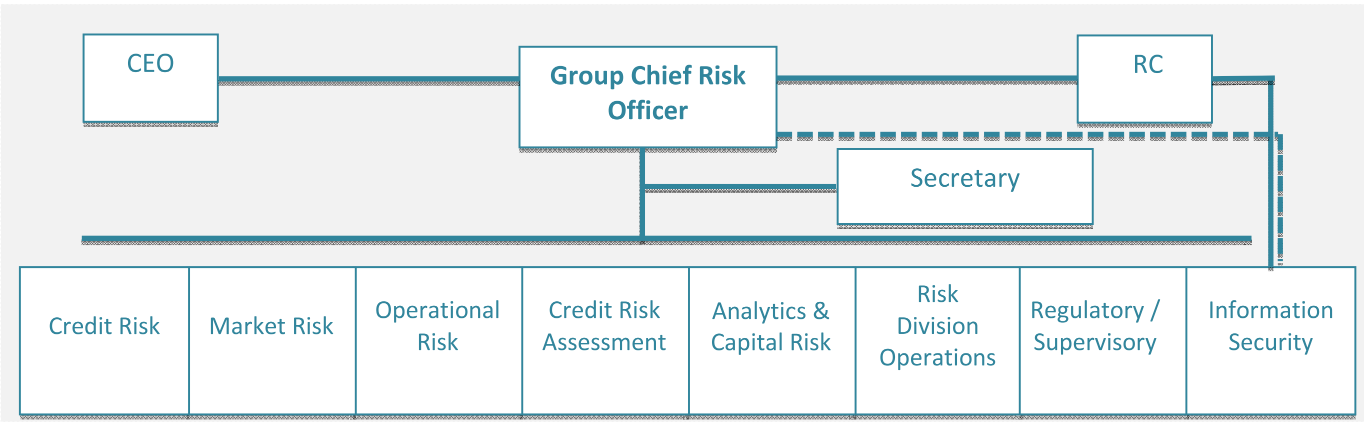
[6] The net fee and commission income over total income for 2016 excludes non-recurring fees of ~€7 million.

2.4.7 Risk Management Division (continued)

- The identification of risks at Group level in cases where these risks are not managed by a specific business unit and to make sure that actions mitigating risks are implemented.
- The provision of a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Group (risk appetite, stress testing framework);
- The setting of policies in line with the strategic and business objectives.
- The management of the information security framework.

Furthermore, RMD independence is ensured through:

- Organisational independence of RMD from the activities assigned to be controlled.
- The GCRO functionally reports to the RC and administratively to the CEO.
- The RMD via the GCRO has the right and is uninhibited in expressing and reporting his findings to the BoD and Board Committees without the presence of executive members of the BoD.
- The GCRO has direct and unrestricted access to senior management and the BoD through the RC and the ExCo.
- RMD staff is separate from the business lines.



2.4.8 Risk Management Process and Policies

Frameworks, policies and circulars set out the objectives, principals, guidelines or other requirements the Group has in relation to its activities. They clearly define the appropriate action to ensure that risk is recognised and managed appropriately. Comprehensive reporting, commensurate with the complexity of the Group's activities and structure, is also in place to ensure that ongoing monitoring is maintained.

Such frameworks, policies and circulars are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Group's risk appetite. All policies are subject to annual revision.

2.4.9 Recovery Plan

The Group Recovery Plan is drawn up and maintained by the Group which is required to update it at least annually or after a material change to the legal or organisational structure, the Group's business or financial situation (which could have a material effect on the Recovery Plan) or when the competent authority requires more frequent update.

The Group's Recovery Plan:

- Distinguishes between critical and non-critical functions, as well as core and non-core business lines including major subsidiaries.
- Provides for the governance mechanism, available during recovery emergency situations, which sets the escalation and decision making process and ensures timely and appropriate action plan during crisis situations.
- Defines the key recovery and early warning indicators to promptly identify stress situations.
- Includes stress scenarios in order to identify the level of losses in a near default situation.
- Determines specific recovery options that could be implemented to address liquidity and capital issues arising as a result of stress situations that leverage on the Group's own resources.
- Includes a communication plan in the event of a crisis.
- Describes the preparatory measures for the operationalisation of the Recovery Plan in cases of stress.

The Recovery Plan was submitted to the ECB in October 2017.

2.4.10 Stress Testing

2.4.10.1 Development of stress tests

The Group carries out the stress testing process through a combination of bottom up and top-down approaches. Scenario and sensitivity analysis follow a bottom up approach, whereas reverse stress testing follows through a top-down approach.

The approach to stress testing requires the following steps:

- Identification of the main risk factors (and drivers) which have a material impact on the risk analysis. These factors form the individual parameters that should be stressed.
- Building a number of scenarios for the local economy, and for other economies, where the Group has substantial exposures and projecting the key macro-economic variables and impact of these on the main risk factors. These scenarios vary in severity and include a severe economic downturn. The severity of the shocks applied vary depending on prevailing economic and financial conditions. This enables the Group to explore particular vulnerabilities that might be amplified by the state of the financial system and the wider economy at the time.

The scenarios used in the stress tests can be based upon historical events undertaken by re-running the event to identify the actual changes in risk factors that occurred. These changes can then be applied to the current portfolio/position. In addition, scenarios may be entirely hypothetical or forward looking.

2.4.10.1 Development of stress tests (continued)

The following are the main factors considered material for the Group or to a particular subsidiary that must be considered, among others, in the development of the stress tests:

a) Counterparty credit risk (borrowers, issuers and interbank) – change in their probability to default, loss given default and assuming migration between risk grades.
b) Collateral valuation/coverage - drop in prices of property and other collateral
c) Drop in real estate prices and effect on own properties
d) Concentration risk – impact from default of largest counterparty(ies)
e) Risk Weighted Assets – impact following the change in risk category, past due, rating downgrade etc.
f) Interest rate risk of banking book
g) Equity risk – significant drop in price
h) FX risk – to include depreciation of domestic currency
i) Liquidity and funding risk Trading Book Losses
j) Operational risk – losses from operational risk events
k) Deferred tax asset

It is noted that the above list is by no means exhaustive.

2.4.10.2 Stress Testing Coverage

Stressed portfolios contain the vast majority of an institution's balances. Some stress tests can be portfolio specific and other can address the whole book.

2.4.10.3 Severity

Scenario analysis includes extreme but plausible events which could occur. How extreme the scenario is and the probability of its occurrence will depend on the actual scenario and the current economic cycle. A range of scenarios at various levels of impact will be required for different purposes.

2.4.10.4 Regulatory Considerations

Stress testing is considered to be an important tool for determining the required internal capital based on the level of risks undertaken as prescribed by the following:

- Regulation (EU) No. 575/2013 [CRR], Article 177: an institution shall have stress testing processes in place for use in the assessment of its capital adequacy. Stress testing shall involve the identification of possible events or future changes in economic conditions that could have negative effects on an institution's credit exposures and assessment of the institution's ability to withstand such changes.
- Article 97 of Directive 2013/36/EU [CRD IV]: competent authorities should evaluate risks revealed by stress testing, taking into account the nature, scale and complexity of an institution’s activities. The aim is to ensure among others, that the Group holds sufficient own funds and liquidity to cover its risks. This review and evaluation shall be updated at least once a year.
- Article 73 of CRD IV: Institutions shall have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.

Article 290 (9) of Regulation (EU) No. 575/2013 [CRR], requires that the results of the stress testing under the programme shall be reported regularly (at least on a quarterly basis), to senior management. The reports and analysis of the results shall cover the largest counterparty-level impacts across the portfolio, material concentrations within segments of the portfolio (within the same industry or region), and relevant portfolio and counterparty specific trends.

2.4.10.4 Regulatory Considerations (continued)

Furthermore, under Article 100 of the Directive 2013/36/EU of the European Parliament, competent authorities shall carry out supervisory stress tests on institutions they supervise at least annually. This supervisory task has also been conferred on the ECB, which shall carry out stress tests, where appropriate in coordination with EBA.

2.4.10.5 Purpose

Stress testing is a key risk management tool used by the Group to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- Understanding the risk profile of the Group/Bank/subsidiary: By carrying out exceptional but plausible scenarios, management can identify the ways in which the Group/Bank/subsidiary will be affected should that event take place and measure the effects on the Income Statement and Balance Sheet.
- The evaluation of the Group's capital adequacy in absorbing potential losses under stressed conditions: This takes place in the context of the Group's ICAAP – required by Article 73 of CRD IV.
- The evaluation of the Group's strategy: Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Group's exposures correspond to its risk appetite.
- The establishment or revision of limits: Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different MR variables and portfolios.
- Enabling the regulator (ECB and CBC) to assess the Group's capital adequacy.
- Assisting the Group to understand the events that might push the institution outside its risk appetite.

2.4.10.6 Evaluating and documenting mitigating actions

The results of the stress test is compared to available capital or liquidity in order to determine if there is sufficient capital or liquidity, under stress conditions or if there is a shortfall that management will need to find ways to eliminate.

The stress testing process incorporates the evaluation and documentation of mitigating actions.

2.4.10.7 Responsibility

The ultimate responsibility and ownership of the Group's stress testing policy rests with the RC. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD, through RC, for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review of the overall business strategy, risk appetite, capital and liquidity planning.
- Review the limits.
- Use of derivative instruments to partially or fully hedge the underlying exposures.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

During 2017 the Group performed its internal stress test exercise within the ICAAP process.

2.4.10.8 ECB 2018 Stress Test

The Group will participate in the bi-annual ECB 2018 Stress test, as in 2016. The EBA in cooperation with the ESRB, initiated the 2018 EU-wide stress tests to assess the resilience of financial institutions to adverse market developments and expected to be completed in the fourth quarter of 2018. The objective of the EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks, and to challenge the capital position of EU banks.

The exercise is based on the EBA 2018 Stress Tests methodology. The main assumptions are:

1. The exercise will run on the 1 January 2018 IFRS 9 balance sheet position and IFRS 9 staging of the portfolio.
2. Static balance sheet approach.
3. No curing from IFRS 9 stage 3.

No pass-fail threshold has been included but the results of the exercise are designed to serve as an input to the SREP.

Other business and risk type specific stress tests

The Market Risk (MR) department performs additional stress tests beyond those referred to above, which include the following:

- Monthly stress testing for interest rate risk (2% shock on net interest income and economic value).
- Quarterly stress testing for interest rate risk (based on the 6 predefined Basel rate scenarios which involve flattening, steepening, short down etc rate shocks).
- Quarterly stress testing on items that are marked to market: impact on profit/loss and reserves is indicated from changes in interest rates and prices of bonds and equities.
- Quarterly and yearly stress test for the evaluation of ICAAP.
- Daily, quarterly and yearly stress tests for the evaluation of liquidity and ILAAP.
- Liquidity stress testing on cash flows by MR department (one month horizon).

2.4.11 ICAAP, Pillar II and Supervisory Review and Evaluation Process (SREP)

2.4.11.1 ICAAP

ICAAP is an annual process that demonstrates whether the Group has all the necessary procedures in place to ensure adequate capital resources for all potential risks, under both normal and stress conditions. The process takes into consideration:

- assessment of risks additional to the Pillar I risks;
- the effectiveness of risk management processes;
- stress testing results;
- strategy and business plans.

Based on the above parameters, the Group determines additional capital required to supplement regulatory capital levels. The ICAAP is embedded in the Group's business and organisational processes and is seen as an integral component of the Group's overall control system, strategic, capital and operations management. The role of the ICAAP is to:

- analyse, assess and quantify the Group's risks;
- explain how the Group monitors and mitigates those risks;
- ensure that the Group has sound risk management systems;
- establish the current and future capital needs for the risks identified;
- test the absorption power of the Group's capital under both stress testing and reverse stress testing;
- enable management to review/revise its strategy to ensure its viability at all times and
- enable the regulator (ECB and CBC) to assess the Group's internal capital adequacy assessment process.

2.4.11.1 **ICAAP** (continued)

The Group prepared the ICAAP report for year 2016. The report was approved by the BoD and was submitted to the SSM in April 2017. Currently, the Group is preparing the ICAAP report for the year 2017, which is due for submission to the SSM by the end of April 2018.

The Group also undertakes a quarterly review of its ICAAP results considering the latest actual performance. During the quarterly review, the Group's risk profile and risk management policies and processes are also reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). Given completion of the full ICAAP report in April 2017, two quarterly reviews have taken place in the third and fourth quarter of 2017 covering the period up to end of June 2017 and the period up to end of September 2017, respectively.

The Board signs a capital adequacy statement on an annual basis as part of the ICAAP.

2.4.11.2 Pillar II and SREP

The ECB, as part of its supervisory role, has been conducting the SREP and onsite inspections on the Group. SREP is a holistic assessment, amongst other things, of the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of the SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. Additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-on capital requirements as these are a point-in-time assessment and therefore subject to change over time.

The minimum Pillar I total capital requirement is 8.00% and may be met, in addition to the 4.50% CET1 requirement, with up to 1.50% by Additional Tier 1 capital and with up to 2.00% by 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 SREP performed by the ECB in 2017 and based on the final decision received in December 2017 the Pillar II requirement applicable from 1 January 2018, has been reduced to 3.00% compared to the 2017 requirement of 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio has been reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. Consequently, the overall Total Capital Ratio requirement applicable from 1 January 2018 has been reduced to 12.875% from 13.00%, comprising an 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer.

The Bank is currently under a dividend distribution prohibition which will continue in 2018 following the final 2017 SREP decision received in December 2017. However, based on the decision, such prohibition will not apply to the payment of coupons on any AT1 capital instruments issued by the Bank. Both the retained earnings and distributable items of the Bank will partly decrease as a result of the IFRS 9 implementation on 1 January 2018.

Following the 2016 and 2017 SREP decisions the variable pay is capped at 10% of consolidated net revenues.

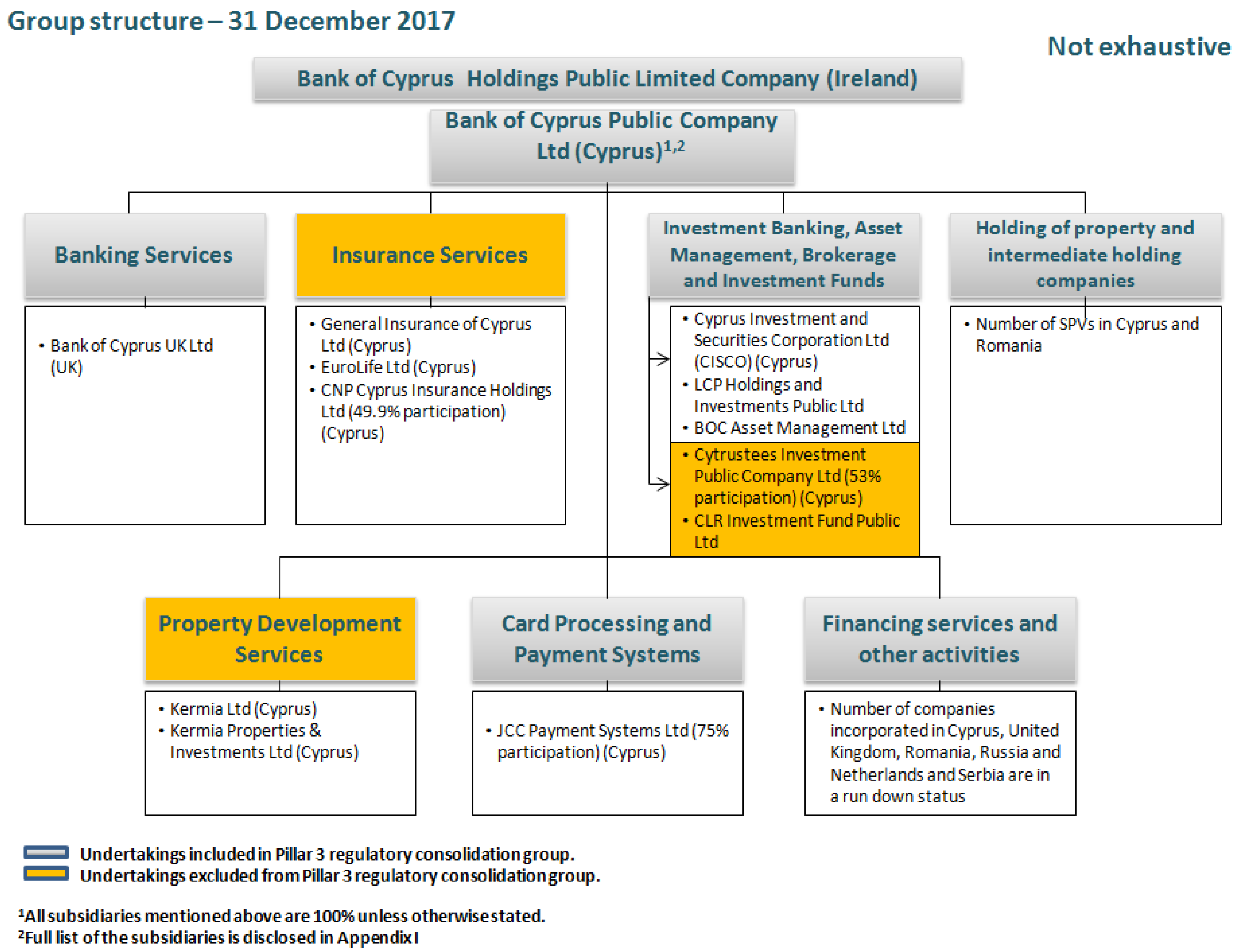
3. Scope of Application

Differences on the basis of consolidation for financial reporting and prudential purposes

The data included in this Report may be different than the respective data of the Consolidated Financial Statements of the Company for 2017 which are prepared in line with International Financial Reporting Standards (IFRS), as adopted by the EU, mainly due to differences between the prudential consolidation basis and the accounting consolidation basis and/or differences in the definitions used. The reconciliation between the balance sheet presented in the Consolidated Financial Statements of the Company for 2017 and the balance sheet prepared for prudential purposes is disclosed in this section.

The accounting consolidation basis of the Group is prepared in accordance with IFRS and is described in Note 2.2 of the Consolidated Financial Statements of the Company for 2017. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of regulatory capital requirements.

The chart below summarises the Group's structure on the basis of consolidated accounting and prudential purposes.



The basis of consolidation of all Group entities for accounting and prudential purposes is presented in Appendix I.

3.1 Reconciliation of Regulatory Capital, on a Transitional Basis, with Shareholders' Equity per Consolidated Financial Statements of the Company for 2017

The following table provides a reconciliation between the Balance Sheet presented in the Consolidated Financial Statements of the Company for 2017 with the Balance Sheet prepared for prudential purposes.

	Ref[7]	2017	2016
		€000	€000
Total equity per Consolidated Financial Statements of the Company for 2017	a	**2,616,708**	**3,106,105**
Regulatory deductions:			
Deconsolidation of insurance and other entities	b	(208,346)	(198,174)
Minority interest adjustment to comply with regulatory requirements		(31,150)	(34,959)
Intangible assets deduction	c	(34,252)	(20,086)
Unrealised gains of AFS instruments subject to transitional arrangements		(10,063)	(2,337)
Of which: Unrealised gains-equity securities	*Section 6.4*	*(6,499)*	*(1,358)*
Additional Valuation Adjustment (AVA)[8]		(1,050)	(675)
Deferred Tax Asset deduction (DTA) deduction and direct and indirect holdings of financial sector entities		(100,953)	(68,321)
Reserves arising from revaluation of properties and other non CET1 eligible reserves, transferred to Tier 2 (T2)		(46,742)	(53,556)
Total Common Equity Tier 1 (CET1)		**2,184,152**	**2,727,997**
Additional Tier 1 capital		-	-
Total Tier 1 capital		**2,184,152**	**2,727,997**
Tier 2			
Property revaluation reserve and other unrealised gains		46,742	53,556
Regulatory deductions		(37,393)	(32,133)
Tier 2 instruments			
Tier 2 instruments as per Consolidated Financial Statements of the Company		302,288	-
Less: Accrued interest, issue cost and other		(18,485)	-
Less: Amount allocated to qualifying own funds deduction (minority interest) - transitional		(26,978)	-
Tier 2 recognised in own funds		256,825	-
Total Tier 2 capital		**266,174**	**21,423**
Total own funds		**2,450,326**	**2,749,420**

No restrictions apply on items listed above for the purpose of the calculation of own funds in accordance with CRR.

It should be noted that on the basis of Article 26(i) of the CRR and the EBA guidelines on prudent valuations, a part of the fixed assets revaluation reserve (2017: €46,742 thousand, 2016: €53,556 thousand) is not allowed to be included in CET1 capital and it has therefore been included in Tier 2 capital. The amount of fixed assets property revaluation reserve which is included in Tier 2 capital is subject to transitional provisions and it is fully phased-out in 2018.

[7] The references (a) to (c) refer to the items shown in reconciliation of Balance Sheet in Section 3.2.1

[8] Regulatory adjustment relating to assets measured at Fair Value as per the commission Delegated Regulation (EU) 2016/101

3.2.1 Reconciliation between the Balance Sheet presented in Consolidated Financial Statements of the Company with the Balance Sheet prepared for Regulatory Purposes

	Ref[8]	Group Balance Sheet per financial statements	Deconsoli-dation of insurance / other entities	Balance sheet per regulatory scope of consolidation
2017		**€000**	**€000**	**€000**
Assets				
Cash and balances with central banks		3,393,934	(4)	3,393,930
Loans and advances to banks		1,192,633	(9,679)	1,182,954
Derivative financial assets		18,027	-	18,027
Investments		739,293	(49,456)	689,837
Investments pledged as collateral		290,129	-	290,129
Loans and advances to customers		14,602,454	1,982	14,604,436
Life insurance business assets attributable to policyholders		518,678	(518,678)	-
Prepayments, accrued income and other assets		228,507	(72,611)	155,896
Stock of property		1,641,422	(4,751)	1,636,671
Investment properties		19,646	(15,234)	4,412
Property and equipment		279,814	(29,277)	250,537
Intangible assets	c	165,952	(131,700)	34,252
Investments in associates and joint ventures		118,113	(118,111)	2
Deferred tax assets		383,498	-	383,498
Non-current assets held for sale		6,500	-	6,500
Investments in Group undertakings		-	138,725	138,725
Total assets		**23,598,600**	**(808,794)**	**22,789,806**
Liabilities				
Deposits by banks		495,308	(734)	494,574
Funding from central banks		930,000	-	930,000
Repurchase agreements		257,322	-	257,322
Derivative financial liabilities		50,892	-	50,892
Customer deposits		17,849,919	57,141	17,907,060
Insurance liabilities		605,448	(605,448)	-
Accruals, deferred income and other liabilities		444,602	(25,229)	419,373
Subordinated loan stock		302,288	-	302,288
Deferred tax liabilities		46,113	(20,266)	25,847
Total liabilities		**20,981,892**	**(594,536)**	**20,387,356**
Equity				
Share capital		44,620	-	44,620
Share premium		2,794,358	-	2,794,358
Capital reduction reserve		-	-	-
Revaluation and other reserves		273,708	(106,346)	167,362
Accumulated losses		(527,128)	(102,000)	(629,128)
Equity attributable to the owners of the Company	**b**	**2,585,558**	**(208,346)**	**2,377,212**
Non-controlling interests		**31,150**	**(5,912)**	**25,238**
Total equity	**a**	**2,616,708**	**(214,258)**	**2,402,450**
Total liabilities and equity		**23,598,600**	**(808,794)**	**22,789,806**

[8] The references (a) to (c) refer to the items in the reconciliation in Section 3.1

3.2.1 Reconciliation between the Balance Sheet presented in Consolidated Financial Statements of the Company with the Balance Sheet prepared for Regulatory Purposes (continued)

	Ref[8]	Group Balance Sheet per financial statements	Deconsolidation of insurance / other entities	Balance sheet per regulatory scope of consolidation
2016		**€000**	**€000**	**€000**
Assets				
Cash and balances with central banks		1,506,396	(6)	1,506,390
Loans and advances to banks		1,087,837	(12,637)	1,075,200
Derivative financial assets		20,835	-	20,835
Investments		373,879	(30,143)	343,736
Investments pledged as collateral		299,765	-	299,765
Loans and advances to customers		15,649,401	2,069	15,651,470
Life insurance business assets attributable to policyholders		499,533	(499,533)	-
Prepayments, accrued income and other assets		269,911	(67,399)	202,512
Stock of property		1,427,272	(6,203)	1,421,069
Investment properties		38,059	(27,101)	10,958
Property and equipment		280,893	(29,085)	251,808
Intangible assets	c	146,963	(126,877)	20,086
Investments in associates and joint ventures		109,339	(103,008)	6,331
Deferred tax assets		450,441	-	450,441
Non-current assets held for sale		11,411	-	11,411
Investments in Group undertakings		-	139,128	139,128
Total assets		**22,171,935**	**(760,795)**	**21,411,140**
Liabilities				
Deposits by banks		434,786	(756)	434,030
Funding from central banks		850,014	-	850,014
Repurchase agreements		257,367	-	257,367
Derivative financial liabilities		48,625	-	48,625
Customer deposits		16,509,741	64,068	16,573,809
Insurance liabilities		583,997	(583,997)	-
Accruals, deferred income and other liabilities		335,925	(16,277)	319,648
Deferred tax liabilities		45,375	(20,043)	25,332
Total liabilities		**19,065,830**	**(557,005)**	**18,508,825**
Equity				
Share capital		892,294	-	892,294
Share premium		552,618	-	552,618
Capital reduction reserve		1,952,486	-	1,952,486
Revaluation and other reserves		218,678	(100,061)	118,617
Accumulated losses		(544,930)	(98,113)	(643,043)
Equity attributable to the owners of the Bank	b	**3,071,146**	**(198,174)**	**2,872,972**
Non-controlling interests		**34,959**	**(5,616)**	**29,343**
Total equity	a	**3,106,105**	**(203,790)**	**2,902,315**
Total liabilities and equity		**22,171,935**	**(760,795)**	**21,411,140**

[8] The references (a) to (c) refer to the items in the reconciliation Section 3.1

3.2.2 EU LI1-Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

2017	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	3,393,934	3,393,930	3,393,930	-	-	-	-
Loans and advances to banks	1,192,633	1,182,954	1,182,954	-	-	-	-
Derivative financial assets	18,027	18,027	-	18,027	-	-	-
Investments	739,293	689,837	687,769	-	-	2,068	-
Investments pledged as collateral	290,129	290,129	290,129	290,129	-	-	-
Loans and advances to customers	14,602,454	14,604,436	14,604,436	-	-	-	-
Life insurance business assets attributable to policyholders	518,678	-	-	-	-	-	-
Prepayments, accrued income and other assets	228,507	155,896	155,896	-	-	-	-
Stock of property	1,641,422	1,636,671	1,636,671	-	-	-	-
Investment properties	19,646	4,412	4,412	-	-	-	-
Property and equipment	279,814	250,537	250,537	-	-	-	-
Intangible assets	165,952	34,252	-	-	-	-	34,252
Investments in Group undertakings, associates and joint ventures	118,113	138,727	134,137	-	-	-	4,590
Deferred tax assets	383,498	383,498	220,864	-	-	-	162,634
Non-current assets held for sale	6,500	6,500	6,500	-	-	-	-
Total assets	**23,598,600**	**22,789,806**	**22,568,235**	**308,156**	**-**	**2,068**	**201,476**

3.2.2 EU LI1-Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

2017	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Deposits by banks	495,308	494,574	-	-	-	-	494,574
Funding from central banks	930,000	930,000	-	-	-	-	930,000
Repurchase agreements	257,322	257,322	-	257,322	-	-	-
Derivative financial liabilities	50,892	50,892	-	50,892	-	-	-
Customer deposits	17,849,919	17,907,060	-	-	-	-	17,907,060
Insurance liabilities	605,448	-	-	-	-	-	-
Accruals, deferred income and other liabilities	444,602	419,373	50,425	-	-	-	368,948
Deferred tax liabilities	46,113	25,847	-	-	-	-	25,847
Subordinated loan stock	302,288	302,288	-	-	-	-	302,288
Total liabilities	**20,981,892**	**20,387,356**	**50,425**	**308,214**	**-**	**-**	**20,028,717**

3.2.2 EU LI1-Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

2016	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	1,506,396	1,506,390	1,506,390	-	-	-	-
Loans and advances to banks	1,087,837	1,075,200	1,075,200	-	-	-	-
Derivative financial assets	20,835	20,835	-	20,835	-	-	-
Investments	373,879	343,736	341,218	-	-	2,518	-
Investments pledged as collateral	299,765	299,765	299,765	299,765	-	-	-
Loans and advances to customers	15,649,401	15,651,470	15,651,470	-	-	-	-
Life insurance business assets attributable to policyholders	499,533	-	-	-	-	-	-
Prepayments, accrued income and other assets	269,911	202,512	202,512	-	-	-	-
Stock of property	1,427,272	1,421,069	1,421,069	-	-	-	-
Investment properties	38,059	10,958	10,958	-	-	-	-
Property and equipment	280,893	251,808	251,808	-	-	-	-
Intangible assets	146,963	20,086	-	-	-	-	20,086
Investments in Group undertakings, associates and joint ventures	109,339	145,459	138,467	-	-		6,992
Deferred tax assets	450,441	450,441	279,632	-	-	-	170,809
Non-current assets held for sale	11,411	11,411	11,411	-	-	-	-
Total assets	**22,171,935**	**21,411,140**	**21,189,900**	**320,600**	**-**	**2,518**	**197,887**

3.2.2 EU LI1-Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

2016	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Deposits by banks	434,786	434,030	-	-	-	-	434,030
Funding from central banks	850,014	850,014	-	-	-	-	850,014
Repurchase agreements	257,367	257,367	-	257,367	-	-	-
Derivative financial liabilities	48,625	48,625	-	48,625	-	-	-
Customer deposits	16,509,741	16,573,809	-	-	-	-	16,573,809
Insurance liabilities	583,997	-	-	-	-	-	-
Accruals, deferred income and other liabilities	335,925	319,648	36,411	-	-	-	283,237
Deferred tax liabilities	45,375	25,332	-	-	-	-	25,332
Total liabilities	**19,065,830**	**18,508,825**	**36,411**	**305,992**	**-**	**-**	**18,166,422**

The difference between the carrying values reported in the published Consolidated Financial Statements and the carrying values under the scope of regulatory consolidation is due to the different basis of consolidation for prudential purposes. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of the regulatory capital requirements. A summary of the Groups structure on the basis of consolidation for the prudential purposes and the basis for consolidated accounting is presented in Section 3 'Differences on the basis of consolidation for financial reporting and prudential purposes'. Also, reconciliation between the Balance Sheet presented in published Consolidated Financial Statements and the Balance Sheet for regulatory purposes is presented in Section 3.2.1.

The column 'Subject to market risk framework' is based on trading book assets. For the liabilities balances, shown in column 'Not subject to capital requirements or subject to deduction from capital' are balancing amounts in order for 'Carrying values under scope of regulatory consolidation' to agree to the sum of those in columns relating to the regulatory framework.

3.2.3 EU LI2-Main sources of differences between regulatory exposure amounts and carrying values in the Consolidated Financial Statements of the Company for 2017

2017	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
	€000	€000	€000	€000	€000
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**22,789,806**	**22,568,235**	**308,156**	**-**	**2,068**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(20,387,356)	(50,425)	(308,214)	-	-
Total net amount under the regulatory scope of consolidation	2,402,450	22,517,810	(58)	-	2,068
Off-balance sheet amounts	3,030,650	608,749	-	-	-
Differences due to different netting rules, other than those already included in row ‘Liabilities carrying value amount under the regulatory scope of consolidation’	61,151	-	61,151	-	-
Differences due to consideration of provisons	-	-	-	-	-
Items not subject to capital requirements or subject to deduction from capital	(201,476)	-	-	-	-
Items subject to capital requirements for more than one risk framework	290,129	-	-	-	-
Liabilities not under RWA scope	20,028,717	-	-	-	-
Exposure amounts considered for regulatory purposes	**25,611,621**	**23,126,559**	**61,093**	**-**	**2,068**

3.2.3 EU LI2-Main sources of differences between regulatory exposure amounts and carrying values in the Consolidated Financial Statements the Company for 2017 (continued)

2016	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
	€000	€000	€000	€000	€000
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**21,411,140**	**21,189,900**	**320,600**	**-**	**2,518**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(18,508,825)	(36,411)	(305,992)	-	-
Total net amount under the regulatory scope of consolidation	2,902,315	21,153,489	14,608	-	2,518
Off-balance sheet amounts	2,866,494	487,823	-	-	-
Differences due to different netting rules, other than those already included in row "Liabilities carrying value amount under the regulatory scope of consolidation"	50,652	-	50,652	-	-
Items not subject to capital requirements or subject to deduction from capital	(197,887)	-	-	-	-
Items subject to capital requirements for more than one risk framework	299,765	-	-	-	-
Liabilities not under RWA scope	18,166,422	-	-	-	-
Exposure amounts considered for regulatory purposes	**24,087,761**	**21,641,312**	**65,260**	**-**	**2,518**

''Off-balance sheet amounts'', the amounts shown in the Total column, which relates to exposures pre-CCF, do not equal the sum of the amounts shown in the remaining columns, as these are post-CCF.

''Differences due to different netting rules, other than those already included in row ''Liabilities carrying value amount under the regulatory scope of consolidation'', the amount represents the balancing figure to arrive at the exposure amount for derivative and securities financing transaction exposures which incorporate adjusted notional amounts by add-on factors and exposure volatility adjustments respectively.

The ''items not subject to capital requirements or subject to deduction from capital'' comprise mainly of intangible assets deductible from CET1 capital as per Article 36(i) (b) of the CRR and DTA and FSE up to 10% of CET1 capital that are risk-weighted at 250% (more details are presented in Section 5.1). The yearly movement is mainly driven by the yearly change of the Balance Sheet amounts for these items and the transitional provisions applicable for the DTA and FSE.

4. Risk Management Objective and Polices

4.1 Credit Risk Management

The Group takes a comprehensive approach to risk management with a defined Risk Management Framework and a specific RAS which is approved annually by the RC and the BoD. The Group's Risk Management Framework is the foundation for comprehensive management of the risks facing the Group. The Risk Management Framework sets forth clear roles, responsibilities and accountability for the management of risk and provides a blueprint for how the Board, through delegation of authority to committees and senior management, establishes risk appetite and associated limits for the Group's activities. The RAS is intended to ensure that the Group maintains an acceptable risk profile by providing a common framework and a comparable set of measures for senior management and the Board to clearly indicate the level of risk that the Group is willing to accept.

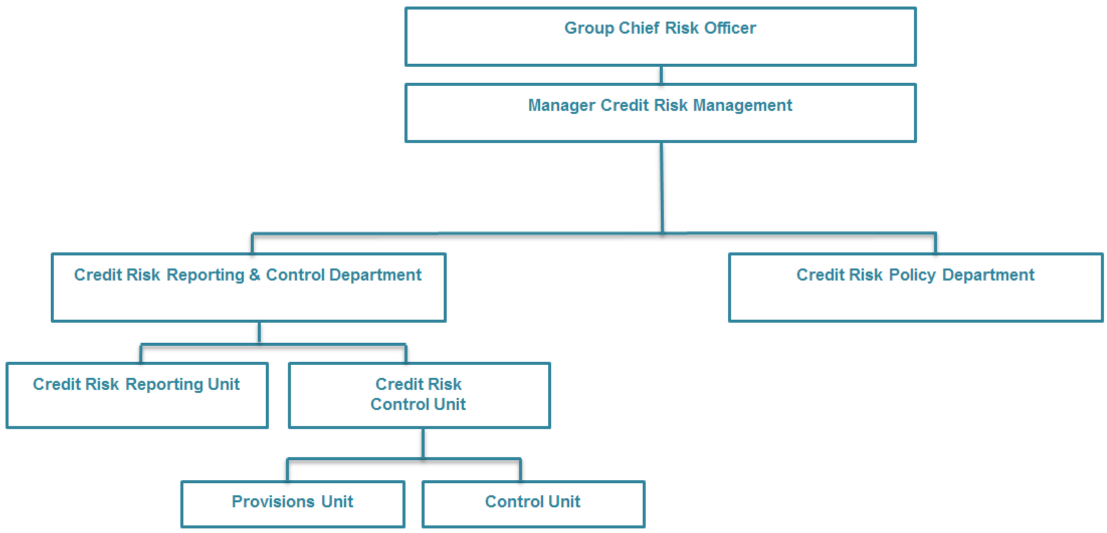
The CRM function covers a wide range of activities, which commences at the stage of the assessment of credit risk, continues at the stage of credit risk identification and measurement through reporting and provisions respectively, and ending up at the workout and collection stage.

There are various tools involved in the management of credit risk, including systems used to measure and assess customer risk, credit approval limits and structure, lending criteria, monitoring of customer advances and methods of mitigating risk. In addition, CRM is involved in the review of new products offered by the Bank, the strategies put forward by the various Divisions as well as being involved in strategic Group projects such as the automation of the credit submission and approval process.

The functional activities of CRM are organised through the following sub-departments, each of which has distinct responsibilities and covers specific risk areas:

- The Credit Risk Policy (CRP) department develops the relevant policies, guidelines and approval limits necessary to address the credit risk in the Bank. These documents are reviewed and updated at least annually or earlier if deemed necessary to reflect any changes in the Group's risk appetite and strategy and the market environment /economy.
- The Credit Risk Reporting & Control (CRR&C) department is responsible for reviewing approved credit applications, and monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics.

The structure of CRM function is as indicated in the diagram below:



4.1.1 Measurement and Assessment - Systems

The effective management of the Group's credit risk is achieved through a combination of training and specialisation as well as appropriate credit risk assessment systems. The Group aims to continuously upgrade its systems and models used in assessing the creditworthiness of Group customers. This is under the responsibility of the Credit Risk Systems and Analytics (CRSA) department.

Credit Scoring Systems

Retail-SAS Credit Scoring for Banking
The CRSA department is responsible for the existing credit scoring systems for new customers and the behavioural scoring systems for existing customers in the Retail Banking (RB) area.

In relation to lending to existing customers, the Bank uses, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears.

The Bank currently maintains and monitors a behavioural credit scoring system for Retail customers with six scorecards (customer scorecard, housing loans, personal loans, other loans, overdrafts and credit cards scorecard).

Small Medium Enterprises (SMEs) and Corporates (Credit Rating Models – Moody's Risk Analyst)
Moody's Risk Analyst is a system used to set the basis for consistent and accurate credit risk analysis on commercial borrowers by collecting, analysing and storing financial statement and qualitative/judgmental data.

This credit scoring system calculates the following customer ratings/scores:

- *The **financial index** (based on Moody's Risk Analyst)*: The assessment of the financial position of the customers is performed based on recent audited financial statements as well as management accounts, assessing performance with respect to operational efficiency, liquidity, debt service and capital structure. This index is used for assessing financial position/credit worthiness of business/corporate customers.
- *The **borrower rating***: The assessment of the customers' credit worthiness is performed taking into account the financial index, the account behaviour with the Bank, the directors'/guarantors' account behaviour, the management of the enterprise and sectoral risks, as well as the liquidity and capital structure of the business.

4.1.2 Credit Risk Policy

The CRP department develops policies, guidelines and approval limits necessary to address the credit risk in the Bank. These documents are reviewed and updated at least annually or earlier if deemed necessary to reflect any changes in the Group's risk appetite and strategy and the work environment/economy.

The Group has implemented prudent policies and a proactive approach for the monitoring of credit risk. In addition, through the establishment of the RRD, the Group has strengthened the management and recovery of its delinquent loans.

The key elements of the Group's CRP processes are:

- The implementation of prudent credit risk assessments with a primary focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. Furthermore, strict credit criteria (such as restricted/high risk/desirable sectors of the economy for all lending segments as determined by the CRP) are followed. This is combined with the assessment of a customer's creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department.
- Frequent review of credit approval limits.

4.1.3 Credit Approval Limits and Structure

The structure and general rules of the credit approval limits are documented in the Group's lending policy and the specific limits granted to each approving authority are communicated through circulars issued by the CRP department.

Approval limits are reviewed at least annually or whenever there is a specific requirement or request. The structure of the limits takes into account:

- The type and size of each credit facility.
- The type-quality and value of the collateral.
- The security gap.

The Credit Risk Assessment (CRA) is responsible for the well-functioning of the credit approval process and its Manager is delegated to act on behalf of the GCRO with the power to Veto decisions in the lower credit committees (CC1 and CC2) where the GCRO is not present. It is sub-divided into three departments:

i. The Credit Risk Appraisal Department (CAD) manages the well-functioning of the three main Credit Committees and guide them in their role to normalise, expand and enhance the Group's Credit portfolio. It appraises all applications from an independent credit risk perspective and prepares recommendations to credit committees with suggestions to improve credit proposals and mitigate credit risks.
ii. The Credit Risk Assessment Department (CRAD), which gathers and analyses data to evaluate the management of credit risk at all stages of the Credit cycle and prepares reports with findings and recommendations on improving the credit approval process. It actively cooperates with other risk and frontline functions to address identified weakness through specific actions and reports progress of actions to management.
iii. The Shipping Finance Risk Desk appraises applications submitted from the Shipping Centre from an independent credit risk perspective and prepares recommendations to the Credit Committees with suggestions to improve credit proposals and mitigate credit risks.

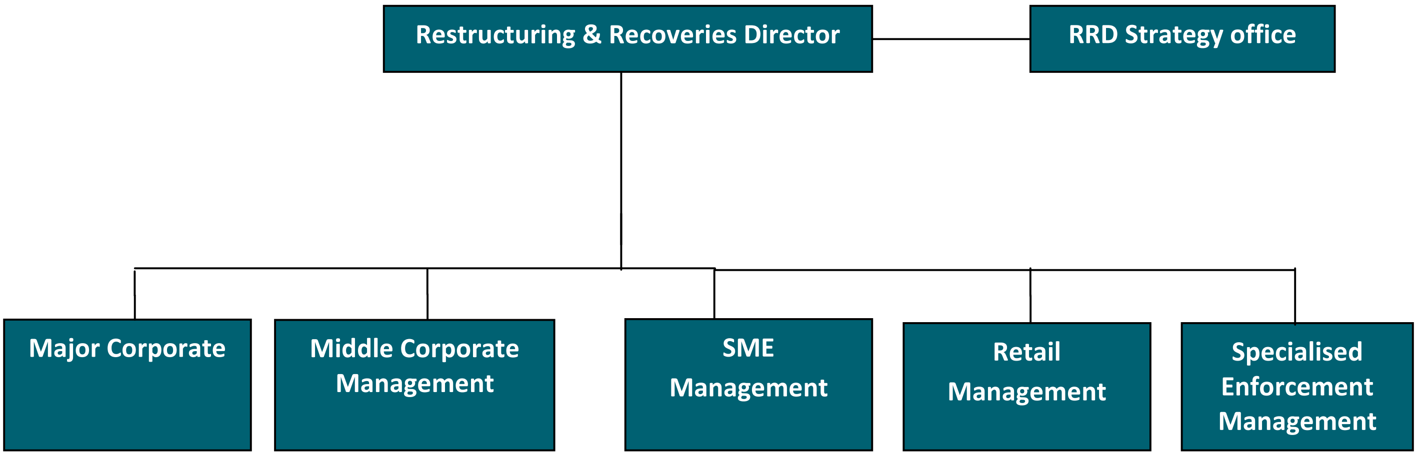
Efficient management, monitoring and control of customer advances

- *Collateral revaluations*: The Credit Risk Control Unit (CRCU) produces a comprehensive report, on a monthly basis, of all mortgaged properties that require revaluation, broken down per unit and per banker. This report is communicated to the responsible line directors in order to take necessary actions to minimise the number of mortgaged property revaluations that are overdue. In addition, mortgaged collateral is monitored though the relevant CBC property indices (Central Bank Commercial and Residential Property indices). Indexed values of mortgaged properties have been incorporated in the customer's collateral report, so that credit officers can take the appropriate action when submitting an application for credit / restructuring.
- *Borrowers' audited financial statements*: CRSA monitors the submission of borrowers' audited financial statements as well as management accounts on a quarterly basis by preparing an ageing analysis report of all pending financial statements. This report is communicated to the line directors so that the appropriate corrective measures are taken.
- *Sanctioning Limits:* The Internal Audit department conducts, on a periodic basis, compliance audits in order to determine that credit activities and in particular approval authorities are in compliance with the Bank's credit policies and procedures and to ensure that approved credits are authorised within the established guidelines and limits.
- *Concentration*: The Credit Reporting Unit (CRU) actively monitors on a monthly basis the concentration limits set and reports these to the senior management through the monthly Risk Report.
- *New products/services:* the Group's products and services have an inherent credit risk, therefore Credit Risk Management is in close cooperation with other departments (e.g. Retail) and examines all new, expanded or modified products and services from a credit risk perspective; that is, whether the new product satisfies the Group's RAS, its characteristics are according to the credit policy and the financial analysis includes all related risks.
- *Portfolio Quality Indicators/KPIs*: Monitoring closely the quality/performance of the Group's client portfolio is of great importance. Sound credit monitoring practices can help the Group detect early signs of credit deterioration and thus take promptly remedial action to minimise losses. Monitoring is done both on a single loan/customer level and on an overall portfolio level.

4.1.3 **Credit Approval Limits and Structure** (continued)

The ultimate objective of the efficient management of the Group's credit portfolio is to enable prompt corrective action as soon as pre-arrears/arrears/irregularities appear on customer debit accounts, so as to restrict loan impairment. The RRD is responsible for the management of problematic loans in Cyprus with a dedicated workforce of over 450 people. Since its establishment, RRD has restructured a significant number of loans and has put in place mechanisms to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the collections call centre, which applies specific contact strategies and the retail arrears management unit which provides restructuring solutions to viable customers. Business support centres have been set up to help address SME delinquent clients whereas the major corporate and mid corporate units of RRD are focused entirely on the larger customers.

RRD Structure



Collection and restructuring services are offered to Retail network via the Collection Call Center (CCC) and the Retail Arrears Management Department (RAM).

4.1.4 **Risk Identification, Measurement, Control and Reporting**

The Group has established methodologies and techniques for risk identification, measurement and reporting of credit risk. These methodologies are revised and modified whenever deemed necessary to reflect changes in the financial environment and adjusted to be in line with the Group's overall strategy and its short and long term objectives.

Monitoring of credit quality
The Group dedicates considerable resources to gaining a clear and accurate understand of credit risk and to correctly reflecting the value of the assets in its balance sheet in accordance with applicable accounting principles. This process can be summarised in the following stages:

- Measuring exposures and concentrations
- Monitoring performance and asset quality
- Identifying weaknesses in portfolios
- Raising allowances for impairment

Loans and advances to customers provide the principle source of credit risk to the Group. Risk management policies and processes are designed to or identify and analyse risk, to set appropriate risk appetite and limits, and to monitor limits and adherence to limits by means of reliable and timely data.

4.1.4 Risk Identification, Measurement, Control and Reporting (continued)

The monitoring of the quality of the credit portfolio is performed through an in-depth analysis of various quality indicators. These indicators are monitored on regular basis and, among others, include the following:

- Arrears/Excesses – monitored daily
- Non-performing exposures – monitored daily
- Restructuring activity – monitored daily
- Restructuring performance
- Sectoral analysis
- Adequacy of provisions
- Roll rates

In addition, the Group has in place systems in order to monitor key quality indicators such as non-performing loans and restructuring activity on a daily basis. This acts as an early warning sign reported to the top management for the necessary actions and corrective measures.

A key aspect of credit risk is credit risk concentration which is defined as the risk that arises from the uneven distribution of exposures to individual borrowers, specific industry or economic sectors, geographical regions, product type or currencies. The monitoring and control of concentration risk is achieved by limit setting (e.g. industry limits) and reporting.

The Credit Risk Reporting Unit is responsible for the monitoring of credit quality. The main roles and activities of the Credit Risk Reporting Unit, are:

- Monitors key performance indicators (stated above) and report any deviations to Senior Management,
- Prepares regulatory reports,
- Monitors compliance, with respect to asset quality information and adhoc request by the regulators (CBC and ECB),
- Provides information to Investor Relations department through finance department.

With the aim of identifying credit risk at an early stage, the following key reports are prepared for the senior management of the Bank :

- Risk report which is prepared on a monthly basis and includes KPIs on a Group and business line level, such as gross advances, provisions, NPEs, 90+DPD, restructurings etc,
- Portfolio performance report, which is also prepared on a monthly basis and includes detailed analysis of restructurings' performance, roll rates, NPEs and impaired loans,
- Daily report of the NPEs inflow / outflow and restructurings.

4.1.5 Credit Risk with Correspondent Banks and Countries

The MR department is responsible for the credit risk, with correspondent banks and countries. Counterparty Risk is discussed in Section 6.1.1 and Country risk is analysed below.

Country Risk
'Country Risk' refers to the possibility that sovereign borrowers of a particular country may be unable or unwilling to fulfil their foreign obligations for reasons beyond the usual risks which arise in relation to all lenders.

Factors such as official actions (e.g. nationalisation, currency controls, currency devaluation), economic and socio-political changes in the borrowing country (e.g. civil war, mass riots) or unpredictable events (e.g. national disaster) or external shocks such as international economic recession or rise in the price of oil as well as other potential events contribute to country risk.

Country risk affects the Group via the operation of its banking units in other countries and also via investments in other countries (money market placements, bonds, shares, derivatives, etc). In addition, the Group is indirectly affected by credit facilities provided to customers for their international operations.

4.1.5 **Credit Risk with Correspondent Banks and Countries** (continued)

In this respect, country risk is considered in the risk assessment of all exposures, both on-balance sheet and off-balance sheet.

On a quarterly basis, the country exposures arising from the below transactions are aggregated, compared to country limits and reported to ALCO. The BoD, through its RC is also informed on a semi-annual basis, on any limit violations.

- *Treasury transactions*: relate to investments in bonds, money market placements, FX and derivative transactions.
- *Lending*: All loans given to or guaranteed by residents of a country are taken into account, except those loans where the customer also holds a deposit with the Group with a clear right of set-off. In the case where a loan is granted to a resident of one country and the collateral is in another country, these loans are included as exposures to both countries.
- *Commercial transactions*: relate to letters of credit, letters of guarantee or other similar products.
- *Committed lines of credit* are also taken into account.
- *Investment properties* of overseas run down operations.
- *Investments in branches/subsidiaries abroad*: relate to the carrying value of branch/subsidiary's net assets, plus any funding provided by the Bank to the branch/subsidiary.
- *Equity investments.*

Country limits are allocated following detailed assessment of the country risk. The MR department obtains adequate and reliable information on countries and effectively analyses and evaluates their risk. The latest Country Risk Ratings, which are an essential tool in country risk analysis, and detailed Sovereign reports, are obtained from Moody's.

There is one country limit, at Group level, which is allocated to the various units of the Group and also divided in sub-limits.

The country limits are allocated based on the CET1 capital of the Group, the country's credit rating and internal scoring.

The Internal score is between 0.2 and 1, and is based on the assessment of five key indicators.

- *Gross Domestic Product (GDP) per capital.*
- *General Government Gross Debt (% of GDP):* is the amount of a country's total gross government debt as a percentage of its GDP. It is an indicator of an economy's health and a key factor for the sustainability of government finance.
- *General Government Net Lending/Borrowing (% of GDP):* Represents the financial resources that the government absorbs from, or release to, other sectors of the economy as a percentage of the country's GDP. It constitutes the reference indicator for budget management and as per the Maastricht Agreements a maximum deficit of 3% was set for admission to the Economic and Monetary Union (EMU).
- *General Government Interest Payments/Revenue.*
- *Unemployment rate.*

In addition to the above, other factors are also taken into account before setting any limits, such as the:

- *Strategy of the Group in respect of its international activities.*
- *Group's appetite for risk.*
- *Perceived business opportunities in a country.*
- *Risk/reward ratio of an investment.*

All limits are reviewed at regular intervals (at least once per year) and approved by the BoD through the RC. All policy documents relating to country and counterparty risk are approved by the RC at least once a year.

In addition, the BoD is responsible for ensuring that any approved business decisions regarding the Group's international operations have taken into account country risk considerations and they are in line with the Group's strategy and risk appetite.

4.1.5 Credit Risk with Correspondent Banks and Countries (continued)

MR department monitors the Treasury country limits on a daily basis through its risk officers at the various treasury units of the Group. Any excesses are reported to GCRO, ALCO and/or RC, depending on the size of the violation. The allocation of Group limits to the various treasury units is done based on their needs and their revised counterparty limits. The remaining limits are allocated to Cyprus.

GCRO and the CEO may reduce the limits already approved by the BoD if market conditions deteriorate.

4.1.6 Policies for Credit Risk Mitigation

Credit risk mitigation is implemented through a number of policies, procedures, guidelines circulars and limits, such as:

Sanctioning limits: Relevant circulars and guidelines are in place that provide limits and parameters for the approval of credit applications and related credit limits as well as parameters. The Group currently has three credit committees (CC1, CC2 and CC3), for the approval of customer applications submitted through CRA. All credit committee members are managers from various Group divisions outside Risk Management, to ensure independence of opinion. Applications falling outside the approval limits of these credit committees are submitted to the RC or the BoD, depending on the total exposure of the customer group.

Lending Policy: Main/core policy of the Group which includes collateral, customer and facility types, lending criteria, repayment ability calculation and loan-to-value rules. Deviations, Specialised Lending and Restructuring Policies have recently been incorporated in the Bank's Lending Policy. The Lending Policy establishes the framework for safe and prudent banking and provides guidelines regarding the lending functions and how to maintain sound credit - granting standards.

The Group's lending policy is to grant credit facilities to customers with proven repayment ability, through strict adherence and full compliance with all external laws, regulations, guidelines, internal codes of conduct, other internal policies and procedures. The fundamental lending principle of the Bank is to approve applications and provide credit facilities only when the applicant has the ability to pay and where the terms of these facilities are consistent with the customers' income and financial position, independent of any collateral that may be assigned as security. The value of collateral is not a decisive factor in the Bank's assessment and approval of any credit facility. Collaterals may only serve as a secondary source of repayment in case of default and must be assessed as such.

The Lending Policy includes the following sections:

- Customer types – covers the natural / legal entity types to which the Group may extend credit
- Facility types – analysis of the credit facilities offered by the Group
- Structure of the lending function – covers the segregation of duties and independence in the roles throughout the lending function
- Lending authorities and limits of approval
- Application structure that is submitted for approval to the relevant sanctioning authority
- Credit Granting Criteria – includes:
  - Customer information
  - Purpose of credit facility
  - Credit facility amount
  - Customer contribution/Loan to Value (LTV) ratio
  - Credit facility duration
  - Repayment ability
  - Collaterals
  - Pricing / Efficiency

4.1.6 Policies for Credit Risk Mitigation (continued)

- Corporate lending process, syndicated loans, specialised ending
- Internal risk rating systems
- The Group's deviations / exceptions policy
- Conditions for credit facility disbursement
- Rules and guidelines for the review of existing facilities
- Restructuring and forbearance policy
- Specialised Lending policy
- Monitoring of existing facilities

Concentration Risk Policy: covers sector, product, geographical, counterparty, currency, collateral, funding source and derivative concentration. Regarding collateral, limits are imposed on shares/marketable securities as well as on the type of real estate that can be accepted for lending purposes. This policy has been updated with the regulatory requirement of exposures to shadow banking entities as well as the addition of industry sectors which are aligned with the Group's lending strategy.

High risk/prohibited/desirable/case by case evaluation sectors: CRP provides guidelines on which sectors/customer types are considered high risk and are approved by exception at higher committee levels. It also includes sectors of the economy to which the group wishes to lend. The above sectors have been selected based on the following methodology:

An initial analysis is carried out to assess at the attractiveness of each sector using data from two main sources:

- A report prepared by the Bank's Economic Research Department (ranking each sector by NPE levels and by growth potential).
- A report prepared by the Credit Risk Systems & Analytics Department (internal ratings data, from which the parameters of industry risk rating and operating profit margin were used).

Using the latter four sound economic indicators as a basis (NPE stock, Growth Potential, Industry Risk and Operating Profit Margin) and after considering other parameters as well, such as the respective USA indicators, and the availability of significant statistically data, the output of the above sources was combined in order to categorise the various economic sectors into four categories, based on their relative risk:

- Desirable sectors
- Sectors requiring Case by Case evaluation
- High Risk sectors
- Least Desirable or Prohibitive

Furthermore, using this analysis as a base, the sector concentration limits were revised, taking into account the following additional factors:

- Gross Value Added of each sector to the economy (from Government statistical figures)
- Current sector size in the Bank's portfolio
- Bank strategy for specific sector financing (e.g. marinas, casinos, shipping, energy, financing of assets transferred to the Bank)
- Empirical data based on observations and experience

New loan origination and revision of existing facilities: At the beginning of 2016, the CBC issued the Credit Granting and Review Processes Directive, which replaced the Loan Origination Directive of 2013. The most significant changes in relation to the previous directive which have been incorporated into the Bank's policies and procedures are as follows:

- The amount of financial information required from customers has been reduced especially for natural persons/legal entities
- Each collateral must be obtained exclusively for the purpose of securing specific credit facilities (unless otherwise specified)
- The calculation for assessing a physical entity's repayment ability has been revised
- In case of foreign currency loans (i.e. loans in a currency other than that in which the borrower receives the income), lenders must inform borrowers when there are significant changes in their total amounts payable or their instalments due to significant exchange rate fluctuations

4.1.6 **Policies for Credit Risk Mitigation** (continued)

Restructuring of private individuals and legal entities: The purpose of the Restructuring Policy is to create efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and sustainable restructurings of credit facilities of borrowers with financial difficulties. It includes:

- Definition of restructuring and forbearance
- General principles and guidelines for viable restructurings
- Description of different restructuring solutions that are available (traditional and specialised)

Valuation and monitoring of collaterals: for each collateral type, the relevant guidelines are given on when to value/revalue as well as on the recoverable amount based on CBC directives. Emphasis is placed on the valuations of mortgaged property which accounts for the great majority of the Group's collateral for credit facilities. The key points of this policy are:

- Valuations are performed by approved and suitably qualified valuers based on standards and procedures.
- A recent valuation is required for new lending facility (two if the lending amount is over €3 million), restructuring, release of collateral and when terminating customer accounts.
- Property values are monitored by indexation with the appropriate CBC Commercial and Residential Indices - valuations are requested when there is information that the value of a property may have decreased significantly in relation to the index.

For customer exposures over €3 million, mortgaged properties must be revalued every 3 years (this is a Basel requirement). In addition to the above valuation rules, the Bank may request a revaluation in any situation where there is an increased risk e.g. when market conditions are volatile, cancellation of a mortgage, increase in the LTV ratio of the customer.

Monitoring policy: The Group has in place various procedures for monitoring the results and the impact the above Credit Risk Policies have on Group's activities, and whether these activities are performed by all levels in the Group in accordance with them. Credit Risk Management has unified all the monitoring procedures under one specific policy, the Monitoring Policy, categorising them in four broad categories: Policy monitoring (e.g. valuations, write-offs, approval limits, concentration risk, policy deviations etc), Procedure monitoring (e.g. covenants etc), Efficiency monitoring (e.g. credit appraisal approvals and rejections etc) and Quality monitoring (e.g. portfolio KPIs, restructurings etc). Some examples include:

- Valuations – detailed reports are provided to the relevant divisions on mortgaged properties that require revaluations as well as monitoring the level of deviation from the Group's Valuation Policy. Assessment and approval authorities identify any outdated valuations during the examination process of an application and request updated valuations.
- Financial Statements – the availability of recent financial statements is monitored, sending relevant reports to both front line divisions and Credit Risk Management. Assessment and approval authorities verify the existence of recent financial accounts/statements during the examination process of an application either for granting new facilities or reviewing /restructuring existing ones.
- Approval Limits - procedures in place in order to monitor the actual utilization of approval limits on an ongoing basis, and thus document, analyse and report any credit granting in excess of the predetermined level of limits:
    - Limits are monitored by the various approval authorities during the examination process of an application, in order to make sure that the specific credit request falls within their approval limits.
    - Internal Audit conducts audits in order to determine that credit activities and in particular approval authorities are in compliance with the Bank's credit policies and procedures and to ensure that approved credits are authorised within the guidelines and limits established by the Group's Board of Directors.
    - Assessment authorities perform ad-hoc/random checks of various approval authorities examining compliance and proper usage of credit limits, which it then reports to Senior Management.

4.1.6 Policies for Credit Risk Mitigation (continued)

- Write-offs – The Group's write-offs are monitored/reported by Credit Risk Mitigation (CRM). Specifically reports are prepared on a frequent basis regarding write-offs executed or approved by different approving authorities. These reports are submitted to the Board Risk Committee and the Board of Directors.

Specialised Lending policy: Specialised lending exposures possess unique risk characteristics; in particular given the source of repayment, specialised lending exposures exhibit higher risk volatility than other corporate exposures, and therefore in times of distress, Credit Institutions are likely to be faced with both high default rates and high loss rates. Therefore, because of their inherent high risk, all credit decisions regarding specialised lending exposures must be made after careful consideration of a number of factors, such as financial strength, political and legal environment, transaction and/or asset characteristics, strength of the sponsor and developer and security package.

4.2 Market Risk Management

Market risk is the risk of loss in on and off-balance sheet positions from adverse changes in market prices namely from changes in interest rates, exchange rates, security and property prices.

The MR department reports to GCRO and is responsible for measuring and monitoring the following risks at Group level:

- Interest rate risk (Section 4.2.1)
- Currency risk (Section 4.2.2)
- Liquidity risk and funding (Section 4.2.3)
- Credit risk with correspondent banks (Section 4.1.5)
- Country risk (Section 4.1.5)
- Securities price risk (bonds and equities) (Section 4.2.4)
- Property risk (Section 4.2.5)
- Commodities risk[9]

The monitoring of these risks in Cyprus and UK is carried out by the relevant officers in these countries. The Group centralises the management of the above risks for better efficiency and control.

The Group has a low appetite for Market Risk. It does not take open positions on its own account (proprietary trading) but rather seeks to have square or near square positions in all currencies or other market instruments.

The ALCO recommends the policy and limits for the management of the risks stated above, which are then approved by the BoD through the RC.

The Manager of Market Risk is the secretary of the Group ALCO. GCRO and Market Risk Manager participate to the ALCO meetings with voting rights. All Market Risk related papers are reviewed by the GCRO before being submitted to ALCO. Papers submitted are either approved by ALCO or recommended for approval to the RC or to the BoD as necessary.

4.2.1 Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets, liabilities and off balance sheet items. The Group measures the impact of interest rate risk on its banking book using two methods: changes in net interest income and changes in economic value.

The Bank measures the Economic Value (EV) and Net Interest Income (NII) sensitivity in order to identify all potential aspects of interest rate risk under a wide range of different scenarios for potential changes in the:

(a) Level of the interest rate yield curve and
(b) Relationship between different market rates.

[9] The Group does not currently have any such exposures.

4.2.1 **Interest Rate Risk** (continued)

The MR department also measures the impact of a standard shock of 2% change in interest rates on the economic value of the Group as per the CBC guidelines. The +/-200 bps is compared to the actual level of change in interest rates, calculated using the 1^{st} and 99^{th} percentile of observed one-day interest rate changes over a five year period scaled up to a 240-day year. The higher level of shock arising from the latter calculation and the 200 bps should be applied as the standard shock.

In order to control the interest rate risk, there is a Year 1 Interest Rate Exposure (IRE) limit on the maximum reduction of net interest income under the various rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the Group net interest income (when positive) and are allocated to the various banking units. In the case of Cyprus, there are different limits for Euro and foreign currencies.

The economic value of the Group from a 2% change in interest rates has to be within the 20% limit, as per the CBC guidelines. ALCO has set a maximum limit for this change equal to 10% of Group CET1 capital compared to the 20% regulatory maximum ratio. The economic value under the internal rate shock scenarios are also compared to the 10% internal limit. The economic value is also calculated for the various units of the Group on a standalone basis. The economic value of each Group unit is divided by the amount of their capital (where it exists). This analysis is presented in Section 6.5.

As at 31 December 2017, the total economic value effect for a 200 bps increase/decrease in the yield curves in all currencies was minus €83.2 million/€252.5 million (-3.9% and +11.8% of CET1 capital respectively) (2016: minus €110.4 million (-4% of CET1 capital) for 200 bps decrease in rates).

The 2% change in interest rates on the economic value of the Group is within the ALCO approved limit of 10% (limit applies to decline in the economic value).

Interest Rate Risk Management

The nature of interest rate risk as well as the impact from changes in interest rates is covered in Section 6.5.

Interest rate risk is managed centrally at Group level in conjunction with local Treasuries. Corrective actions include:

(a) on balance sheet solutions, including among others purchase of fixed rate assets, introduction of new customer accounts or loans with the desired characteristics, and
(b) the use of derivatives e.g. Interest Rate Swaps (IRS).

Group Treasury and Market Risk, with the approval of Group ALCO will determine:

(a) The percentage/amount of the core deposits to be hedged, if any.
(b) The type of instruments to be used for the hedging of core deposits.

The Bank applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Bank also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for IAS 39 hedge accounting. Every month tests are carried out to ensure that accounting hedges continue to be effective.

For cash flow hedges and fair value hedges that have been designated for hedge accounting in accordance with IAS 39, effectiveness is established both prospectively and retrospectively as per the requirements of IAS 39.

4.2.2 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 FX rates.

In order to limit the risk of loss from adverse fluctuations in exchange rates, overall open currency position limits for each unit of the Group, as well as Group limits, have been set as presented in the table below. These limits are well within the maximum permissible regulatory limits.

2017	**Intraday**	**Overnight**
	€ million	**€ million**
Cyprus	20	20 (10 per currency)
United Kingdom	3	1.5
Total	**23**	**21.5**
2016		
Cyprus	20	20 (10 per currency)
United Kingdom	3	1.5
Romania	1[10]	0.5[10]
Total	**24[11]**	**22[11]**

Each local MR officer is responsible for monitoring both their intraday and overnight FX position limits. Any violations are reported daily to the MR department, which monitors compliance with Group limits. In Cyprus, the MR department conducts near real time and end of day checks of open FX positions (through a designated specialised system) to monitor adherence to FX position limits. Group ALCO is informed on a monthly basis on the Group's FX open position.

Value at Risk (VaR) on the FX open position is also calculated. Due to the fact that there is no FX Trading Book, VaR is only calculated on a monthly basis.

Policies for Hedging and Mitigating Currency Risk
The Group aims to minimise currency risk through hedging. Only minimal open positions are allowed for currency risk.

The Bank mitigates currency risk using hedge instruments available in the market. These hedge instruments are evaluated and monitored by MR.

The currency risk for the Bank arises mainly from:

- Customer driven transactions.
- The net assets of the foreign subsidiaries and branches of the Group.
- Provisions of the foreign currency loan book.

[10] €1.5 million for the last day of the month only, to take into account the position created due to the month end process converting their profits to their local currency.
[11] €24.5 million for intraday and €23 million for overnight, for the last day of the month only, to take into account the position created due to the month end process converting their profits to their local currency.

4.2.2 Currency Risk (continued)

All customer driven transactions are immediately hedged by Institutional Wealth Management (IWM) by entering into FX deals with other banks. The currency risk arising from the net assets of the foreign subsidiaries and branches of the Group is also hedged on a monthly basis unless:

- ALCO considers that the cost of hedging is not acceptable (compared to the underlying risk), or
- There is no liquidity in the market for the specific currency pair.

Currency Risk Management

The table below sets out the Group's currency risk resulting from its FX open positions as at 31 December (including the impact on equity from the revaluation of the net assets of the foreign operations and the relevant hedging instruments), assuming reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations:

2017	**Change in FX rate**	**Impact on profits/(loss) after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	+10	**179**	**-**
Russian Rouble	+25	**7**	**(702)**
Romanian Lei	+10	**(419)**	**53**
Swiss Franc	+20	**19**	**-**
British Pound	+20	**30**	**803**
Japanese Yen	+10	**(17)**	**-**
Other currencies	+10	**20**	**-**

4.2.2 **Currency Risk** (continued)

Currency Risk Management

2017	**Change in FX rate**	**Impact on profit / (loss) after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	-10	**(146)**	**-**
Russian Rouble	-25	**(4)**	**421**
Romanian Lei	-10	**343**	**(43)**
Swiss Franc	-20	**(12)**	**-**
British Pound	-20	**(20)**	**(536)**
Japanese Yen	-10	**14**	**-**
Other currencies	-10	**(16)**	**-**

2016			
US Dollar	+10	158	-
Russian Rouble	+25	12	(1.529)
Romanian Lei	+10	(213)	(727)
Swiss Franc	+20	14	-
British Pound	+20	6	131
Japanese Yen	+10	-	-
Other currencies	+10	29	-

US Dollar	-10	(129)	-
Russian Rouble	-25	(7)	917
Romanian Lei	-10	174	595
Swiss Franc	-20	(10)	-
British Pound	-20	(4)	(87)
Japanese Yen	-10	-	-
Other currencies	-10	(24)	-

4.2.3 Liquidity Risk and Funding

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

Governance and Oversight
The Group's liquidity management strategy covers both its foreign currency operations as well as its local currency operations. Moreover it also covers ways to monitor/control the liquidity of its overseas branches/subsidiaries.

The BoD approves the strategy and significant policies related to the management of liquidity. The BoD ensures that senior management takes the steps necessary to monitor and control liquidity risk and provides adequate reporting regarding liquidity.

The BoD reviews the Liquidity Policy Statement, at least annually, to take account of changing operating circumstances. Every month, the MR department submits the liquidity reports of all banking units of the Group to the RC. While the BoD has the ultimate responsibility for liquidity management, it has appointed ALCO to ensure the timely and effective implementation of the liquidity policy.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. Bank of Cyprus UK Ltd ALCO is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies and regulatory requirements.

Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of Bank of Cyprus UK Ltd, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Every unit is responsible for managing its liquidity and targets to finance its own 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 enhance the Group's liquidity position.

Liquidity is also monitored daily by Market Risk, which is an independent department responsible to monitor compliance at the level of individual units, as well as at Group level, with both internal policies and limits, and with the limits set by the regulatory authorities in the countries where the Group operates. Market Risk reports to ALCO the regulatory liquidity position of the various units of the Group, at least monthly. It also provides the results of various stress tests to ALCO on a quarterly basis.

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 the key Recovery and Early Warning indicators, so as to monitor these consistently and to set in advance a range or recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's position.

4.2.3 **Liquidity Risk and Funding** (continued)

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted/continuous operations of the Group's activities. Market Risk prepares 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. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Since May 2016, 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 BOC PCL to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

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 eligible unencumbered/available bonds. Most of these are all High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds and excludes domestic issues of Cyprus Government Bonds.

The designing of the stress tests followed the 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.

Market Risk prepares a weekly report of Euro and foreign currency liquidity mismatch, which also discloses the level of liquidity ratios which is submitted to the CBC.

Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios, for all banking units and 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 deposits by tenor 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 BOC PCL and the Group, data on monthly customer flows, as well as other important developments related to liquidity.

The results of the stress testing scenarios prepared daily are reported to ALCO and the Board Risk Committee on a quarterly basis. Moreover, Market Risk reports the NSFR, Leverage Ratio to the CBC/ECB quarterly and various other liquidity reports, included in the short-term exercise of the SSM per the SREP guidelines.

The Group prepares on an annual basis its report on ILAAP. In 2017, the 2016 ILAAP took place for 2016, which was submitted to the SSM in April 2017. The ILAAP for 2017 will be submitted to the SSM in April 2018 following BoD approval.

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.

4.2.3 Liquidity Risk and Funding (continued)

Any violations of limits are promptly reported to the MR department from the respective banking unit who in turn reports them to the:

- CEO
- Finance Director
- GCRO
- Group Treasurer

All regulatory limit violations with the recommended remedy are reported to the ALCO and RC. A number of mitigating actions exist that are analysed in the Group Recovery Plan, the Group Liquidity Policy and the Group Liquidity Contingency Plan.

Group Internal Audit and Local Internal Audit units are responsible to assess and report on the:

- Appropriateness, efficiency and effectiveness of the internal control environment in relation to the management of liquidity.
- Appropriateness and adequacy of procedures in place to ensure compliance with applicable laws and regulations.
- Compliance with Group and local policies and procedures.

The Finance Department of each unit is responsible for the preparation of regulatory liquidity reports for each unit.

The Bank, as part of its liquidity management strategy, has put in place management information systems capable of measuring and reporting liquidity risk so that the monitoring of compliance is done effectively and efficiently. The Bank has an automated, daily reporting process for liquidity in place. Raw data regarding Advances, Deposits, Treasury and other Products is received from Data Warehouse in the early morning hours. The Bank uses two systems: The Asset Liabilities Management (ALM) system which is used mainly for local regulatory and internal ratios and FRCS Prognosys which is mainly used for the European Regulatory ratios and reporting and liquidity stress testing. All the data is reconciled to either the General Ledger or other reports. These liquidity risk management systems are reviewed every year in ILAAP which is recommended by ALCO and approved by the BoD through its RC.

Minimum Regulatory Liquidity Requirements
EU limit requirement
The Group LCR is calculated monthly by Market Risk and sent to CBC/ECB 15 days after the month end. Following ELA repayment in January 2017, BOC PCL has been concentrating its efforts in increasing liquid assets and thus complying with LCR limit of 80% in March 2017. In May 2017 the LCR exceeded the 100% ultimate limit.

The Group LCR was as follows as at 31 December:

Group LCR	**2017 %**	2016 %
31 December	**190**	49
Average ratio[12]	**120**	5
Highest ratio	**190**	49
Lowest ratio	**58**	-

The LCR of the Bank amounted to 188% as at 31 December 2017.

[12] Average ratio represents the average of the end of month ratios for the whole year.

4.2.3 **Liquidity Risk and Funding** (continued)

The LCR is designed to promote short-term resilience of a Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The CRR requires phased-in compliance with the LCR standard from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. Since enactment of Regulation (EU) 2015/61 in September 2016, the LCR is calculated under this Regulation on a monthly basis.

The table below shows a quantitative analysis of LCR which complements Article 435(1)(f) of Regulation No 575/2013:

As per Article 30 (1), (2) and (3) of Commission Delegated Regulation (EU) 2015/61, potential outflows due to derivative and financing transactions are calculated based on:

a) Credit deterioration of the bank's credit quality.
   During the actual acute stress test period experienced in 2013, additional independent amounts had to be placed by the Bank (reflecting the increased credit risk of the bank as perceived by counterparties). The potential outflow takes into account the percentage increase of independent amounts experienced in 2013 as well as the current outstanding derivatives in terms of notional, the type of derivative and the currency pair in the case of FX swaps.
b) Adverse market movements affecting the mark to market.
   The potential negative impact on the mark to market of derivatives and the underlying collateral of repos is calculated in the case of adverse market movements. The methodology followed is based on VAR analysis performed on historical data (foreign exchange rates and bond prices) as well as the current outstanding derivatives and repos. The resulting expected loss is the increased expected outflow.

With regards to the currency mismatch, it is noted that for US Dollars, the ratio presents a gap when comparing the buffer with its net outflows. The Bank maintains large amounts of customer deposits in USD (included in LCR outflows). The proceeds received are invested in either USD money market placements (which form part of the LCR inflows and not a liquidity buffer) or are converted to Euro through the use of short term FX Swaps which are very liquid instruments. Very small amounts are invested in USD liquid assets. Thus, although the gap appears to be large, the Bank is in a position to cover any USD requirements either through the cash invested in USD money market placements or by terminating the EUR/USD FX Swaps.

The Group also monitors its position against the Basel Quantitative Impact Study (QIS) NSFR. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities. The NSFR ratio was not introduced on 1 January 2018, as per expectations. The minimum requirement of NSFR will be 100%. At 31 December 2017 the Group's NSFR, on the basis of the Basel III standards, stood at 111% (compared to 95% at 31 December 2016).

4.2.3 Liquidity Risk and Funding (continued)

CBC Limit Requirements

Violation of regulatory ratios as at 31 December 2017 (these ratios abolished on 1 January 2018):

CYPRUS	Minimum Regulatory Ratios	Ratio	Surplus / (deficit)
2017	**%**	**%**	**€000**
Euro Liquidity Mismatch ratio: 0-7 days	**-17**	**-18.11**	**(156,347)**
Liquidity Mismatch ratio: 0-30 days	**-30**	**-23.03**	**981,387**
Stock Liquidity ratio	**18**	**25.74**	**1,138,360**
Foreign Currency Stock Liquidity ratio	**50**	**28.99**	**(464,161)**
Foreign Currency Coverage of 0-7 days FC deposits	**80**	**38.60**	**(686,806)**

2016			
Euro Liquidity Mismatch ratio: 0-7 days	-10	-31.67	(2,740,190)
Liquidity Mismatch ratio: 0-30 days	-25	-39.66	(1,853,955)
Stock Liquidity ratio	20	12.16	(1,044,209)
Foreign Currency Stock Liquidity ratio	70	26.47	(1,153,547)
Foreign currency Coverage of 0-7 days FC deposits	100	33.72	(1,379,183)

4.2.3 **Liquidity Risk and Funding** (continued)

Scope of consolidation: **Consolidated** **€ million**		**Total unweighted value (average)**				**Total weighted value (average)**			
Quarter ending on:		**Mar 17**	**Jun 17**	**Sept 17**	**Dec 17**	**Mar 17**	**Jun 17**	**Sept 17**	**Dec 17**
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					1,590	2,319	2,829	3,142
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	4,587	4,774	5,101	5,549	337	392	393	426
3	Stable deposits	3,288	3,322	3,390	3,604	164	166	170	180
4	Less stable deposits	1,299	1,419	1,711	1,945	173	192	224	246
5	Unsecured wholesale funding	4,328	4,059	4,018	4,103	2,371	2,145	2,108	2,111
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	4,328	4,059	4,018	4,103	2,371	2,145	2,108	2,111
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	528	602	657	706	294	302	287	267
11	Outflows related to derivative exposures and other collateral requirements	265	259	237	207	265	258	237	206
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	263	343	420	500	29	44	51	61
14	Other contractual funding obligations	8	8	10	12	8	8	10	12
15	Other contingent funding obligations	2,505	2,536	2,595	2,652	251	254	260	265
16	TOTAL CASH OUTFLOWS					3,261	3,100	3,058	3,081
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	780	642	838	1,113	710	563	767	1,032
19	Other cash inflows	1,202	1,200	1,127	1,114	242	244	228	224
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	1,982	1,842	1,965	2,227	952	807	995	1,256
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	1,982	1,842	1,965	2,227	952	807	995	1,256
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					1,590	2,319	2,829	3,142
22	TOTAL NET CASH OUTFLOWS					2,310	2,293	2,063	1,825
23	LCR (%)					69%	101%	137%	172%

4.2.3 Liquidity Risk and Funding (continued)

Scope of consolidation: **Consolidated** **€ million**		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on:		**Mar 16**	**Jun 16**	**Sept 16**	**Dec 16**	**Mar 16**	**Jun 16**	**Sept 16**	**Dec 16**
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					945	1,209	1,191	1,363
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	4,260	4,407	4,200	4,468	350	361	330	326
3	Stable deposits	2,437	2,500	2,658	3,246	122	125	133	162
4	Less stable deposits	1,823	1,907	1,543	1,222	228	236	198	163
5	Unsecured wholesale funding	3,324	3,513	3,909	4,352	1,779	1,907	2,123	2,392
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3,324	3,513	3,909	4,352	1,779	1,907	2,123	2,392
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	234	348	407	516	208	214	237	307
11	Outflows related to derivative exposures and other collateral requirements	188	185	211	283	188	184	211	277
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	46	163	196	233	20	30	26	30
14	Other contractual funding obligations	8	9	8	11	8	9	8	11
15	Other contingent funding obligations	2,796	2,653	2,598	2,611	280	265	260	261
16	TOTAL CASH OUTFLOWS					2,624	2,756	2,958	3,296
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	972	894	865	764	907	818	806	700
19	Other cash inflows	1,290	1,248	1,211	1,174	263	253	251	237
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	2,262	2,142	2,076	1,938	1,170	1,071	1,057	937
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	2,262	2,142	2,076	1,938	1,170	1,071	1,057	937
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					-	-	-	460
22	TOTAL NET CASH OUTFLOWS					1,454	1,685	1,907	2,359
23	LCR (%)					0%	0%	0%	19%

4.2.3 Liquidity Risk and Funding (continued)

PRA Limit Requirements

As at 31 December 2017 and 2016, Bank of Cyprus UK was in compliance with its regulatory liquidity requirements. Since November 2015, the Romanian Branch does not have to comply with any local regulatory liquidity requirements. In December 2016, the Channel Islands operations were terminated. The Bank of Cyprus UK liquidity regulatory requirements are presented in the tables below.

UK	Pillar 1 (90% of net outflows)	Pillar 2	Total Requirement	Liquid assets per LCR	Surplus/(deficit)[13]
2017	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Prudential Regulation Authority UK Prudential (PRA LCR)	**33,567**	**67,600**	**101,167**	**428,026**	**326,858**

2016					
Prudential Regulation Authority UK Prudential (PRA LCR)	14,811	115,700	130,511	229,135	98,624

As at 31 December 2017, the Group is in compliance with its regulatory liquidity requirement with respect to the LCR.

As at 31 December 2017, BOC PCL was not in compliance with all of the local regulatory liquidity requirements (which were abolished on 1 January 2018 as per Article 412(5) of EU Regulation No 575/2013) with respect to its operations in Cyprus. More specifically, BOC PCL was in compliance with the CBC EUR stock ratio and the CBC EUR 0-30 days mismatch ratio, but was not in compliance with the rest of the local regulatory liquidity requirements.

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 and which became effective on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity 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 applies stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than the ones defined in the Commission Delegated Regulation (EU) 2015/61 as well as additional liquidity requirements in the form of outflow rates on other items that are not subject to any outflow rates as per the Regulation. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones, and are applicable from 1 July 2018 until 31 December 2018. Specifically, there will be a reduction of 50% of the LCR add-on rates on 1 July 2018. The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macroprudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised. As at 31 December 2017, the Group was in compliance with the LCR add-on implemented on 1 January 2018.

[13] Surplus/(deficit): including surplus/(deficit) from SME, Government and Group deposits and bank placements

4.2.3 Liquidity Risk and Funding (continued)

RAS for Liquidity Risk and Funding
The Bank's risk appetite on Liquidity risk is summarised as follows:

- The Bank has a very limited appetite for liquidity risk and maintains strict limits relating to its high quality liquid asset holdings and its cash flow maturity profiles. Further, the Bank has zero tolerance for any limit breaches and aims to comply with regulatory and internal limits in the medium term.
- The Bank aims to ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. In the medium term, the Bank should ensure that it has enough liquids to survive a three month stress test, under the combined scenario.
- The Bank should not rely on emergency funding from regulators but it should have contingency plans in place to be able to do that.
- The Bank's liquid asset holdings must be comprised mostly of assets classified as liquid under the LCR definitions. In the medium term the Bank aims to:
  - Maintain an LCR of at least 115%.
  - Maintain an NSFR above 102%.
  - Comply with other regulatory requirements and ratios as set from time to time.
  - In keeping with best practice, the Bank needs to monitor and manage its liquidity position on a daily basis.
- 75% of bond investments to be of high liquidity and low capital usage for regulatory purposes.

The following table shows the liquidity position of the Bank, as per the Risk Appetite, as at 31 December 2017:

Risk Type	Risk Appetite	Metric/Qualitative Requirement	RAS Limit/Requirement	Trigger Limit	31/12/2017	Red Amber Green (RAG)
2017						
Liquidity	Very limited appetite for liquidity risk & compliance with regulatory and internal limits	Number of breaches	Zero breaches	n/a	All Cyprus regulatory ratios with the exception of EUR Stock ratio and 0-30 days EUR mismatch ratio are in breach. Also internal stock ratio and internal FC mismatch ratios are in breach. LCR ratio in compliance. As at 01/01/18 all local regulatory ratios are abolished. New LCR add-on applicable since January 2018 currently in compliance	
Liquidity	Sufficient liquidity to meet liabilities under both normal and stressed conditions	Three month stress test under the combined scenario	In the medium term have enough liquids to survive a three month stress test, under the combined scenario	n/a		
Liquidity	No reliance on emergency funding in the medium term	Amount of emergency funding	Emergency funding = 0	n/a	nil	
Liquidity	Adequate liquid assets mostly comprised of Liquid assets as per the LCR definitions	LCR and liquidity stock ratios (medium term)	LCR ≥ 115%, NSFR> 102% and meet other regulatory requirements as set from time to time	LCR:115% NSFR:102%	LCR:190% NSFR:111%	
Liquidity	Bond investments to be of high liquidity and low capital usage	% of bond portfolio	75% of bond investments to be of high liquidity and low capital usage for regulatory purposes	80%	All bonds are High Quality Liquid Assets (HQLA) for LCR purposes	

4.2.3 **Liquidity Risk and Funding** (continued)

The Bank's risk appetite on Funding is described below:

- Loan to deposits ratio: The Bank should not operate with a net loan to deposits ratio higher than 110%.
- The reliance on confidence-sensitive deposits from non-residents needs be closely monitored. This is measured as the ratio of Internal Business Unit (IBU) deposits / total Cyprus deposits which should not be increasing over time. If this ratio does increase for temporary or other idiosyncratic reasons, then this will need to be taken into account during the ILAAP process. It is expected that the increased volatility associated with such liquidity to be adequately addressed, analysed and highlighted during this process.
- Asset encumbrance as a percentage of the balance sheet should not exceed 30% of its balance sheet.
- Strong and diversified funding sources by establishing:(i) an active Euro Medium Term Note (EMTN) programme, (ii) securitisation and covered bond issuance capabilities, and (iii) all of the above categories must also be diversified by tenor.
- The following funding sources, as a percentage of total liabilities, should not exceed:
  - Euro Commercial Paper (ECP) and EMTN senior funding: 12.5%
  - Securitisation: 7.5%
  - Covered bond issuance: 12.5%
  - Third party repos and ECB (normal excluding ELA): 10%
- All material subsidiaries to be self-funded. Any Group assistance should be of temporary nature or for specific business activities with a clear repayment source.

The table below outlines the Risk Appetite Ratios as at 31 December 2017 relevant to Funding:

Risk Type	Risk Appetite	Metric/Qualitative Requirement	RAS Limit/Requirement	Trigger Limit	31/12/2017	RAG
Funding	Loan to deposits ratio	Loan to deposits ratio	<110%	100%	82%	•
Funding	Confidence sensitive deposits from non-residents to be monitored	IBU deposits/Total CY deposits	Trend should not be increasing	n/a	26%	•
Funding	Asset encumbrance	% of encumbrance of balance sheet	<than 30% of balance sheet in the medium term	28%	15%	•
Funding	Diversification of funding sources	Establish EMTN programme, securitisation and covered bond issuance capabilities and diversification by tenor	As per metric	n/a	See below	•
Funding	Funding sources limits	Funding sources as a % of total liabilities	1. EMTN senior funding ≤ 12.5%. 2. Securitisation ≤7.5% 3. Covered bond issuance ≤ 12.5% 4. Third party repos and ECB (normal not ELA) ≤10%	n/a	All zero except for Repos 6%	•
Funding	Subsidiaries funding	All subsidiaries to be self-funded	n/a	n/a	Main subsidiary is BOC UK which is self funded	•

Albeit the table above shows that the Group is in compliance with other funding sources beyond deposits, the fact that the current level is close to zero indicates, as already stated above, limited market access. Market access has improved over the last year, as indicated by the issuance of Tier 2 debt and the improved market appetite and pricing for possible issues.

The Group's liquidity policy is designed to avoid reaching a crisis point. However, in case a liquidity or a funding crisis arises, the Bank will address them, as analysed in the Contingency Funding Plan. A number of internal and regulatory ratios are in place to monitor Liquidity and these are further analysed in the Liquidity Policy Statement.

4.2.3 Liquidity Risk and Funding (continued)

Regarding the Group's liquidity and funding strategy:

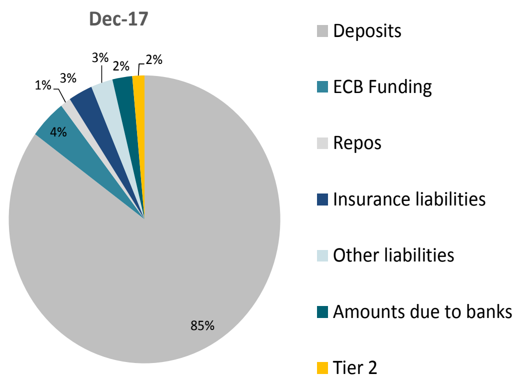
- The Bank is stepping up its marketing efforts to attract deposits and to normalise its funding structure.
- The Bank has continuously been monitoring the market and has taken all necessary actions to be ready to access the wholesale market.
- The Bank aims to provide lending to promising sectors of the domestic economy that will support and diversify further the economic activity.
- The Group continues its deleveraging efforts and disposal of non-core assets.
- The Group continues the efforts for the management of problem loans.

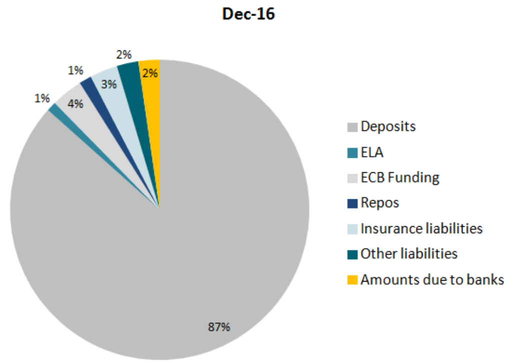
Current State of Funding and Funding sources

As at 31 December 2017, the Group had available liquids[14] of €3.90 billion compared to €1.95 billion at the end of 2016. The increase is primarily due to the increase of the Group's deposit base and central bank funding, through the Eurosystem monetary policy operations. The issue of €250 million unsecured and Subordinated Tier 2 Capital Note in January 2017 contributed to the increase of liquids. As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly Main Refinancing Operations (MRO) and €830 million was from the 4-year Targeted-long term refinancing operations (TLTRO II).

The liquidity received from central banks is subject to the relevant regulations and requires qualifying assets as collateral. The funding via Eurosystem monetary policy operations ranges from short term to long term.

As presented in the chart below, as at 31 December 2017 the Group's liabilities were composed of: 85% customer deposits (2016: 87%), 4% ECB funding (2016: 4%) and nil ELA (2016: 1%). The level of central bank funding as at 31 December 2017 amounted to €0.93 billion (2016: €0.85 billion), comprising all of ECB funding (2016: €0.65 billion ECB funding and €0.2 billion of ELA funding). The ECB funding of €0.93 billion (2016: €0.65 billion) consists of €0.1 billion funding from weekly MRO and €0.83 billion from TLTRO (2016: €0.05 billion funding from Long Term Refinancing Operations (LTRO) with maturity 30 March 2017 and €0.6 billion from TLTRO.





The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade, albeit on a rising trend. As a result, the ECB Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations.

Currently, the Bank is participating in the TLTRO of the ECB for an amount of €830 million and borrowed €100 million through the MRO using Additional Credit Claims (ACCs) and the retained issue of the Bank's covered bond.

[14] Available liquids comprise cash, balances at CBC (overnight and available on demand), interbank balances (overnight and available on demand) and other CBC and interbank balances with maturity up to 30 days.

4.2.3 Liquidity Risk and Funding (continued)

Impediments for the prompt transfer of funds between the parent entity and its subsidiaries
The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. Any new funding and capital injection to subsidiaries require approval of the ECB. Bank of Cyprus UK Ltd cannot place funds with the Bank in excess of maximum limits set by the PRA.

4.2.4 Securities 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.

The Group has an outstanding equity including preference shares and funds portfolio classified for accounting purposes as either Available-for-Sale (AFS) or Fair Value through Profit and Loss (FVPL).

The Group has a very small trading book (only €2.64 million or 0.01% of total assets) primarily belonging to certain subsidiaries, who are holding this portfolio as part of their normal business. These subsidiaries are not included in the consolidation for prudential purposes. Finance uses mostly quoted prices to value this book. At the end of every quarter Market Risk obtains the portfolio from Finance and reviews the major movements. Any holdings whose value had a significant change are reviewed and verified from the prices listed on the Stock Exchange site.

The policy is to manage the current portfolio with the intention to run it down. No new purchases are allowed without ALCO approval. New equities may only be obtained from repossessions of collateral for loans. The equity shares portfolio is managed by IWM.

The ALCO and BoD, through the RC, monitor on a monthly basis the balance sheet value of this portfolio compared to its historic cost, accompanied with any impairment charges and disposal information.

Changes in the prices of equity securities that are classified as FVPL affect the profit or loss of the Group, whereas changes in the value of equity securities classified as AFS affect the equity of the Group (unless impaired in which case they affect the profit or loss of the Group).

The table below shows the impact on the 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**
2017	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+25**	**1,477**	**1,288**
Athens Exchange	**+25**	**-**	**99**
Other stock exchanges and non-listed	**+20**	**1,144**	**4,206**
Cyprus Stock Exchange	**-25**	**(1,483)**	**(1,282)**
Athens Exchange	**-25**	**(5)**	**(93)**
Other stock exchanges and non-listed	**-20**	**(1,390)**	**(3,960)**

4.2.4 Securities Price Risk (continued)

	Change in index	Impact on profit / (loss) before tax	Impact on equity
2016		**€000**	**€000**
Cyprus Stock Exchange	+25	1,313	1,049
Athens Exchange	+35	-	95
Other stock exchanges and non-listed	+20	858	2,122
Cyprus Stock Exchange	-25	(1,567)	(795)
Athens Exchange	-35	(30)	(67)
Other stock exchanges and non-listed	-20	(858)	(2,122)

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 issuers change 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 rating of the debt securities portfolio of the Group as at 31 December 2017 was Baa1 (2016: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2017 was Aa1 (2016: Aa2).

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 AFS affect the equity of the Group (if not impaired).

The table below indicates how the 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.

	Impact on profit / (loss) before tax	Impact on equity
Change in market prices	**€000**	**€000**
2017		
+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)**
2016		
+6.5%	2,861	34,776
-6.5%	(2,861)	(34,776)

4.2.5 Property Risk

The Bank's KRI on Properties (excluding own properties) was set at 50% of the Group's CET1 capital or €1.5 billion, whichever is the higher until March 2017. The BoD at its March 2017 meeting increased this KRI to €2 billion, to align it with the expected increase in property exposures, as a mean to address its asset quality issue in a more effective way. The KRI on properties is viewed as a trigger point for review.

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. Such property exposures, due to their long-term nature, are difficult to hedge. Any decision to hedge will be taken on a case by case basis by the ALCO committee of the Bank following recommendation from Group Treasury and Group Finance.

The carrying value and analysis by type and by geographical breakdown is disclosed in the Consolidated Financial Statements of the Company for 2017 (Notes 22, 25 and 27).

4.3 Operational Risk Management (ORM)

4.3.1 Definition and Objectives

Operational risk is defined as the risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes compliance and legal risk; however it excludes strategic and reputational risk.

The Group uses a broader scope when defining operational risk (to include other important risks such as reputational risks), for the purposes of its Operational Risk Management Framework. As such, operational risk encompasses the following risks:

- Conduct risk: It is defined as the risk of unexpected or undesirable behaviour by management, staff or other person identified with the bank, which results in an adverse impact for the customer and is focused on how the bank is managed and structured to ensure that it treats its customers fairly by having robust systems and controls, adequate skill, care and judgement.
- Reputational risk: It is defined as the risk arising from negative perception, on the part of the stakeholders, that can adversely affect the bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.
- Legal risk: It is defined as the possibility of the operations and conditions of the bank to be disrupted or adversely affected given lawsuits, adverse judgements or unenforceable contracts. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.
- Compliance/Regulatory risk: It is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities. Over and above compliance to the regulatory framework, regulatory risk comprises the risk not to comply with Regulators requirements for a) implementation of regulatory review recommendations and findings; b) implementation of regulatory decisions/approvals; and c) other requests for information all of which may result in breach of the regulatory expectations.
- Information security and information technology (IT) risk: Information Security risk is defined as the risk arising from the loss of confidentiality, integrity and availability of information.
- Business Continuity risks refer to risks impacting the capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident.
- Model risk. It is defined as the risk of loss resulting from using models to make decisions, in cases where financial models used to measure risks or value transactions do not perform the tasks or capture the risks they were designed to.

Operational regulatory risk policies and procedures contribute to the management of these risks, some of which are also directly managed by specialised departments, i.e. Information Security Department, Group Compliance and Legal Services.

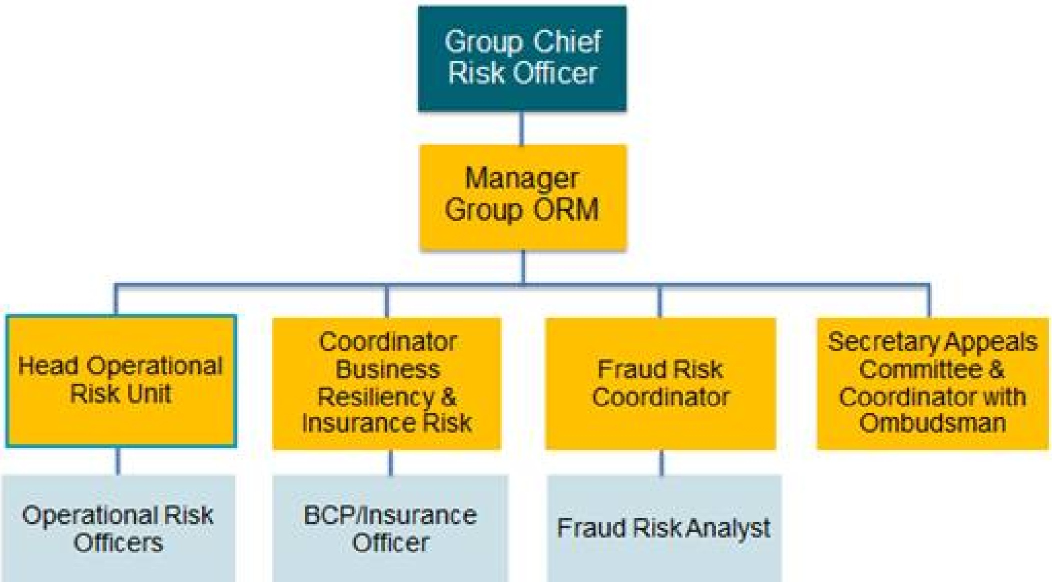
4.3.1 Definition and Objectives (continued)

The Operational Risk Management Department (ORMD) is responsible to embed explicit and robust ORM practices into all areas of the business process from the initial design of the Bank's business strategy to the sale of services and products to its customers. This is achieved by implementing a sound, coherent and comprehensive framework for the identification, assessment, monitoring and control of operational risk within the Bank that improves the service provided to customers, the Bank's productivity and cost effectiveness and which ultimately protects shareholder value. ORM also ensures that the level of operational risk faced by the Bank is consistent with the BoD's overall risk appetite and corporate objectives.

The ORM framework strives to achieve the following specific objectives:

- Fostering awareness and understanding of operational risk among all staff and promoting a culture where staff are more conscious of risks and the joint avoidance of losses, in order to improve the understanding and influence of operational risk to the risk-reward relationship of the Bank's activities;
- Ensuring effective operational risk monitoring and reporting. Provide transparent reporting of operational risks and material exposure to losses, to the management and provide all stakeholders with updates on implementation action plans as well as the risk profile of the Bank;
- Implementing a strong system of internal controls to ensure that operational incidents do not cause material damage to the Group's franchise and have a minimal impact on the Group's profitability and objectives;
- Improving productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.

ORMD Structure



4.3.2 Management and Control of Operational Risk

ORMD employs specialised tools and methodologies to identify, assess, mitigate and monitor operational risk within the Group. These specialised tools and methodologies assist business risk owners and the ORMD to address any control gaps and effectively report and monitor operational risk exposures. To this effect, the following are implemented:

4.3.2 Management and Control of Operational Risk (continued)

Incident recording and analysis

Data on operational risk events (actual and potential losses, as well as near misses) is collected from all Group entities, with a threshold of €100 per actual/potential loss. An operational risk event is defined as any incident where through the failure or lack of a control, the Group could actually or potentially have incurred a loss. The definition includes circumstances whereby the Group could have incurred a loss, but in fact made a gain, as well as, incidents resulting in potential reputational or regulatory impact.

The data collected is categorised and analysed to facilitate the management of operational risks and, where possible, to prevent future losses by implementing relevant mitigating actions. Emphasis is constantly placed on carrying out root-cause analysis of both operational risk incidents with a significant impact and repeated operational risk incidents which present worrying trends. This enables the identification of weaknesses or vulnerabilities and potential threats, which in turn supports the specification of actions to minimise the risk of similar incidents occurring in the future. In 2017, 282 loss events with gross loss over €1,000 were recorded, compared to 92 in 2016.

Risk Appetite and Adverse scenario analysis

The Bank has a defined Operational RAS, which forms part of the Group's RAS. Operational RAS limits are set out as per Basel Event type categorisation.

The Bank uses scenario analysis on an annual basis for assessing the adequacy of risk capital set aside for operational risk under Pillar II against unexpected, severe but plausible losses that are not covered by Pillar I capital. A quarterly reassessment of the scenarios is carried out. This is based on an analysis of Key Operational Risk Drivers. The Bank adopts the EBA EU Stress Testing Methodology followed for conduct and other operational risks, as requested through the European Central Bank guidance on stress testing for banks.

Risk Control Self-Assessment (RCSA)

A RCSA methodology is established across the Bank. The methodology follows a three-phase process: (i) Preparation; (ii) Workshop; and (iii) Reporting and Follow-up. It is a team exercise, which enables/empowers the business unit management and employees to: (i) identify the inherent and residual risks to the achievement of their objectives, (ii) assess and manage high risk areas of the business processes, using a uniform *Likelihood x Impact scale* that forms a central point of reference within the ORM framework, (iii) self-evaluate the adequacy of controls and identify the lack of controls and (iv) develop and prioritize risk treatment action plans.

Based on the RCSA methodology, business owners are requested to place emphasis in identifying risks that arise primarily from the following areas:

- Information security risks
- Money laundering and know your customer
- Regulatory/Compliance risks
- Internal and external fraud
- Continuity of operations
- Information Technology risks
- Reputational risks
- Conduct risks
- Outsourcing risks
- Efficiency risks
- Legal risks
- Data quality and reporting risks

With primary input from the process of RCSA completion, ORMD maintains a detailed risk register for each Unit, which forms an important component of the ORM analysis and reporting.

4.3.2 Management and Control of Operational Risk (continued)

Key Risk Indicators (KRIs)
A KRI is an operational or financial variable, which tracks the likelihood and/or impact of a particular operational risk. KRIs serve as a metric, which may be used to monitor the level of particular operational risks. KRIs are similar to, and often coincide with, KPIs and Key Control Indicators. KRIs are established from a pool of business data/indicators considered useful for the purpose of risk tracking. These indicators are used for the ongoing monitoring of the Bank's operational risks, and mitigating actions are initiated in the case KRI limit violations are observed. Key observations from the KRIs are reported to top management and the RC.

Risk-based Business Process Management
Risk based Business Process Management involves the assessment of risks, the provision of opinions on the acceptability of the risks assessed and the recommendation of additional controls in relation to changes made in business processes, new products or services, outsourced activities and new projects/initiatives. ORMD actively participates in the evaluation of new or amended procedures/policies, new technology systems and other important decisions or developments, with an objective to facilitate and carry out the identification and assessment of any operational risks.

Business Resilience and Continuity Risk Management
Business continuity risks are managed to ensure that the Bank has business resiliency and continuity plans in place and is able to operate on an ongoing basis and limit losses in the event of severe business disruption. To this effect, an IT Disaster Recovery (DR) plan is maintained and is annually reviewed and tested. The Business Continuity Management Framework includes incident and crisis response plans and procedures.

Fraud Risk Management
The Bank has reinforced its fraud Risk Management Framework, through (i) the implementation of the Fraud Risk Management system and (ii) additional actions involving the formalisation of the Bank's overall structured Fraud Incident Response Plan (FIRP) and the formalisation of two additional Fraud Incident Response Plans relating to ATM skimming and the use of fraudulent credit card incidents.

Training and awareness
Training is carried out throughout the Bank with the aim to promote risk culture and enhance awareness in relation to operational risks. As training and awareness regarding operational risk is one of the main objectives of the Operational Risk Management Framework, ongoing training sessions are established covering awareness on principles of Operational Risk, its management Framework and tools.

Network of ORM liaisons
Operational risk liaisons act as the point of contact with the aim to enable the effective implementation of the various operational risk methodologies across the Bank, by liaising with their departmental and unit management. In local and overseas subsidiaries, ORM responsibilities are assigned to local risk managers.

Insurance Coverage
The Group maintains insurance coverage for material operational risks. Group insurance coverage includes, inter alia, the following insurance policies:

- Directors and Officers Liability Insurance,
- Bankers' Blanket Bond, Computer Crime and Civil Liability Insurance
- Cyber Insurance

4.3.2 Management and Control of Operational Risk (continued)

Conduct Risk

The Bank conducts all its dealings with customers within high ethical standards and follows a very prudent and cautious strategy with regards to compensation or provision of incentives that could lead to risks of mis-selling. A thorough framework is in place for assessing all the relevant risks for new or changed products/services as a key control for minimising the risk of products or services being promoted to the customers that create the potential of unfair treatment or are otherwise not appropriate or relevant for certain customers.

The Group maintains a Customers Complaints Management process, the purpose of which is to provide the foundation for implementing a consistent, diligent, efficient and impartial approach throughout the Group for the handling of customer complaints. The Bank cultivates a culture where complainants are treated fairly and the complaints handling mechanism is perceived as a valuable opportunity to re-build and enhance relationships with customers.

Management of Litigation risk

The Legal Services Department (LSD) has set in place processes and procedures to ensure the effective and prompt management of Legal Risk. These processes and procedures primarily include the:

(a) Handling requests for legal advice from all Divisions;
(b) Handling litigation against the Bank and provide support to Group entities for the handling of litigation against them;
(c) Review and assess of the legal framework and regulatory developments;
(d) Review of new products/advertisements/internal policies & manuals/contracts, engagement letters with external counterparties, acquisition/disposal agreements etc;
(e) Participation of the Chief Legal Officer in Bank's committees and various steering committees; and
(f) Frequent reporting of pending litigations and latest developments in a number of Board and management committees.

The LSD has bespoke software systems both for the filing of requests from Divisions as well as for the registration of all litigation against the Group. The structure of the LSD in teams of lawyers enables the timely allocation and completion of work. External legal counsel is engaged for the representation of the Group before legal forums and also where necessary for the granting of legal opinions or drafting of documentation, especially where the area of law is not within LSD's specialisation/expertise. A framework for the engagement, monitoring and assessment of the performance of external legal counsel has also been put in place in order to ensure that the best possible service is received.

The participation and reporting of legal risk by the Chief Legal Officer in a number of Board and Management committees and in particular of all pending litigation against the Group ensures that the Bank is kept informed and updated of the Group's exposure in this respect. Such committees and groups include the Provisions Committee, the RC and AC, the BoD, the Regulatory / Supervisory Coordination Office (RSCO), the Operating Committee and various ad hoc steering committees e.g the Payments Service Directive (PSD2) Steering Committee, the MiFID II Steering Committee etc. Additionally LSD reports all litigation on a monthly basis to Operational Risk and other management bodies.

Pending litigation, claims and regulatory 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 BOC PCL in 2013 as a result of the Bail-in Decrees, BOC PCL 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.

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.

4.3.2 Management and Control of Operational Risk (continued)

Apart from what is disclosed in Note 39 of the Consolidated Financial Statements of the Company for 2017 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.

Despite the novelty of many of the claims such as the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of BOC PCL and the uncertainties inherent in a unique situation, 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 well as other pending litigation, claims and regulatory matters are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

The management has considered the potential impact of pending litigation and claims, investigations and regulatory matters against the Group. The Group has obtained legal advice in respect of these claims.

The provisions for pending litigation, claims and regulatory matters are analysed as follows:

	31 December 2017	31 December 2016
	€000	€000
Pending litigation or claims	**62,646**	25,234
Regulatory matters	**70,672**	23,648
	133,318	48,882

Major developments relating to ORM during 2017

The Data Governance Unit, formerly under the ORMD (since its inception in September 2016) was transferred under the Risk Analytics & Capital risk Department in October 2017. Within 2017, the Fraud Risk Management Unit was enhanced with the addition of a Fraud Risk Analyst.

Further to the deployment on 1st June 2016, of the Risk Compliance Management System (RCMS) system, on 6th December 2017 Phase I of the Fraud Risk Management System was successfully implemented. The implementation corresponds to Phase I of the project (covering internet and mobile banking online transactions), which entails a fine tuning period which will last for 3 months after the Go-Live date. The Business analysis of Phase II of the project, which relates to Cards & ATMs, was also initiated at the end of the year.

The first cycle of RCSAs across the Bank and its local subsidiaries was completed by 31st March 2017 signifying the completion of the Bank's risk register. Immediately after, the annual re-initiation/update of the RCSA process for all Units and local subsidiaries was scheduled and commenced based on the revised RCSA Methodology.

Reputational risk management is addressed explicitly as part of both the RCSA and the Incident recording analysis processes. To further enhance management of reputational risk, during the year procedures were enhanced in cooperation with the Corporate Affairs Division, placing emphasis on identification and prompt reporting of incidents bearing an important reputational impact for the Bank.

During 2017, a separate Cyber Insurance coverage has been bound as of 14th July 2017 that covers risks from Cyber Security threats leading to breaches of confidential information, computer and system failures, business interruption, cyber extortion and emerging third party claims against the Group.

4.3.3 Capital Calculation for Operational Risk

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk (see details under Section 5.5).

4.3.4 Reporting

Internal operational risk reports are compiled on a monthly, quarterly and annual basis and are communicated to the ExCo, OpCo and the RC through the GCRO. These reports cover all major issues and results of operational risk activities.

5. Own Funds and leverage disclosures

5.1 CRD IV Regulatory Capital

The tables below disclose the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2017 and 2016.

This disclosure has been prepared using the format set out in Annex VI of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards with regards to disclosure of own funds requirements for institutions according to the CRR.

	Group		
	Transitional position	Transitional impact	Fully loaded
	2017	2017	2017
	€000	€000	€000
Capital instruments and the related share premium	2,838,978	-	2,838,978
Retained earnings	(629,128)	-	(629,128)
Accumulated other comprehensive income (OCI) and other reserves	167,362	-	167,362
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2,377,212**	**-**	**2,377,212**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(34,252)	-	(34,252)
Unrealised gains of AFS instruments subject to transitional arrangements	(10,063)	10,063	-
Additional Valuation Adjustment (AVA)	(1,050)	-	(1,050)
CET1 eligible reserves, transferred to Tier 2 (T2)	(46,742)	-	(46,742)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(92,989)[15]	(61,993)	(154,982)
Direct and indirect holdings of financial sector entities where the institution has a significant investment (amount above 10% threshold)	-	-	-
Amount exceeding the 15% threshold	(7,964)	(33,294)	(41,258)
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	*(3,376)*	*(11,297)*	*(14,673)*
Of which: Deferred tax assets arising from temporary differences	*(4,588)*	*(21,997)*	*(26,585)*
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(193,060)**	**(85,224)**	**(278,284)**
Common Equity Tier 1 (CET1) capital	**2,184,152**	**(85,224)**	**2,098,928**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1 + AT1)	**2,184,152**	**(85,224)**	**2,098,928**
Tier 2 (T2) capital			
Unrealised gains and other reserves	9,349	(9,349)	-
Tier 2 instruments (Tier 2 Capital Notes and Tier 2 Capital Loan)	256,825	(4,085)	252,740
Tier 2 (T2) capital	**266,174**	**(13,434)**	**252,740**
Total capital (TC=T1+T2)	**2,450,326**	**(98,658)**	**2,351,668**
Risk weighted assets			
Credit risk	15,538,637	(73,479)	15,465,158
Market risk	4,731	-	4,731
Operational risk	1,717,125	-	1,717,125
Total risk weighted assets	**17,260,493**	**(73,479)**	**17,187,014**
Capital ratios			
Common Equity Tier 1 (CET1)	**12.7%**	**(0.5%)**	**12.2%**
Tier 1	**12.7%**	**(0.5%)**	**12.2%**
Total capital	**14.2%**	**(0.5%)**	**13.7%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold) subject to 250% risk weight	121,902	(10,453)	111,449
Deferred tax assets (amount below 10% threshold) subject to 250% risk weight	220,864[15]	(18,939)	201,925
Capital Ratios			
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)	**5.75%**	**3.25%**	**9.00%**
Of which:			
Capital Conservation Buffer (CCB)	*1.25%*	*1.25%*	*2.50%*
Other Systematically Important Institution (O-SII) buffer	*0%*	*2.00%*	*2.00%*
Countercyclical buffer	*0%*	*0%*	*0%*
Systemic risk buffer	*0%*	*0%*	*0%*
Common Equity Tier 1 available to meet buffers	*6.9%*	*(3.7%)*	*3.2%*

[15] The DTA adjustments relate to Deferred Tax Assets totalling €384 million (2016: €450 million) and recognised on tax losses totalling €3.1 billion (2016: €3.6 billion) and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%.

5.1 **CRD IV Regulatory Capital** (continued)

	Group		
	Transitional position	**Transitional impact**	**Fully loaded**
	2016	**2016**	**2016**
	€000	**€000**	**€000**
Capital instruments and the related share premium accounts	3,397,398	-	3,397,398
Retained earnings	(643,043)	-	(643,043)
Accumulated other comprehensive income (OCI) and other reserves	118,617	-	118,617
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2,872,972**	**-**	**2,872,972**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(20,086)	-	(20,086)
Unrealised gains of AFS instruments subject to transitional arrangements	(2,337)	-	(2,337)
Additional Valuation Adjustment (AVA)	(675)	-	(675)
CET1 eligible reserves, transferred to Tier 2 (T2)	(53,556)	-	(53,556)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(68,321)[15]	(102,481)	(170,802)
Direct and indirect holdings of financial sector entities where the institution has a significant investment (amount above 10% threshold)	-	-	-
Amount exceeding the 15% threshold	-	(13,952)	(13,952)
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	-	*(4,336)*	*(4,336)*
Of which: Deferred tax assets arising from temporary differences	-	*(9,616)*	*(9,616)*
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(144,975)**	**(116,433)**	**(261,408)**
Common Equity Tier 1 (CET1) capital	**2,727,997**	**(116,433)**	**2,611,564**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1 + AT1)	**2,727,997**	**(116,433)**	**2,611,564**
Tier 2 (T2) capital			
Unrealised gains and other reserves	21,423	(21,423)	-
Tier 2 (T2) capital	**21,423**	**(21,423)**	**-**
Total capital (TC=T1+T2)	**2,749,420**	**(137,856)**	**2,611,564**
Risk weighted assets			
Credit risk	16,861,793	(34,880)	16,826,913
Market risk	6,231	-	6,231
Operational risk	1,997,200	-	1,997,200
Total risk weighted assets	**18,865,224**	**(34,880)**	**18,830,344**
Capital ratios			
Common Equity Tier 1 (CET1)	**14.5%**	**(0.6%)**	**13.9%**
Tier 1	**14.5%**	**(0.6%)**	**13.9%**
Total capital	**14.6%**	**(0.7%)**	**13.9%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	126,110	(4,336)	121,774
Deferred tax assets (amount below 10% threshold)	279,632[15]	(9,615)	270,017
Capital ratios			
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)	**5.13%**	**3.88%**	**9.00%**
Of which:			
Capital Conservation Buffer (CCB)	0.625%	1.88%	2.50%
Other Systematically Important Institution (O-SII) buffer	0%	2.00%	2.00%
Countercyclical buffer	0%	0%	0%
Systemic risk buffer	0%	0%	0%
Common Equity Tier 1 available to meet buffers	9.34%	(4.47%)	4.87%

During the year ended 31 December 2017, the CET1 was negatively affected by the loss for the year and by the phase in of transitional adjustments, mainly deferred tax assets. The RWA were positively affected by the Group's ongoing efforts for risk-weighted assets optimisation as well as of the increased provisioning. As a result of the above, the CET1 ratio decreased by 180 bps during the year.

[15] The DTA adjustments relate to Deferred Tax Assets totalling €384 million (2016: €450 million) and recognised on tax losses totalling €3.1 billion (2016: €3.6 billion) and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%.

5.1 CRD IV Regulatory Capital (continued)

Prudential filters and deductions

Prudential filters

The Group capital, in accordance with the CRR Article 34 is subject to the prudential filter of additional value adjustments for assets measured at fair value. These adjustments are deductible from CET1 capital. As such, Additional Valuation Adjustments (AVA) relating to assets measured at fair value, are deducted from CET1 capital in accordance with the Commission Delegated Regulation (EU) 2016/101. Under the Commission Delegated Regulation (EU) 2016/101, the Group satisfies the conditions for using the simplified approach. The AVA deduction for 2017 and 2016 is reported within the 'Additional Valuation Adjustment (AVA)' line in the tables above.

For regulatory capital purposes, the Group is also subject to a prudential filter for unrealised gains and losses measured at fair value, in accordance with the CRR Article 35 and Articles 14 and 15 of the EU Regulation 2016/445. This is deductible from CET1 capital and the amounts for 2017 and 2016 are reported within the 'Unrealised gains of AFS instruments subject to transitional provisions' line in the tables above. According to the EU Regulation 2016/445, credit institutions:

- Shall remove from their calculation of CET1 items, 20% and 40% during the years 2017 and 2016 respectively of the unrealised gains measured at fair value
- Shall include in the calculation of CET1 items, 80% and 60% during the years 2017 and 2026 respectively for unrealised losses measured at fair value.

The unrealised gains/(losses) as at the reference date relate mainly to investments in debt and equity securities.

The prudential filters of Articles 32 and 33 of the CRR are not applicable to the Group.

Deductions from own funds

The following items which are deductible from CET1 capital in accordance with Article 36 of the CRR are as follows:

- Losses for the year 2017 of €561,684 thousand were deducted from CET1 capital.
- Intangible assets, which include mainly computer software were deducted from CET1 capital. The amount deducted in 2017 and 2016 is reported within the 'Intangible assets' line in the tables above.
- In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess DTA of 10% of CET1 is deducted from CET1 capital and the amount of less than 10% is risk-weighted at 250%. Following the application of the provisions of the EU Regulation 2016/445, the phase-in period in respect of the deductible amount of Deferred Tax Assets reduced from 10 to 5 years with effect as from the reporting of 31 December 2016.
- The Group's Insurance business is deconsolidated for regulatory capital purposes and replaced by the amount of the Group's investment in insurance entities. In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess of 10% of CET1 is deducted from capital (shown as 'Direct and indirect holdings of financial sector entities where the institution has a significant investment' in the tables above) and the amount of less than 10% is risk-weighted at 250%.
- In addition and in line with Article 48 of the CRR, DTA and direct and indirect holdings of financial sector entities where the institution has a significant investment are subject to combined threshold of 15%, on a transitional basis, of CET1 capital.

There are no deductions from the Tier 2 capital under Article 66 of the CRR. However, the Tier 2 capital instruments are subject to qualifying own funds deductions (non-controlling interests) in accordance with Article 88 of the CRR.

The deductions required by Article 56 of the CRR are not applicable to the Group.

5.1 CRD IV Regulatory Capital (continued)

Items not deducted from own funds

As described above (in section 'Deductions from own funds') and subject to Articles 47 and 48 and the transitional arrangements, the amount of Deferred Tax Assets and of direct and indirect holdings of financial sector entities where the institution has a significant investment that is not deducted from CET1 capital it is risk-weighted at 250%.

There are no items which are not deducted from own funds under Articles 56, 66 and 79 of the CRR.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group will apply IFRS 9 on 1 January 2018.

Transition

The classification, measurement and impairment requirements are applied retrospectively by adjusting the balance sheet at the date of initial application, and as permitted by IFRS 9 the Group will not restate comparative information for prior periods. The impact on the implementation date, 1 January 2018, is therefore recognised through equity rather than the consolidated income statement. No deferred tax asset will be recognised on IFRS 9 impact upon transition.

Regulatory transitional arrangements

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 will be phased-in gradually. From the date of initial application of IFRS 9 and for five years the amount of the difference in provisions that will result from the transition to the new IFRS 9 in relation to the provisions that have been recognised at 31 December 2017 in accordance with IAS 39 will be added to the capital ratios. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five-years. For the year 2018 the impact on the capital ratios will be 5% of the impact on the difference in the impairment amounts.

Impact of IFRS 9

The Group's IFRS 9 preliminary impact on transition including the insurance subsidiaries of the Group, which is subject to change due to final parameter calibrations, is assessed to be a decrease of shareholders' equity of c.€300 million and is primarily driven by credit impairment provisions. The new accounting processes, internal controls, governance framework, judgements and estimation techniques will continue to be refined and undergo validation.

The Group will implement the transitional arrangements for regulatory capital purposes which result in only 5% of the estimated IFRS 9 impact affecting the capital ratios during 2018. Allowing for IFRS 9 transitional arrangements the impact is a decrease of c.9 bps on Group capital ratios and on a fully loaded basis a decrease of c.150 bps.

On a transitional basis and on a fully phased-in basis after the period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

Further details in relation to the classification and measurement, impairment, quantitative impact of IFRS 9 on balance sheet and critical judgements made by management are presented in Note 2.4.1 of the Consolidated Financial Statements of the Company for 2017.

5.1 CRD IV Regulatory Capital (continued)

Issued share capital

The issued share capital consists of 446,200 thousand (2016: 8,922,945 thousand) number of shares at nominal value of €0.10 each. The movement of the share capital for the years 2017 and 2016 is shown on the table below:

	Company		BOC PLC	
	2017		2016	
	Shares (thousand)	**€000**	Shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	**10,000,000**	**1,000,000**	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	446,200	44,620	-	-
31 December	**446,200**	**44,620**	8,922,945	892,294

All issued ordinary shares carry the same rights.

Further details in relation to the share capital of the Company are presented in Note 35 of the Consolidated Financial Statements of the Company for 2017.

Reorganisation of the Group

Following the reorganisation of the Group on 18 January 2017 the Company became the sole shareholder of BOC PCL and consequently the new parent of the Group. This transaction did not result in any change of economic substance and hence did not have any effect on the total equity of the Group. The Group financial results reflect the difference of €558,420 thousand in the amounts of share capital, share premium and capital reduction reserves as an adjustment in equity.

The components of equity for the year ended 31 December 2016 reflect the capital structure of BOC PCL and following the reorganisation these components of equity reflect the capital structure of the Company.

Treasury shares

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. During 2016 all treasury shares other than those held by the life insurance subsidiary of the Group, were disposed of.

The life insurance subsidiary of the Group, as at 31 December 2017, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (2016: 2,889 thousand of ordinary shares of BOC PCL of a nominal value of €0.10 each), as part of its financial assets which are invested for the benefit of insurance policyholders (Note 24 of the Consolidated Financial Statements of the Company for 2017). The cost of acquisition of these shares was €21,463 thousand (2016: €25,333 thousand).

The Company did not provide financial assistance permitted by section 82 of the companies Act 2014 for the purchase of its shares during the year ended 31 December 2017.

5.1 CRD IV Regulatory Capital (continued)

Share premium reserve
2017
As a result of the implementation of the scheme of arrangement, the share premium reserve was created in an amount equal to the difference between the nominal value of the shares issued pursuant to the terms of the scheme of arrangement and the net asset value of BOC PCL.

2016
The share premium 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 share premium as at 31 December 2016 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.

Capital reduction reserve
2016
The capital reduction reserve was 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 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.

Share-based payments - share options
Following the incorporation of the 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 (AGM) of BOC PCL) was replaced by the Share Option Plan which operates at the level of the Company. The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price 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 since the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of the Company.

5.2 Summary of the terms and conditions of Capital Resources

The capital base of the Group for regulatory purposes consists of ordinary shares (CET1 instruments) and Tier 2 instruments. As at 31 December 2017 and 2016 the Group did not have Additional Tier 1 instruments.

Group CET 1 instruments consist only of ordinary shares (Sections 5.1 and 5.3).

In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under BOC PCL's EMTN Programme. The Note was priced at par with a coupon of 9.25% payable in January, yearly. The Note matures on 19 January 2027. BOC PCL 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 full terms and conditions of the Note are presented in Section 5.3.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of BOC PCL issued a GBP30 million unsecured and subordinated Tier 2 Capital Loan (Loan), priced at par. The Loan has a coupon of 8.00% up to 21 December 2022 and then a rate at the 5-year swap rate plus the margin of 6.99% per annum, up to 21 December 2017, payable in June and December semi-annually and matures on 21 December 2027. Bank of Cyprus UK Ltd has the option to redeem early on 21 December 2022, subject to meeting the notice conditions. The Loan is unlisted. The full terms and conditions of the Loan are presented in Section 5.3.

5.2 Summary of the terms and conditions of Capital Resources (continued)

For financial reporting purposes the Note and the Loan are treated as Subordinated loan stock. The 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 BOC 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.

5.3 Full terms and conditions of Capital Resources

The full terms and conditions of the Group Common Equity tier 1 instruments (ordinary shares) and Tier 2 instruments are presented in the Appendix V. No restrictions apply on these instruments for the purpose of the calculation of the own funds in accordance with the CRR.

As at 31 December 2017 and 2016 the Group did not have AT1 instrument.

Tier 2 instruments

In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under BOC PCL's EMTN Programme.

The full terms and conditions of the Note are presented in Appendix V.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of BOC PCL issued a GBP 30 million unsecured and subordinated Tier 2 Capital Loan (Loan).

The full terms and conditions of the Loan are presented in Appendix V.

5.4 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

The table below presents the exposures that give rise to countercyclical capital buffer requirement. Types of exposures that do not give rise to countercyclical capital requirement have not been included.

Currently the countercyclical capital buffer requirement is set to 0 (zero) since the vast majority of the exposures are included in 0.0% countercyclical buffer rate countries.

Cyprus shows a significant decrease in the exposures that give rise to countercyclical capital buffer capital requirement due to increased provisioning and loan settlements. United Kingdom shows an increase which is in line with increased customer advances portfolio in the Group's operations in United Kingdom.

5.4 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (continued)

Materiality level: all countries which have more than 1% contribution to the total credit exposures are shown separately. All other countries have been grouped at country countercyclical buffer rate level.

31 December 2017	General credit exposure	Trading book exposures	Own fund requirements			Own funds requirements weights	Countercyclical buffer rate
			of which: General credit exposures	of which: Trading book exposures	Total		
Breakdown by country:	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**
Cyprus	14,526,046	3,544	1,081,118	284	1,081,402	88.99	0.00
United Kingdom	1,747,008	-	80,032	-	80,032	6.58	0.00
Greece	217,139	-	17,983	-	17,983	1.48	0.00
Other countries[16]	564,430	296	35,557	95	35,652	2.93	0.00
Other countries[16]	198	-	7	-	7	0.00	0.50
Other countries[16]	116	-	9	-	9	0.00	1.25
Other countries[16]	17,141	-	295	-	295	0.02	2.00
Total	**17,072,078**	**3,840**	**1,215,001**	**379**	**1,215,380**	**100.00**	

31 December 2016	General credit exposure	Trading book exposures	Own fund requirements			Own funds requirements weights	Countercyclical buffer rate
			of which: General credit exposures	of which: Trading book exposures	Total		
Breakdown by country:	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**
Cyprus	15,456,883	3,844	1,171,832	308	1,172,140	88.82	0.00
United Kingdom	1,494,224	-	79,014	-	79,014	5.99	0.00
Greece	311,727	-	23,858	-	23,858	1.81	0.00
Other countries[16]	591,399	596	44,067	191	44,258	3.35	0.00
Other countries[16]	44	-	2	-	2	0.00	0.50
Other countries[16]	587	-	36	-	36	0.00	1.25
Other countries[16]	4,976	-	337	-	337	0.03	1.50
Total	**17,859,840**	**4,440**	**1,319,146**	**499**	**1,319,645**	**100.00**	

Amount of specific countercyclical capital buffer

	2017	**2016**
Total risk exposure amount €000	17,260,493	18,865,224
Institution specific countercyclical capital buffer rate %	0.00%	0.00%
Institution specific countercyclical capital buffer requirement	0	0

[16] List of other countries with their % countercyclical buffer rate is presented in Appendix IV

5.5 Minimum Required Own Funds for Credit, Market and Operational Risk

Group's approach to assessing the adequacy of its internal capital

The Group assesses its capital requirements taking into consideration its regulatory requirements, risk profile and appetite set by the BoD. A three year plan (Plan) is annually prepared revising the financial forecasts and capital projections over a three year horizon in light of recent developments and it is approved by the BoD. The Plan takes into account the Group key strategic pillars and RAS. The Plan is rolled forward on a quarterly basis after taking into account the actual results of each quarter.

The Group capital projections are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs. These are frequently monitored against relevant internal target capital ratios to ensure they remain appropriate, and consider risks to the plan, including possible future regulatory changes. An internal assessment of the Group's capital adequacy is undertaken through the ICAAP (Section 2.4.11.1).

The main strategic and business risks are monitored regularly by the ExCo and the ALCO and the RC. These committees receive regular reports of risk and performance indicators, from relevant managers and make decisions to ensure adherence to the Group's strategic objective, while remaining within the Group RAS.

Within the context of the Plan, the Group sets financial medium-term targets which are also publicly announced (Section 2.4.6). The progress of these targets is monitored internally on a monthly basis through the various internal reporting channels to the management and the BoD and its committees.

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 and the UK operations
- Achieve a lean operating model. Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over the time
- Deliver value to shareholders and other stakeholders

5.5 Minimum Required Own Funds for Credit, Market and Operational Risk (continued)

The RWA that form the denominator of the risk-based capital requirements are presented below. All rows that are not relevant to the institution's activities are not included.

		RWAs		Minimum capital requirements
		Dec 17	Sept 17	Dec 17
		€000	€000	€000
1	Credit risk (excluding CCR)	14,640,711	14,489,330	1,171,257
2	*Of which the Standardised Approach*	*14,640,711*	*14,489,330*	*1,171,257*
6	CCR	41,013	45,795	3,281
7	*Of which mark to market*	*21,788*	*22,657*	*1,743*
11	*Of which risk exposure amount for contributions to the default fund of a CCP*	-	-	-
12	*Of which CVA*	*19,225*	*23,138*	*1,538*
13	Settlement risk	-	-	-
19	Market risk	4,731	4,935	378
20	*Of which the Standardised Approach*	*4,731*	*4,935*	*378*
22	Large exposures	-	-	-
23	Operational risk	1,717,125	1,888,975	137,370
24	*Of which basic indicator approach*	-	-	-
25	*Of which Standardised Approach*	*1,717,125*	*1,888,975*	*137,370*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	856,913	843,598	68,553
29	**Total**	**17,260,493**	**17,272,633**	**1,380,839**

5.5 Minimum Required Own Funds for Credit, Market and Operational Risk (continued)

		RWAs		Minimum capital requirements
		Dec 16	Sept 16	Dec 16
		€000	€000	€000
1	Credit risk (excluding CCR)	15,793,717	15,648,529	1,263,497
2	*Of which the Standardised Approach*	*15,793,717*	*15,648,529*	*1,263,497*
6	CCR	53,721	90,117	4,298
7	*Of which mark to market*	*24,283*	*43,567*	*1,943*
11	*Of which risk exposure amount for contributions to the default fund of a CCP*	-	-	-
12	*Of which CVA*	*29,438*	*46,550*	*2,355*
13	*Settlement risk*	-	-	-
19	Market risk	6,231	6,433	498
20	*Of which the Standardised Approach*	*6,231*	*6,433*	*498*
22	Large exposures	-	-	-
23	Operational risk	1,997,200	2,158,550	159,776
24	*Of which basic indicator approach*	*108,225*	*108,225*	*8,658*
25	*Of which Standardised Approach*	*1,888,975*	*2,050,325*	*151,118*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,014,355	1,007,855	81,148
29	**Total**	**18,865,224**	**18,911,484**	**1,509,217**

The relatively small increase in RWA observed in line 2 relates to balance sheet movements in relation to treasury assets and other non-customer advances assets. The decrease in CCR RWA observed in line 6 relates to a decrease in Securities Financing Transactions (SFTs). The decrease in operational risk RWA (line 23) is mainly driven by the reduction in total income of the operations in Cyprus and the impact of acquisition transactions held in 2013 that have been excluded from the three years average calculation in line with the CCR.

5.5.1 Credit Risk

The Standardised Approach has been applied to calculate the minimum capital requirement in accordance with the requirements laid down in Article 92 of the CRR as shown in the table below. Minimum capital requirements are calculated as 8% of the risk weighted assets.

Further analysis on the exposure allocation giving rise to the capital requirements at Exposure Portfolio level is available in Section 6.2.2 'Total and average net amount of exposures' and analysis on the RWA intensity in Section 6.6.3 'Standardised Approach – Credit risk exposure and Credit Risk Mitigation effects'.

Exposure Portfolio	**2017**	2016
	€000	€000
Central governments or central banks	**-**	-
Regional governments or local authorities	**61**	50
Public sector entities	**-**	-
Multilateral Development Banks	**-**	-
International Organisations	**-**	-
Institutions	**26,481**	27,392
Corporates	**294,992**	275,992
Retail	**117,603**	113,800
Secured by mortgages on immovable property	**113,813**	129,272
Exposures in default	**255,564**	325,800
Items associated with particularly high risk	**202,381**	245,739
Covered bonds	**801**	93
Collective Investments Undertakings (CIU)	**4**	3
Equity	**26,087**	26,635
Other items	**203,766**	201,812
Total Capital Requirement for Credit Risk	**1,241,553**	**1,346,588**

The decrease in the "Secured by mortgages on immovable property" is the result of the redefinition of eligible real estate collateral following a comprehensive review of the real estate collateral portfolio based on guidance from ECB. Customer loan restructurings, increased provisioning, debt-for-asset swaps and deleveraging actions led to a total overall decrease in capital requirements in exposure classes that are traditionally related to customer advances, namely, 'Corporates', 'Retail', 'Secured by mortgages on immovable property', 'Exposures in default', and 'Items associated with particularly high risk'. On the other hand, debt-for-asset swaps resulted in the increase in capital requirements in 'Other Items', albeit the net impact of the debt-for-asset swaps was an overall decrease in the capital requirements.

5.5.2 Market Risk

The minimum capital requirement calculated under the Standardised Approach in accordance with Title IV: Own funds requirements for Market Risk of the CRR is as follows:

EU MR1-Market Risk under Standardised Approach

2017		**RWAs**	**Capital requirements**
		€000	**€000**
	Outright products		
1	Interest rate risk (general and specific)	**-**	**-**
2	Equity risk (general and specific)	**3,544**	**284**
3	Foreign exchange risk	**-**	**-**
4	Commodity risk	**-**	**-**
	Options		
5	Simplified approach	**-**	**-**
6	Delta-plus method	**-**	**-**
7	Scenario approach	**-**	**-**
8	Securitisation (specific risk)	**-**	**-**
9	**Total Capital Requirement for Market Risk**	**3,544**	**284**

2016			
	Outright products		
1	Interest rate risk (general and specific)	-	-
2	Equity risk (general and specific)	3,847	308
3	Foreign exchange risk	-	-
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total Capital Requirement for Market Risk**	3,847	308

The table above does not include the minimum capital requirement for Collective Investment Undertakings (CIUs) of €94 thousand (2016: €190 thousand) and RWA of €1,187 thousand (2016: €2,384 thousand).

There is no own funds requirement for the foreign exchange risk, since the materiality threshold set by Article 351 of the CRR is not met. The materiality threshold is as follows: the sum of an institution's overall net foreign-exchange position exceeding 2% of its total own funds.

5.5.3 Operational Risk

The minimum capital requirement for operational risk is calculated in accordance with Title III: Own funds requirements for operational risk of the CRR.

The Group uses the Standardised Approach for the operational risk capital calculation. The capital requirement calculated for operational risk for 2016, includes an one-off regulatory adjustment in relation to operations in Russia, which were sold in 2015, as permission to be excluded from the calculation of the capital requirement for operational risk was granted by the regulators at the beginning of January 2017. The operations in Russia, which were sold in 2015, followed the Basic Indicator Approach.

Under the Standardised Approach, net interest and non-interest income are classified into eight business lines, as set out in the relevant regulation. The capital requirement is calculated as a percentage of the average income over the past three years, ranging between 12% and 18% depending on the business line. If the capital requirement in respect of any year of income is negative, it is set to zero in the average calculation.

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach amounts to €137,370 thousand (2016: €151,118 thousand). The minimum capital requirement in relation to operational risk calculated in accordance with the Basic Indicator Approach for the year 2016 amounted to €8,658 thousand.

2017	**Standardised Approach**
	€000
Corporate finance (CF)	113
Trading and Sales (TS)	5,672
Retail Brokerage (RBr)	82
Commercial Banking (CB)	97,295
Retail Banking (RB)	20,201
Payment and Settlement (PS)	12,008
Agency Services (AS)	316
Asset Management (AM)	1,683
Total Capital Requirement for Operational Risk	**137,370**

2016	**Standardised Approach**	**Basic indicator approach**	**Total**
	€000	**€000**	**€000**
Corporate finance (CF)	169	-	169
Trading and Sales (TS)	3,492	-	3,492
Retail Brokerage (RBr)	57	-	57
Commercial Banking (CB)	117,582	8,658	126,240
Retail Banking (RB)	18,077	-	18,077
Payment and Settlement (PS)	11,394	-	11,394
Agency Services (AS)	235	-	235
Asset Management (AM)	112	-	112
Total Capital Requirement for Operational Risk	**151,118**	**8,658**	**159,776**

5.5.4 Credit Valuation Adjustment (CVA) Risk

Credit Valuation Adjustment (CVA) captures the credit risk of derivative counterparties not already included in Counterparty Credit Risk (CCR) (i.e. the potential loss on derivatives due to increase in the credit spread of the counterparty).

EU OV1-Overview of RWA

	2017	2016
	€000	€000
CVA Capital Requirement	**1,538**	2,355

The decrease in the capital requirements relates to a decrease in securities financing transactions (SFTs) exposures.

5.5.5 EU INS1 – Non - deducted participations in insurance undertakings

	Carrying amount	Carrying amount
	2017	2016
	€000	€000
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	**117,871**	117,871
Total RWAs	**294,678**	294,678

5.6 Leverage

The disclosure has been prepared using the format set out in Annex I and Annex II of the final "Implementation Technical Standards with regard to disclosure of the Leverage ratio for instructions" (Commission Implementing Regulation-EU 2016/200).

The Commission Delegated Regulation (EU) 2015/62 was introduced in September 2016 and as of December 2016 the leverage ratio is calculated according to this Regulation, which says that point in time reporting of the leverage ratio at the end of the quarterly reporting period should be reported, rather than reporting on the basis of a three-month average as requested previously. The calculations as at December 2016 and 2017 have been performed accordingly. The Group publishes the leverage ratio on a quarterly basis in accordance with the aforementioned regulation.

The leverage ratio of the Group is calculated using two capital measures:

(a) Tier 1 capital: fully phased-in definition.
(b) Tier 1 capital: transitional definition.

As result, two leverage ratios are calculated.

As at 31 December 2017, the leverage ratio of the Group was equal to 9.28% (2016: 12.36%) using a transitional definition of Tier 1 and 8.87% (2016: 11.46%) using a fully phased-in definition of Tier 1. This ratio is well above the 3% limit.

5.6 **Leverage** (continued)

This ratio is monitored quarterly and the required limit is set by Basel QIS at over 3%. The following risk levels will be used for exposures reporting and monitoring based on the fact that the risk appetite is to have low leverage levels.

Leverage x	Level	Required actions
> 9 %	Green light	No change in plans or actions.
6 % - 9 %	Yellow Light	Demonstrate in the business plan lower levels in the coming 6m.
< 6 %	Red Light	Immediate action to return to yellow levels within 3m and green within 9m.

The regulatory transitional leverage ratio of the Group has decreased, in the past year, mainly due to the reduction of the Tier 1 following the amendments in the provision methodology.

For BOC UK, since October 2017 the bank has been adhering to a minimum requirement of 3.25% as set out in Prudential Regulation Authority (PRA) 2017/31 Leverage Ratio and Reporting Leverage Ratio (Amendment) Instrument 2017. The PRA leverage ratio (as set out in the PRA Rulebook) defines the total exposure measure as having 'the meaning given by Article 429(4) of the CRR, as amended by the Commission Delegated Regulation (EU) 2015/62, save that a central bank claim of a firm shall be netted off against a deposit accepted by the firm' subject to the following:

(1) The central bank claim and deposit are denominated in the same currency; and
(2) Where applicable, the date of contractual maturity of the central bank claim is the same as, or is before, the date of contractual maturity of the deposit.

As at December 2017, the BOC UK leverage ratio as per CRR was 5.98% against a limit of 3% and as per PRA it was 7.43% against a limit of 3.25%. The main difference was that PRA allows the netting of central bank balances as per above conditions.

5.6.1 Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	Application amounts	
	2017	2016
	€000	€000
Total assets as per published financial statements	**23,598,600**	**22,171,935**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation[17]	(808,794)	(760,795)
Adjustments for derivative financial instruments	(6,799)	(9,293)
Adjustments for securities financing transactions	32,807	42,398
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	829,141	692,656
Asset amount deducted – Tier 1 capital – transitional definition	(100,953)	(68,321)
Other adjustments	3,543	3,849
Leverage ratio exposure	**23,547,545**	**22,072,429**

[17] Leverage ratio as per December 2016 was reported as per the Commission Delegated Regulation (EU) 2015/62 which was introduced in September 2016.

5.6.2 Leverage Ratio Common Disclosure

	CRR leverage ratio exposures	
On-balance sheet exposures (excluding derivatives and SFTs)	**2017**	2016
	€000	€000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**22,775,322**	21,394,155
Total on-balance sheet exposures (excluding derivatives and SFTs)	**22,775,322**	21,394,155
Derivative exposures		
Replacement cost associated with derivatives transactions	**737**	6,727
Add-on amounts for PFE associated with derivatives transactions	**10,491**	4,815
Total derivative exposures	**11,228**	11,542
Securities financing transaction exposures		
SFT exposure	**32,807**	42,398
Total securities financing transaction exposures	**32,807**	42,398
Off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**3,030,650**	2,866,494
Adjustments for conversion to credit equivalent amounts	**(2,201,509)**	(2,173,838)
Total off-balance sheet exposures	**829,141**	692,656
Capital and Total Exposures		
Tier 1 capital	**2,184,152**	2,727,997
Total Exposures	**23,547,545**	22,072,429
Leverage Ratios		
End of quarter leverage ratio	**9.3%**	12.4%

Allowing for IFRS 9 transitional arrangements the leverage ratio on a transitional basis is reduced to 9.2% from 9.3% and on a fully phased-in basis is reduced to 8.0% from 8.9%.

5.6.3 Split-Up of on Balance Sheet Exposures (excluding derivatives and SFTs)

	CRR Leverage ratio exposures	
	2017	2016
	€000	€000
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**22,775,322**	**21,394,155**
Trading Book exposures	**3,543**	**3,849**
Banking Book exposures, of which:	**22,771,779**	**21,390,306**
Exposures treated as sovereigns	4,183,076	2,098,786
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	45,596	17,553
Institutions	1,163,181	1,027,682
Secured by mortgages of immovable properties	4,022,351	4,255,443
Retail exposures	2,257,806	2,156,429
Corporates	5,278,998	5,484,546
Exposures in default	2,950,450	3,715,968
Other exposures (e.g. equity and other non-credit obligation assets)	2,870,321	2,633,899

6. Pillar 1 requirements

6.1 Counterparty Credit Risk (CCR)

CCR arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as derivatives, and SFTs.

As at 31 December 2017, the Group's total CCR exposure was €48,484 thousand (2016: €55,629 thousand), of which €11,227 thousand (2016: €8,639 thousand) were exposures of derivatives (analysed in Section 6.1.6) and the remaining €37,257 thousand (2016: €46,990 thousand) was due to securities financing transactions (repurchase agreements). The exposure of SFTs has been calculated according to Article 223 'Financial Collateral Comprehensive Method' of CRR.

6.1.1 Internal Capital and Credit Limits for Counterparty Credit Exposures

The model, which was approved by the BoD, sets maximum limits for financial institutions, based on their credit rating and Tier 1 capital base or the Bank's Tier 1 capital base, in case it is lower. Afterwards, an internal scoring system is applied that considers qualitative and quantitative factors such as:

- Asset Risk
- Capital adequacy
- Profitability
- Liquidity
- Market share
- Ownership strength

The results of the scoring system are used to reduce the maximum limits of counterparty credit exposures set using the model described above.

Two types of limits are monitored:

(a) Credit: for Money Market (MM), FX (FX swaps, FX forwards), bonds, derivatives, commercial transactions and other transactions.
(b) Settlement: for maturing FX spot, forward and swaps, money market placements and banknotes.

Allocated MM limits are set for a short duration, unless they are used for independent amounts (as defined in the Credit Support Annex (CSA) agreement). Limits for derivative transactions are assigned to counterparties with a CSA agreement in place. Allocated derivative limits with counterparties that have not signed a CSA can be utilised only after a CSA agreement is signed prior to any derivative transaction.

The derivative limit for the Expected Replacement Cost (ERC) of a contract, counts within the overall limit of the counterparty and can be equal to the total limit. There is also a limit for the maximum notional amount of contracts with each counterparty (excluding the ECB), which amounts to €750 million.

Credit risk arising from entering into derivative transactions with counterparties is measured using the mark-to-market method.

According to this method, the current replacement cost of all contracts with positive amounts is obtained and an add-on is applied to this amount for potential future credit exposure, based on specific factors that depend on the type of the transaction and its duration. This amount is used both for calculating the capital required for the credit risk of these transactions and for credit limit monitoring.

6.1.2 Policies for Securing Collateral and Establishing Credit Reserves

Collateral management involves multiple parties and various departments of the Bank. The collateral management team is the Treasury Backoffice.

The responsibilities of the collateral management team are as follows:

(a) Handling collateral valuations and margin calls (for derivatives).
(b) Maintain relevant data and liaise with counterparties regarding issues of collaterals.

The use of collateral for funding purposes relating to the Cyprus operations is managed by Group Treasury, with specific authorised personnel having the responsibility to manage it. The Fixed Income desk is responsible for reviewing and managing fixed income securities as collateral both for counterparty repos and ECB funding. The Liquidity Management desk is jointly responsible with the MM desk and FX Risk/IR (Interest Rate Risk Management) desk in collaboration with other departments of the Bank to monitor the use of cash as collateral. The Group Funding department is responsible for the monitoring and use of loan assets for funding programmes collateralised by loans such as Covered Bond Issuance and Additional Credit Claims.

The Treasury Regulatory Management and Documentation Department handles legal documentation (in collaboration with the legal department) and relevant reporting. The legal department provides advice and support regarding relevant agreements for collateralisation.

The Group has chosen the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement for contracting 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 CSA in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

The Group has chosen the Global Master Repurchase Agreement for contracting its repurchase activity. It is a legal agreement designed for parties transacting in repos and is published by the International Capital Market Association (ICMA), which is the body representing the bond and repo markets in Europe. It provides the contractual framework within which Buy/Sell Back transactions are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions and collateral covered by an agreement, if either party defaults.

As at 31 December 2017, the Group had signed the CSA part of the ISDA Master Agreement with 27 counterparties (2016: 25 counterparties) and Global Master Repurchase Agreements (GMRAs) with 4 counterparties (2016: 4 counterparties). As at 31 December 2017, CSA part of the Group maintained exposures with 12 counterparties (2016: 14 counterparties). The following table presents the total amounts that were transferred to (where the indicated amount is negative) or obtained from (where the indicated amount is positive) counterparties as a result of reaching the threshold amounts of 13 of the counterparties (2016: 12 counterparties) for CSAs and 4 of the counterparties (2016: 4 counterparties) for GMRAs, as at 31 December:

	2017	2016
	€000	€000
Total Positive	**13,170**	11,678
Total Negative	**(59,845)**	(56,025)
Total	**(46,675)**	(44,347)

6.1.2 Policies for Securing Collateral and Establishing Credit Reserves (continued)

A breakdown of all types of collateral posted or received by banks to support or reduce CCR exposures, as at 31 December, is presented below:

EU CCR5-B - Composition of collateral for exposures to counterparty credit risk

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
2017	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash	**-**	**13,170**	**-**	**44,824**	**-**	**15,021**
Total	**-**	**13,170**	**-**	**44,824**	**-**	**15,021**

2016						
Cash	-	11,678	-	36,945	-	19,080
Total	-	11,678	-	36,945	-	19,080

Lower fair values of the outstanding derivative transactions since last reporting date, translate into higher posted amount in the case of derivates.

6.1.3 Policies with Respect to Wrong-Way Risk Exposures

Wrong way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Group's derivative transactions) have an adverse impact on the Probability of Default (PD) of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of CSAs for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk resulting in a total accounting CVA charge equal to only €146 thousand (2016: €75 thousand) and a net credit exposure from Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements of €175 thousand (2016: €565 thousand).

6.1.4 Collateral the Group would have to provide given a Downgrade in its Credit Rating

As at 31 December 2017, the only instance where the Group would have to provide additional collateral in the event of a downgrade, involved derivative transactions under ISDA agreements, where a CSA has been signed. During 2017, the 3 CSAs that used to provide additional collateral in the event of a downgrade, have been amended so as not to be linked to the credit ratings of the involved parties. Thresholds were set to zero, after the amended. Given the above, as at 31 December 2017, no additional collateral is expected to be required, in the event of a downgrade.

6.1.5 Gross Positive Fair Value of Contracts, Netting Benefits, Netted Current Credit Exposure, Collateral held and Net Derivatives Credit Exposure

The gross positive fair value of Group derivative contracts, which mainly consist of IRS and FX contracts, is presented in the table below:

Gross positive fair value	**2017**	2016
	€000	€000
Cyprus	**18,012**	20,778
Group	**18,012**	20,778

The Bank has netting benefits for the derivatives, through the ISDA/CSA agreements signed with the majority of counterparties. The netted credit exposure for the Group derivative contracts (without considering collateral arrangements), is presented in the table below:

Netted credit exposure	**2017**	2016
	€000	€000
Cyprus	**13,345**	6,727
Group	**13,345**	6,727

The net credit exposure of Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements, is presented in the table below. Collateral received through the CSA agreements from counterparties as at December 2017 was €13,170 thousand (2016: €11,678 thousand).

Net derivative credit exposure	**2017**	2016
	€000	€000
Cyprus	**175**	565
Group	**175**	565

EU CCR5-A - Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
2017	**€000**	**€000**	**€000**	**€000**	**€000**
Derivatives	**18,012**	**4,667**	**13,345**	**13,170**	**175**
SFTs	**37,257**	**-**	**37,257**	**-**	**37,257**
Cross-product netting	**-**	**-**	**-**	**-**	**-**
Total	**55,269**	**4,667**	**50,602**	**13,170**	**37,432**

2016					
Derivatives	20,778	14,051	6,727	6,162	565
SFTs	46,990	-	46,990	-	46,990
Cross-product netting	-	-	-	-	-
Total	67,768	14,051	53,717	6,162	47,555

6.1.6 Mark-to-Market Method and Exposures

The table below indicates the measures for exposure value under the mark-to-market method. The exposure values are the sum of:

- Positive mark-to-market after taking into account:
  (a) Accrued interest
  (b) Netting within each counterparty (where set-off agreement exists)

- Add-on amount, which is equal to a percentage of the nominal amount of each deal based on its remaining maturity and the type of contract as per CRD IV and CRR regulations.

However, in the case where a CSA agreement is in place (and the relevant amount has already been settled) the exposure is set to zero, since no credit risk exists.

The mark-to-market of derivatives is calculated using the Net Present Value (NPV) of future cash flows method.

6.1.6 Mark-to-Market Method and Exposures (continued)

The table below shows the analysis of CCR per approach. The approach followed by the Bank is the mark to market method.

EU CCR1 - Analysis of the Counterparty Credit Risk (CCR) exposure by approach

	Notional	Replacement cost/current market value	Potential future credit exposure	Effective expected positive exposure (EEPE)	Multiplier	Exposure at Default (EAD) post Credit Risk Mitigation (CRM)	RWA
2017	**€000**	**€000**	**€000**	**€000**		**€000**	**€000**
Mark to market		13,345	10,491			11,227	5,045
Original exposure	-					-	-
Standardised Approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						37,257	16,743
VaR for SFTs						-	-
Total							**21,788**

	Notional	Replacement cost/current market value	Potential future credit exposure	Effective expected positive exposure (EEPE)	Multiplier	Exposure at Default (EAD) post Credit Risk Mitigation (CRM)	RWA
2016	**€000**	**€000**	**€000**	**€000**		**€000**	**€000**
Mark to market		6,727	11,543			8,639	3,588
Original exposure	-					-	-
Standardised Approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						46,990	20,523
VaR for SFTs						-	-
Total							**24,111**

6.1.6 Mark-to-Market Method and Exposures (continued)

2017	**Cyprus**	**Group**
Exposures under the mark-to-market method	**€000**	**€000**
Institutions	**10,906**	**10,906**
Corporates	**321**	**321**
Total	**11,227**	**11,227**

2016		
Institutions	7,916	7,916
Corporates	723	723
Total	8,639	8,639

Regulatory CVA charge for capital calculation
The Standardised Approach has been used to calculate the CVA charge for regulatory purposes in accordance with the requirements of the CRR (Standardised Approach: Articles 381,382 and 384). As at 31 December 2017, the total regulatory CVA charge was €1,538 thousand (2016: €2,355 thousand).

The table below provides a summary of the exposure subject to CVA regulatory calculations (with a breakdown by Standardised and Advanced Approaches).

EU CCR2 - CVA capital charge

2017		**Exposure value**	**RWA**
		€000	**€000**
1	Total portfolios subject to the advanced method	**-**	**-**
2	(i) VaR component (including the 3× multiplier)		**-**
3	(ii) SVaR component (including the 3× multiplier)		**-**
4	All portfolios subject to the standardised method	**48,484**	**19,220**
EU4	Based on the original exposure method	**-**	**-**
5	**Total subject to the CVA capital charge**	**48,484**	**19,220**

6.1.6 Mark-to-Market Method and Exposures (continued)

EU CCR2 - CVA capital charge

2016		Exposure value	RWA
		€000	€000
1	Total portfolios subject to the advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) SVaR component (including the 3× multiplier)		-
4	All portfolios subject to the standardised method	55,629	29,438
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	55,629	29,438

As at 31 December 2017, the exposure used for calculation of CVA was €48,484 thousand (2016: €55,629 thousand), of which €11,227 thousand (2016: €8,639 thousand) were exposures of derivatives and the remaining €37,257 thousand (2016: €46,990 thousand) was due to securities financing transactions (repurchase agreements). The exposure of SFTs has been calculated according to Article 223 'Financial Collateral Comprehensive Method' of CRR. The decrease in the capital requirements of CVA relates to a decrease in SFTs exposures.

6.1.7 CCR exposures by regulatory portfolio and risk

A breakdown of CCR exposures, calculated under the Standardised Approach, by portfolio (type of counterparties) and by risk weight (business attributed according to the Standardised Approach), as at 31 December is presented below:

EU CCR3 - Standardised Approach-CCR exposures by regulatory portfolio and risk

2017 Exposure classes		Risk weight											Total	Of which unrated
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	8,461	39,702	-	-	-	-	-	48,163	7,628
7	Corporates	-	-	-	-	-	-	-	-	321	-	-	321	321
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total**	**-**	**-**	**-**	**-**	**8,461**	**39,702**	**-**	**-**	**321**	**-**	**-**	**48,484**	**7,949**

6.1.7 CCR exposures by regulatory portfolio and risk (continued)

EU CCR3 - Standardised Approach-CCR exposures by regulatory portfolio and risk

2016 Exposure classes		Risk weight											Total	Of which unrated
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisa-tions	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	12,977	41,929	-	-	-	-	-	54,906	11,757
7	Corporates	-	-	-	-	-	-	-	-	723	-	-	723	723
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	
11	**Total**	**-**	**-**	**-**	**-**	**12,977**	**41,929**	**-**	**-**	**723**	**-**	**-**	**55,629**	**12,480**

6.1.8 Notional Value of Derivative Hedges and the Distribution of Current Credit Exposure by Types of Credit Exposure

The notional amount of derivatives hedges which mainly consist of IRS and FX contracts at 31 December 2017 was €2,756 thousand (2016: €2,661 thousand).

The exposure values of derivatives are calculated as described in Section 6.1.6. Repurchase transactions are not included. The exposures per country are analysed below:

2017	**Trading Book**	**Banking Book**	**Total**
	€000	**€000**	**€000**
Cyprus	**-**	**321**	**321**
United Kingdom	**-**	**4,952**	**4,952**
Switzerland	**-**	**1,260**	**1,260**
Other Countries	**-**	**4,694**	**4,694**
Group	**-**	**11,227**	**11,227**
2016			
Cyprus	-	774	774
United Kingdom	-	5,063	5,063
Switzerland	-	566	566
Other Countries	-	2,236	2,236
Group	-	8,639	8,639

6.2 Group's Exposure to Credit Risk and Impairment

The following sections provide an analysis of past due and impaired loans, exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors) and provisions for impairment of loans and advances.

6.2.1 Past Due and Impaired Loans

Past due and impaired loans
Past due loans are those with delayed payments or in excess of authorised credit limits. Loans that are 90 days past due are considered defaulted in accordance with Article 178 of the CRR and are assessed for impairment either individually or collectively. In any case for all CRR defaulted exposures, a PD of 100% is assigned. An impairment allowance is raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value.

Impaired loans are those for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery. This classification is used for disclosures in Note 44 in the Consolidated Financial Statements of the Company for 2017.

Impairment of 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 IFRS, 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.

6.2.1 Past Due and Impaired Loans (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.

6.2.2 Total and average amount of net exposures

Total and average amount of net exposures for 2017 and 2016 by exposure class are presented below. Exposure classes that are not relevant to the Group’s activities are not included.

The average corresponds to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of credit conversion factors.

EU CRB-B - Total and average net amount of exposures

	Net value of exposures at 31 December 2017	**Average net exposures 2017**
	€000	**€000**
Central governments or central banks	4,078,766	3,249,157
Regional governments or local authorities	74,557	72,924
Public sector entities	28,488	28,674
Multilateral development banks	9,058	9,173
International organisations	11,443	11,599
Institutions	1,281,196	1,043,367
Corporates	5,032,199	4,817,840
Of which: SMEs	*3,677,898*	*3,396,875*
Retail	3,230,580	3,130,681
Of which: SMEs	*951,252*	*922,351*
Secured by mortgages on immovable property	4,096,985	4,369,201
Of which: SMEs	*1,685,192*	*1,817,579*
Exposures in default	3,165,594	3,389,420
Items associated with particularly high risk	1,952,309	2,079,406
Covered bonds	100,136	59,562
Collective investments undertakings	47	47
Equity exposures	143,240	141,247
Other exposures	2,404,961	2,306,747
Total Standardised Approach	***25,609,559***	***24,709,045***
Total	**25,609,559**	**24,709,045**

6.2.2 Total and average amount of net exposures (continued)

EU CRB-B - Total and average net amount of exposures

	Net value of exposures at 31 December 2016	Average net exposures 2016
	€000	€000
Central governments or central banks	1,994,934	1,996,496
Regional governments or local authorities	70,936	74,466
Public sector entities	32,870	35,289
Multilateral development banks	9,360	9,645
International organisations	11,823	12,023
Institutions	1,157,800	1,262,358
Corporates	4,661,287	4,108,665
Of which: SMEs	*3,363,067*	*2,473,263*
Retail	3,155,179	3,481,476
Of which: SMEs	*952,164*	*1,067,631*
Secured by mortgages on immovable property	4,318,536	4,479,860
Of which: SMEs	*1,679,295*	*1,582,413*
Exposures in default	3,963,916	4,222,476
Items associated with particularly high risk	2,278,134	2,541,643
Covered bonds	11,667	11,987
Collective investments undertakings	41	56
Equity exposures	143,773	137,589
Other exposures	2,268,656	1,958,990
Total Standardised Approach	***24,078,912***	***24,333,019***
Total	**24,078,912**	**24,333,019**

The increase in exposure classes "Central governments or central banks" and "Institutions" resulted from an increase of balance sheet exposures in "Balances with central banks" and "Placements with banks" respectively. The decrease in the "Secured by mortgages on immovable property" is the result of the redefinition of eligible real estate collateral following a comprehensive review of the real estate collateral portfolio based on guidance from ECB which partly led to the increase in exposure classes "Corporates" and "Retail". The other factor affecting the increase in the net exposure values of exposure classes "Corporates" and "Retail" was the increase in new customer lending and customer loan restructurings. Customer loan restructurings, increased provisioning, debt-for-asset swaps and deleveraging actions led to a total overall decrease in the net exposure values in other exposure classes that are traditionally related to advances to customers, being "Exposures in default", and "Items associated with particularly high risk". On the other hand, debt-for-asset swaps resulted in the increase in net exposure values in "Other exposures", albeit the net impact of the debt-for-asset swaps was an overall decrease in the overall net exposure values.

6.2.3.1 Breakdown of exposures by geographical areas and exposure classes

The net value of exposures as at 31 December 2017 and 2016 is presented below. Exposure classes that are not relevant to the Group's activities are not included.

The net value relates to amounts post value adjustments but before the application of credit conversion factors. The country or geographical area in which the exposure is classified is driven by the country of residence/incorporation of the counterparty.

The materiality of geographical areas has been determined using the following threshold: All EU countries that do not exceed 1% of total net exposures have been included in "Other countries" and all non-EU countries that do not exceed 1% of total net exposures have been included in "Other geographical areas". There are no non-EU countries that exceed the 1% threshold. "Supranational" exposures are included in "Other geographical areas".

EU CRB-C - Geographical breakdown of exposures

2017	EU countries	Cyprus	United Kingdom	France	Greece	Other EU countries[18]	Other geographical areas[18]	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	4,078,766	3,373,997	403,648	277,886	30	23,205	-	**4,078,766**
Regional governments or local authorities	74,557	74,557	-	-	-	-	-	**74,557**
Public sector entities	28,488	24,380	-	4,108	-	-	-	**28,488**
Multilateral development banks	-	-	-	-	-	-	9,058	**9,058**
International organisations	-	-	-	-	-	-	11,443	**11,443**
Institutions	814,643	29,002	171,542	10,375	11,003	592,721	466,553	**1,281,196**
Corporates	4,844,075	4,292,524	442,382	4,264	69,128	35,777	188,124	**5,032,199**
Retail	3,193,159	3,003,333	177,264	358	5,206	6,998	37,421	**3,230,580**
Secured by mortgages on immovable property	4,036,367	2,975,790	1,040,231	320	4,302	15,724	60,618	**4,096,985**
Exposures in default	3,043,562	2,821,552	125,420	74	30,409	66,107	122,032	**3,165,594**
Items associated with particularly high risk	1,935,109	1,888,759	12,791	-	26,026	7,533	17,200	**1,952,309**
Covered bonds	13,817	1	-	-	-	13,816	86,319	**100,136**
Collective investments undertakings	47	-	-	-	47	-	-	**47**
Equity exposures	143,240	142,275	-	-	812	153	-	**143,240**
Other exposures	2,396,813	2,239,246	22,677	-	116,787	18,103	8,148	**2,404,961**
Total Standardised Approach	***24,602,643***	***20,865,416***	***2,395,955***	***297,385***	***263,750***	***780,137***	***1,006,916***	***25,609,559***
Total	**24,602,643**	**20,865,416**	**2,395,955**	**297,385**	**263,750**	**780,137**	**1,006,916**	**25,609,559**

[18] List of immaterial countries is presented in Appendix III

6.2.3.1 Breakdown of exposures by geographical areas and exposure classes (continued)

EU CRB-C - Geographical breakdown of exposures

2016[19]	EU countries	Cyprus	United Kingdom	France	Greece	Other EU countries[20]	Other geographical areas[20]	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	1,976,027	1,424,914	238,476	287,324	8	25,305	18,907	1,994,934
Regional governments or local authorities	70,936	70,936	-	-	-	-	-	70,936
Public sector entities	32,870	32,870	-	-	-	-	-	32,870
Multilateral development banks	-	-	-	-	-	-	9,360	9,360
International organisations	-	-	-	-	-	-	11,823	11,823
Institutions	729,781	33,297	182,163	10,799	11,441	492,081	428,019	1,157,800
Corporates	4,562,590	3,991,532	474,336	21	92,301	4,400	98,697	4,661,287
Retail	3,108,025	2,798,311	206,951	380	94,982	7,401	47,154	3,155,179
Secured by mortgages on immovable property	4,252,663	3,484,826	692,594	489	13,625	61,129	65,873	4,318,536
Exposures in default	3,779,750	3,494,993	168,319	65	23,671	92,702	184,166	3,963,916
Items associated with particularly high risk	2,270,218	2,201,497	17,411	3,907	24,154	23,249	7,916	2,278,134
Covered bonds	-	-	-	-	-	-	11,667	11,667
Collective investments undertakings	41	41	-	-	-	-	-	41
Equity exposures	143,773	143,773	-	-	-	-	-	143,773
Other exposures	2,260,901	2,040,882	16,723	-	157,454	45,842	7,755	2,268,656
Total Standardised Approach	***23,187,575***	***19,717,872***	***1,996,973***	***302,985***	***417,636***	***752,109***	***891,337***	***24,078,912***
Total	**23,187,575**	**19,717,872**	**1,996,973**	**302,985**	**417,636**	**752,109**	**891,337**	**24,078,912**

The main driver behind the increase in "EU Countries" net exposure values is the increase in "Balances with central banks" in Cyprus and the overall increase in the "United Kingdom" portfolio, despite the deleveraging actions and increased provisioning observed in exposure classes that are traditionally related to customer advances, "Corporates", "Retail", "Secured by mortgages on immovable property", "Exposures in default" and "Items associated with particularly high risk". The increase in "Other geographical areas" resulted from an increase in investments in "Covered Bonds", a relatively small increase in "Placements with Banks" and exposure classes that traditionally relate to customer advances.

[19] The presentation of the table presenting the net value of exposures as at 31 December 2016 has been adjusted to comply with the EBA guidelines in regards to country classification.

[20] List of immaterial countries is presented in Appendix III

6.2.3.2 Concentration of exposures by industry and exposure classes

The net exposures by industry and exposure classes as at 31 December 2017 and 2016 are presented below. The net exposures relate to amounts post value adjustments but before the application of credit conversion factors. "Other services" include exposures to private individuals, activities of extraterritorial organizations and bodies, other services activities, and financial and insurance activities.

The materiality of industry sectors has been determined using the following threshold: All industry groups that do not exceed 1% of total net exposures have been included in column “Other” and all exposure classes that do not exceed 1% of total net exposures have been included in row “Other”. The industry groups that have been included in “Other” are Agriculture, forestry and fishing; Mining and quarrying; Electricity, gas, steam and air conditioning supply; Water supply; Information and communication; Administrative and support service activities; Education and arts; Entertainment and recreation.

EU CRB-D - Concentration of exposures by industry or counterparty types

	Manufacturing	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Real estate activities	Professional, scientific and technical activities	Public administration and defence, compulsory social security	Human health services and social work activities	Other services	Other	Total
2017	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	4,078,766	-	-	-	**4,078,766**
Institutions	-	-	-	-	-	-	-	-	-	1,281,196	-	**1,281,196**
Corporates	290,328	372,030	961,066	171,450	1,017,162	851,004	161,140	4	137,776	620,059	450,180	**5,032,199**
Of which SMEs	*238,495*	*293,690*	*634,394*	*67,768*	*957,572*	*779,129*	*136,147*	*4*	*129,671*	*81,394*	*359,634*	***3,677,898***
Retail	103,114	121,774	359,741	26,947	68,981	124,154	110,661	139	84,517	2,075,796	154,756	**3,230,580**
Of which SMEs	*95,241*	*107,439*	*320,684*	*19,950*	*55,577*	*117,401*	*72,976*	*40*	*33,699*	*17,913*	*110,331*	***951,251***
Secured by mortgages on immovable property	115,731	131,089	399,102	38,830	91,185	902,018	104,935	82	58,942	2,142,563	112,508	**4,096,985**
Of which SMEs	*97,062*	*111,649*	*317,769*	*18,868*	*67,924*	*861,456*	*62,612*	*-*	*16,734*	*59,718*	*71,397*	***1,685,189***
Exposures in default	153,039	366,402	417,262	23,296	209,507	238,374	102,198	1,297	44,956	1,380,940	228,323	**3,165,594**
Items associated with particularly high risk	1,237	1,133,786	85,237	503	28,578	560,774	3,568	-	203	120,428	17,995	**1,952,309**
Other exposures	-	60,164	-	-	-	-	-	13	-	2,344,784	-	**2,404,961**
Other	260	-	22	24,232	-	185	-	90,108	71	251,553	538	**366,969**
Total Standardised Approach	***663,709***	***2,185,245***	***2,222,430***	***285,258***	***1,415,413***	***2,676,509***	***482,502***	***4,170,409***	***326,465***	***10,217,319***	***964,300***	***25,609,559***
Total	**663,709**	**2,185,245**	**2,222,430**	**285,258**	**1,415,413**	**2,676,509**	**482,502**	**4,170,409**	**326,465**	**10,217,319**	**964,300**	**25,609,559**

6.2.3.2 Concentration of exposures by industry and exposure classes (continued)

EU CRB-D-Concentration of exposures by industry or counterparty types

	Manufacturing	Construction	Wholesale and retail trade	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Public administration and defence, compulsory social security	Human health services and social work activities	Other services	Other	Total
2016	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	1,994,934	-	-	-	1,994,934
Institutions	-	-	-	-	-	-	32	-	-	1,157,768	-	1,157,800
Corporates	276,557	326,593	1,003,337	785,008	168,513	863,545	202,940	-	127,945	552,358	354,491	4,661,287
Retail	100,970	162,181	347,927	85,560	16,689	114,386	104,155	-	76,475	1,992,878	153,958	3,155,179
Secured by mortgages on immovable property	130,447	218,962	437,595	101,135	24,426	802,390	107,207	-	69,936	2,273,240	153,198	4,318,536
Exposures in default	185,678	477,611	547,758	318,262	53,037	265,612	160,164	10,290	53,532	1,650,547	241,425	3,963,916
Items associated with particularly high risk	1,797	1,392,713	89,953	15,665	53	715,722	18,315	-	405	36,822	6,689	2,278,134
Other exposures	-	-	-	-	-	-	-	30	-	2,268,626	-	2,268,656
Other	5	-	-	23	-	-	-	115,629	-	164,813	-	280,470
Total Standardised Approach	***695,454***	***2,578,060***	***2,426,570***	***1,305,653***	***262,718***	***2,761,655***	***592,813***	***2,120,883***	***328,293***	***10,097,052***	***909,761***	***24,078,912***
Total	**695,454**	**2,578,060**	**2,426,570**	**1,305,653**	**262,718**	**2,761,655**	**592,813**	**2,120,883**	**328,293**	**10,097,052**	**909,761**	**24,078,912**

The overall increase in the net value of exposures was mainly driven from the increase in the exposures to industry “Public administration and defence compulsory social security” due to the increase in Balances with central banks. Material decreases are observed in real estate industries, “Construction and Real estate activities” mainly from debt-for-asset swaps. The contribution from the industry “Information and communication” fell below the 1% materiality threshold and was included in industry “Other” in 31 December 2017 table. Exposures to industry “Transport and storage” exceed the materiality threshold as at 31 December 2017 and they were included to the 31 December 2017 table.

6.2.4 Net exposures by residual maturity and exposure classes

The net exposures by residual maturity and exposure classes as at 31 December 2017 and 2016 are presented below. The net exposures relate to amounts post value adjustments but before the application of credit conversion factors. Exposures for which the counterparty has a choice of when an amount is repaid (e.g. current accounts) have been assigned to column "On demand". Exposures for which there is no stated maturity (e.g. tangible assets) have been assigned to column "No stated maturity".

Materiality applied: All exposure classes that do not exceed 1% of total net exposures have been included in row "Other".

EU CRB–E – Maturity of exposures

2017	Net exposure value					
	On demand	<=1 year	>1 year <=5 years	> 5 years	No stated maturity	Total
	€000	€000	€000	€000	€000	€000
Central governments or central banks	3,271,365	13,566	475,414	318,421	-	4,078,766
Institutions	226,233	921,672	71,381	61,910	-	1,281,196
Corporates	1,400,375	451,132	759,910	2,420,782	-	5,032,199
Retail	1,236,673	96,183	293,204	1,604,520	-	3,230,580
Secured by mortgages on immovable property	198,863	172,235	825,377	2,900,510	-	4,096,985
Exposures in default	421,718	1,541,146	317,890	884,840	-	3,165,594
Items associated with particularly high risk	133,628	626,366	548,689	625,228	18,398	1,952,309
Other exposures	13	-	-	7,500	2,397,448	2,404,961
Other	12,761	12,308	114,119	84,494	143,287	366,969
Total Standardised Approach	***6,901,629***	***3,834,608***	***3,405,984***	***8,908,205***	***2,559,133***	***25,609,559***
Total	**6,901,629**	**3,834,608**	**3,405,984**	**8,908,205**	**2,559,133**	**25,609,559**

6.2.4 Net exposures by residual maturity and exposure classes (continued)

EU CRB–E – Maturity of exposures

2016	**Net exposure value**					
	On demand	**<=1 year**	**>1 year <=5 years**	**> 5 years**	**No stated maturity**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	1,405,909	58,754	293,679	236,586	6	1,994,934
Institutions	284,808	735,174	74,168	63,650	-	1,157,800
Corporates	1,436,061	388,916	803,374	2,030,777	2,159	4,661,287
Retail	1,223,304	169,879	242,866	1,519,130	-	3,155,179
Secured by mortgages on immovable property	226,975	186,968	785,025	3,119,568	-	4,318,536
Exposures in default	535,128	1,952,253	381,421	1,095,114	-	3,963,916
Items associated with particularly high risk	194,490	895,441	585,898	585,719	16,586	2,278,134
Other exposures	-	-	-	-	2,268,656	2,268,656
Other	13,189	566	34,253	88,648	143,814	280,470
Total Standardised Approach	***5,319,864***	***4,387,951***	***3,200,684***	***8,739,192***	***2,431,221***	***24,078,912***
Total	**5,319,864**	**4,387,951**	**3,200,684**	**8,739,192**	**2,431,221**	**24,078,912**

The overall increase in the net value of exposures is observed in the "On demand" maturity band which mostly relates to the increase in "Balances with central banks". The increase in debt-for-asset swaps resulted to an increase to the "No stated maturity" band. On the other hand, the increase in debt-for-asset swaps together with increased provisioning and restructurings explain the changes observed in the net value of exposures across all maturity bands for exposure classes "Exposures in default" and "Items associated with particularly high risk". New lending and restructurings led to an increase in the ">5 years" maturity band.

6.2.5 Impaired and Past Due Exposures by Economic Activity

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity

	Impaired exposures	Past due but not impaired exposures	Total
2017	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	37,763	19,499	57,262
Mining and quarrying	17,172	737	17,909
Manufacturing	100,182	49,716	149,898
Electricity, gas, steam and air-conditioning supply	1,132	915	2,047
Water supply	333	3,746	4,079
Construction	663,884	131,580	795,464
Wholesale and retail trade	223,445	190,749	414,194
Transportation and storage	17,596	10,451	28,047
Accommodation and food service activities	144,387	47,184	191,571
Information and communication	42,669	10,515	53,184
Real estate activities	376,909	92,280	469,189
Professional, scientific and technical activities	64,222	46,444	110,666
Administrative and support service activities	13,732	8,292	22,024
Public administration and defence; compulsory social security	1,296	42	1,338
Education	4,048	7,352	11,400
Human health and social work activities	19,948	33,388	53,336
Arts, entertainment and recreation	14,018	25,378	39,396
Other service activities	818,843	820,550	1,639,393
Total	**2,561,579**	**1,498,818**	**4,060,397**

6.2.5 Impaired and Past Due Exposures by Economic Activity (continued)

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity

	Impaired exposures	Past due but not impaired exposures	Total
2016	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	46,739	32,429	79,168
Mining and quarrying	18,738	2,446	21,184
Manufacturing	115,269	110,570	225,839
Electricity, gas, steam and air-conditioning supply	907	1,456	2,363
Water supply	412	4,263	4,675
Construction	748,337	392,255	1,140,592
Wholesale and retail trade	285,656	287,513	573,169
Transportation and storage	26,176	16,571	42,747
Accommodation and food service activities	189,596	244,911	434,507
Information and communication	28,146	21,101	49,247
Real estate activities	458,705	218,072	676,777
Professional, scientific and technical activities	111,546	59,251	170,797
Administrative and support service activities	16,450	29,024	45,474
Public administration and defence; compulsory social security	1,326	7,368	8,694
Education	4,730	31,238	35,968
Human health and social work activities	25,508	47,078	72,586
Arts, entertainment and recreation	21,939	36,660	58,599
Other service activities	1,009,527	1,051,435	2,060,962
Total	**3,109,707**	**2,593,641**	**5,703,348**

6.2.5 Impaired and Past Due Exposures by Economic Activity (continued)

(b) Provisions for impairment of impaired and past due exposures by economic activity[21]

	Individual impairment	Collective impairment	Total accumulated provisions	Fair value adjustment on initial recognition[22]	Total provisions including fair value adjustment on initial recognition
2017	**€000**	**€000**	**€000**	**€000**	**€000**
Trade	321,663	121,688	443,351	71,636	514,987
Manufacturing	125,319	32,971	158,290	19,968	178,258
Hotels and catering	164,371	23,732	188,103	47,257	235,360
Construction	638,628	120,313	758,941	144,899	903,840
Real estate	316,440	114,896	431,336	89,647	520,983
Private individuals	674,690	349,183	1,023,873	195,686	1,219,559
Professional and other services	210,979	70,540	281,519	61,954	343,473
Other sectors	147,605	50,758	198,363	37,438	235,801
Total	**2,599,695**	**884,081**	**3,483,776**	**668,485**	**4,152,261**

2016					
Trade	335,854	39,421	375,275	87,576	462,851
Manufacturing	132,603	12,439	145,042	25,734	170,776
Hotels and catering	193,863	15,394	209,257	62,665	271,922
Construction	771,034	44,643	815,677	210,436	1,026,113
Real estate	498,414	57,594	556,008	114,140	670,148
Private individuals	708,144	175,213	883,357	227,057	1,110,414
Professional and other services	307,100	30,495	337,595	80,501	418,096
Other sectors	210,778	19,252	230,030	120,344	350,374
Total	**3,157,790**	**394,451**	**3,552,241**	**928,453**	**4,480,694**

The tables above do not include provisions for financial guarantees and undrawn contractual commitments of €51,987 thousand (2016: €38,196 thousand).

[21] The tables are presented using figures per the Consolidated Financial Statements of the Company for 2017.
[22] 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 and originated credit impaired loans. This adjustment has decreased the gross balance of loans and advances to customers.

6.2.6 Impaired and Past Due Exposures by Geographic Area

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by geographic area [23]

2017	Impaired exposures	Past due but not impaired exposures	Total
	€000	€000	€000
Cyprus	2,330,606	1,386,069	3,716,675
Greece	24,976	4,596	29,572
United Kingdom	83,501	46,214	129,715
Romania	65,117	6,782	71,899
Other countries	57,379	55,157	112,536
Total	**2,561,579**	**1,498,818**	**4,060,397**

2016			
Cyprus	2,692,304	2,398,921	5,091,225
Greece	23,849	19,222	43,071
Russia	84,717	26,598	111,315
United Kingdom	109,562	100,128	209,690
Romania	109,755	2,662	112,417
Other countries	89,520	46,110	135,630
Total	**3,109,707**	**2,593,641**	**5,703,348**

(b) Provisions for impairment of impaired and past due exposures by geographic area[24]

2017	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[25]	Total provisions including fair value adjustment on initial recognition
	€000	€000	€000	€000	€000
Cyprus	2,367,205	868,898	3,236,103	658,205	**3,894,308**
Greece	2,655	-	2,655	-	**2,655**
Russia	116,233	1	116,234	-	**116,234**
United Kingdom	4,751	2,771	7,522	246	**7,768**
Romania	108,851	12,411	121,262	10,034	**131,296**
Total	**2,599,695**	**884,081**	**3,483,776**	**668,485**	**4,152,261**

[23] Country of residence of the obligor.
[24] The table is presented using figures per the Consolidated Financial Statements of the Company for 2017.
[25] 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 and originated credit impaired loans. This adjustment has decreased the gross balance of loans and advances to customers.

6.2.6 Impaired and Past Due Exposures by Geographic Area (continued)

(b) Provisions for impairment of impaired and past due exposures by geographic area[26]

2016	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[27]	Total provisions including fair value adjustment on initial recognition
	€000	€000	€000	€000	€000
Cyprus	2,779,379	390,782	3,170,161	898,271	**4,068,432**
Greece	7,129	-	7,129	-	**7,129**
Russia	156,585	667	157,252	-	**157,252**
United Kingdom	7,788	2,994	10,782	373	**11,155**
Romania	206,909	8	206,917	29,809	**236,726**
Total	**3,157,790**	**394,451**	**3,552,241**	**928,453**	**4,480,694**

The tables above do not include provision for financial guarantees and undrawn contractual commitments of €51,987 thousand (2016: €38,196 thousand).

6.2.7 Loans and Advances on the Basis of Residency of the Counterparty

The following table presents customer loans and advances splitted by residency of the counterparty. The table is presented using figures per the Consolidated Financial Statements of the Company for 2017.

2017	Loans and advances [28]	Total accumulated provisions	Carrying value
	€000	€000	€000
Cyprus	15,445,720	3,070,379	12,375,341
Greece	89,795	9,153	80,642
United Kingdom	1,913,968	109,611	1,804,357
Netherlands	637	98	539
Romania	154,361	116,429	37,932
Russia	238,284	131,438	106,846
Ukraine	11,402	3,006	8,396
Other	232,063	43,662	188,401
Total	**18,086,230**	**3,483,776**	**14,602,454**

[26] The table is presented using figures per the Consolidated Financial Statements of the Company for 2017.

[27] 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 and originated credit impaired loans. This adjustment has decreased the gross balance of loans and advances to customers.

[28] After taking into account the fair value adjustment on initial recognition.

6.2.7 Loans and Advances on the Basis of Residency of the Counterparty (continued)

2016	**Loans and advances[29]**	**Total accumulated provisions**	**Carrying value**
	€000	**€000**	**€000**
Cyprus	16,537,310	2,986,604	13,550,706
Greece	118,167	27,377	90,790
United Kingdom	1,689,279	106,737	1,582,542
Netherlands	326	83	243
Romania	315,834	200,344	115,490
Russia	305,862	169,439	136,423
Ukraine	24,330	13,253	11,077
Other	210,534	48,404	162,130
Total	**19,201,642**	**3,552,241**	**15,649,401**

6.2.8 Exposures covered by Eligible Financial Collateral and Credit Protection

The table below presents all types of collateral (other than real estate collateral which acts as a separate asset class) applied in the RWA calculations and meet all the minimum requirements of the CRR Articles 192 to 217 for credit risk mitigation under the Standardised Approach.

Exposure Portfolio	**Financial Collateral**	**Guarantees**	**Other funded Credit Protection**	**Total**
2017	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	**-**
Corporates	203,080	15,807	1,002	**219,889**
Exposures in default	26,184	3,760	436	**30,380**
Institutions	13,423	-	-	**13,423**
Items associated with particularly high risk	118,047	820	-	**118,867**
Public sector entities	4,575	-	-	**4,575**
Regional governments or local authorities	14,230	43,898	-	**58,128**
Retail	273,075	9,196	464	**282,735**
Secured by mortgages on immovable property	111,799	14,349	94	**126,242**
Total	**764,413**	**87,830**	**1,996**	**854,239**
2016				
Central governments or central banks	-	-	-	**-**
Corporates	202,139	1,718	1,015	**204,872**
Exposures in default	41,612	10,194	652	**52,458**
Institutions	10,380	-	-	**10,380**
Items associated with particularly high risk	62,807	1,441	2,600	**66,848**
Public sector entities	14,728	-	-	**14,728**
Regional governments or local authorities	14,526	40,831	-	**55,357**
Retail	217,728	83	643	**218,454**
Secured by mortgages on immovable property	111,511	-	119	**111,630**
Total	**675,431**	**54,267**	**5,029**	**734,727**

[29] After taking into account the fair value adjustment on initial recognition.

6.2.8 Exposures covered by Eligible Financial Collateral and Credit Protection (continued)

"Financial collateral" includes at its majority cash collateral and to a very small extent equities traded in the main index and government debt securities. It includes on-balance sheet netting which is applied to reciprocal same currency cash balances between the institution and the counterparty, reflecting the right of set-off and it is treated as cash collateral. Finally it includes the effects of master-netting agreements covering SFTs. "Guarantees" include guarantees received from banks, the Government of Cyprus and the European Investment Fund. "Other funded credit protection" refers to cash on deposit with third party institutions in a non-custodial arrangement and pledged to the lending institution. Its treatment is effectively the same as that of guarantees.

6.2.9.1 Credit quality of exposures by exposure class and instrument

The below table analyses the on-balance sheet and off-balance sheet exposures by credit quality and by exposure class and it has been completed in accordance with the regulatory requirements. Column (c) represents the value adjustment used in the calculation of the RWA while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) include changes in column (c) between the current and the previous year calculated at exposure class level.

The amounts included in column (a) represent all defaulted exposures in accordance with Article 178 of the CRR. Row "Exposures in default" is an informative row which is not included in the rows "Total standardized approach" and "Total". Column (a) summarizes the defaulted exposures that have been reported in exposure class "Exposures in default" according to Article 112(j) of the CRR and it includes the defaulted exposures in all other exposure classes except for "Items associated with particularly high risk" and "Equity Exposures" which is included in row "Other".

Materiality applied: All exposure classes that do not exceed 1% of total net exposures have been included in "Other".

EU CR1-A - Credit quality of exposures by exposure class and instrument

	a	b	c	d	e	f	g
31 December 2017	**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	4,078,767	1	-	1	-	4,078,766
Institutions	184,927	1,220,431	147,265	-	132,512	(11,850)	1,258,093
Corporates	5,967,021	5,208,843	4,651,202	-	2,573,148	(16,958)	6,524,662
Of which: SMEs	*4,530,058*	*3,800,446*	*3,446,992*	-	*1,925,201*	*118,917*	*4,883,512*
Retail	2,465,523	3,335,624	1,936,525	-	933,893	225,296	3,864,622
Of which: SMEs	*642,048*	*972,719*	*513,922*	-	*251,034*	*49,366*	*1,100,845*
Secured by mortgages on immovable property	1,126,315	4,129,036	158,565	-	76,206	(28,257)	5,096,786
Of which: SMEs	*328,932*	*1,697,162*	*56,804*	-	*27,709*	*(32,464)*	*1,969,290*
Exposures in default	*9,747,109*	-	*6,581,515*	-	*83,817*	*181,568*	*3,165,594*
Items associated with particularly high risk	2,613,393	1,298,761	1,959,845	-	1,072,178	(128,868)	1,952,309
Other exposures	-	2,404,961	-	-	-	-	2,404,961
Other	3,393	368,033	3,159	-	2,505	(355)	368,267
Total Standardised Approach	***12,360,572***	***22,044,456***	***8,856,562***	**-**	***4,790,443***	***39,008***	***25,548,466***
Total	**12,360,572**	**22,044,456**	**8,856,562**	**-**	**4,790,443**	**39,008**	**25,548,466**
Of which: Loans	12,060,853	17,689,259	8,808,286	-	4,790,443	25,029	20,941,826
Of which: Debt securities	-	950,350	-	-	-	-	950,350
Of which: Off- balance-sheet exposures	299,649	887,070	48,276	-	-	13,979	1,138,443

6.2.9.1 Credit quality of exposures by exposure class and instrument (continued)

EU CR1-A: Credit quality of exposures by exposure class and instrument

	a	b	c	d	e	f	g
31 December 2016[30]	**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	1,994,935	1	-	1	1	1,994,934
Institutions	260,294	1,093,271	159,115	-	97,938	(5,868)	1,194,450
Corporates	6,212,582	4,848,299	4,668,160	-	2,416,001	90,073	6,392,721
Of which: SMEs	*4,383,910*	*4,650,389*	*3,328,075*	-	*1,711,198*	*629,522*	*5,706,224*
Retail	2,295,650	3,255,099	1,711,229	-	899,513	(37,494)	3,839,520
Of which: SMEs	*608,842*	*1,647,501*	*464,556*	-	*245,323*	*(42,946)*	*1,791,787*
Secured by mortgages on immovable property	1,582,798	4,358,501	186,822	-	96,829	(42,504)	5,754,477
Of which: SMEs	*649,079*	-	*89,268*	-	*14,252*	*8,725*	*559,811*
Exposures in default	*10,363,863*	-	*6,399,947*	-	-	*(22,443)*	*3,963,916*
Items associated with particularly high risk	3,048,843	1,318,004	2,088,713	-	1,085,061	(127,266)	2,278,134
Other exposures	-	2,268,656	-	-	-	-	2,268,656
Other	12,646	281,628	3,514	-	2,677	(42)	290,760
Total Standardised Approach	***13,412,813***	***19,418,393***	***8,817,554***	**-**	***4,598,020***	***(123,100)***	***24,013,652***
Total	**13,412,813**	**19,418,393**	**8,817,554**	**-**	**4,598,020**	**(123,100)**	**24,013,652**
Of which: Loans	13,102,246	15,437,293	8,783,257	-	4,598,015	-	19,756,282
Of which: Debt securities	-	619,051	-	-	-	-	619,051
Of which: Off- balance-sheet exposures	310,461	1,002,823	34,297	-	5	-	1,278,987

Customer restructurings, debt-for-asset swaps and general repayment of defaulted exposures decreased the overall defaulted exposures. The increase in the non-defaulted exposures resulted mainly from the increase in exposures to "Central governments or central banks" from an increase in "Balances with central banks", in exposures to "Institutions" from an increase in "Balances with banks" and in "Other exposures" from the debt-for-asset swaps. Customer loans restructurings and new customer lending have maintained the non-defaulted exposure value levels of exposure classes that are traditionally related to customer advances, "Corporates", "Retail", "Secured by mortgages on immovable property" and "Items associated with particularly high risk".

[30] The table presenting amounts for 31 December 2016 has been re-stated to comply with the updated EBA guidelines governing the above table.

6.2.9.2 Credit quality of exposures by industry

The below table analyses the on-balance sheet and off-balance sheet exposures by credit quality and by industry and it has been completed in accordance to the regulatory requirements. Column (c) represents the value adjustment used in for the calculation of the RWA, while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) includes changes in column (c) between the current and the previous year calculated at exposure class level.

Industry "Other services" includes exposures to Private individuals, Activities of extraterritorial organizations and bodies, Other services activities, and Financial and insurance activities.

Materiality applied: All industry sectors that do not exceed 1% of total net exposures have been included in row "Other".

EU CR1-B - Credit quality of exposures by industry or counterparty types

	a	b	c	d	e	f	g
31 December 2017	**Gross carrying values of**		**Specific risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Manufacturing	520,126	526,932	383,349	-	194,763	43,341	663,709
Construction	2,736,397	1,367,263	1,918,414	-	997,611	(56,235)	2,185,246
Wholesale and retail trade	1,403,346	1,847,876	1,028,791	-	512,722	126,075	2,222,431
Transport and storage	156,765	264,081	135,588	-	98,055	11,139	285,258
Accommodation and food service activities	725,880	1,233,705	544,173	-	307,303	16,980	1,415,412
Real estate activities	1,351,399	2,335,141	1,010,031	-	505,999	(53,159)	2,676,509
Professional, scientific and technical activities	475,566	390,796	383,861	-	266,702	(45,647)	482,501
Public administration and defence, compulsory social security	3,322	4,170,163	3,075	-	2,422	(440)	4,170,410
Human health services and social work activities	107,932	287,267	68,734	-	31,799	3,247	326,465
Other services	4,231,609	8,869,456	2,944,840	-	1,665,102	53,053	10,156,225
Other	648,230	751,776	435,706	-	207,965	(59,346)	964,300
Total	**12,360,572**	**22,044,456**	**8,856,562**	**-**	**4,790,443**	**39,008**	**25,548,466**

6.2.9.2 Credit quality of exposures by industry (continued)

EU CR1-B - Credit quality of exposures by industry or counterparty types

	a	b	c	d	e	f	g
31 December 2016[31]	**Gross carrying values of**		**Specific risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Manufacturing	496,096	539,367	340,008	-	171,579	(54,989)	695,455
Construction	3,097,547	1,455,163	1,974,649	-	996,657	(239,721)	2,578,061
Wholesale and retail trade	1,374,080	1,955,207	902,716	-	471,960	(49,106)	2,426,571
Accommodation and food service activities	820,681	1,012,165	527,193	-	280,908	17,341	1,305,653
Information and communication	152,082	211,164	100,528	-	42,119	736	262,718
Real estate activities	1,584,212	2,240,633	1,063,190	-	457,437	100,480	2,761,655
Professional, scientific and technical activities	583,573	438,748	429,508	-	291,561	43,068	592,813
Public administration and defence, compulsory social security	12,539	2,111,859	3,515	-	2,678	(41)	2,120,883
Human health services and social work activities	113,551	280,230	65,487	-	32,879	9,361	328,294
Other services	4,434,751	8,488,824	2,891,787	-	1,530,865	153,204	10,031,788
Other	743,701	685,033	518,973	-	319,377	(103,433)	909,761
Total	**13,412,813**	**19,418,393**	**8,817,554**	**-**	**4,598,020**	**(123,100)**	**24,013,652**

The material decreases are observed in the defaulted "Construction" and "Real estate activities" industries resulted mainly from the debt-for-asset swaps. Further decreases across all exposure classes resulted from customer loans restructurings and loan repayments. The material increases observed in non-defaulted industries "Public administration and defence, compulsory social security" resulted mainly from increases in "Balances with central banks" and "Other services" from increases in "Balances with banks". All other increases in non-defaulted exposure classes result from customer restructurings and new customer lending.

[31] The table presenting amounts for 31 December 2016 has been re-stated to comply with the updated EBA guidelines governing the above table.

6.2.9.3 Credit quality of exposures by geography

The below table analyses the on-balance sheet and off-balance sheet exposures by credit quality and by geography and it has been completed in accordance to the regulatory requirements. Column (c) represents the value adjustment used in the calculation of the RWA, while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) includes changes in column (c) between the current and the previous year calculated at exposure class level.

The country or geographical area in which the exposure is classified is driven by the country of residence/incorporation of the counterparty.

The materiality of geographical areas has been determined using the following threshold: All EU countries that do not exceed 1% of total net exposures have been included in "Other countries" and all non-EU countries that do not exceed 1% of total net exposures have been included in "Other geographical areas". There are not non-EU countries that exceed the 1% threshold. "Supranational" exposures are included in "Other geographical areas".

EU CR1-C - Credit quality of exposures by geography

	a	b	c	d	e	f	g
31 December 2017	**Gross carrying value of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EU Countries	11,979,509	21,182,075	8,590,274	-	4,714,054	100,825	24,571,310
Cyprus	11,050,930	17,682,743	7,868,574	-	4,273,932	170,335	20,865,099
United Kingdom	355,754	2,277,069	252,329	-	133,627	8,813	2,380,494
France	115	297,646	702	-	671	3	297,059
Greece	207,744	225,135	169,127	-	138,343	(9,200)	263,752
Other countries[32]	364,966	699,482	299,542	-	167,481	(69,126)	764,906
Other geographical areas[32]	381,063	862,381	266,288	-	76,389	(61,817)	977,156
Total	**12,360,572**	**22,044,456**	**8,856,562**	**-**	**4,790,443**	**39,008**	**25,548,466**

[32] List of immaterial countries is presented in Appendix III

6.2.9.3 **Credit quality of exposures by geography** (continued)

EU CR1-C - Credit quality of exposures by geography

31 December 2016[33]	a	b	c	d	e	f	g
	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the year	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
	€000	€000	€000	€000	€000	€000	€000
EU Countries	12,907,315	18,731,004	8,489,449	-	4,527,796	(69,860)	23,148,870
Cyprus	11,824,876	15,590,492	7,698,239	-	4,133,718	(62,174)	19,717,129
United Kingdom	387,916	1,831,518	243,516	-	127,614	(11,309)	1,975,918
France	106	303,129	699	-	671	(2)	302,536
Greece	213,333	382,630	178,327	-	147,797	(1,948)	417,636
Other countries[34]	481,084	623,235	368,668	-	117,996	5,573	735,651
Other geographical areas[34]	505,498	687,389	328,105	-	70,224	(53,240)	864,782
Total	**13,412,813**	**19,418,393**	**8,817,554**	**-**	**4,598,020**	**(123,100)**	**24,013,652**

The decrease in defaulted exposures are mainly observed in Cyprus, "Other geographical areas" and "Other countries" which resulted from customer restructurings, debt-for-asset swaps and other debt repayment. The increase in non-defaulted exposures is observed in Cyprus resulted from customer restructurings, debt-for-asset swaps, new customer lending and increases in "Balances with central banks" and "Balances with banks". The increase observed in non-defaulted exposures in United Kingdom is mainly driven from the increased customer portfolio in the United Kingdom operations. Customer loans restructuring led to the shift between defaulted and non-defaulted exposures in "Other geographical areas".

[33] The table presenting amounts for 31 December 2016 has been re-stated to comply with the updated EBA guidelines governing the above table.

[34] List of immaterial countries is presented in Appendix III

6.2.10 EU CR1-D - Ageing of past-due exposures

31 December 2017	**Gross carrying values**					
	≤ 30 days	**>30 days ≤ 60 days**	**>60 days ≤ 90 days**	**>90 days ≤ 180 days**	**>180 days ≤ 1 year**	**> 1 year**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances to customers[35]	579,867	167,199	115,133	150,824	325,107	5,864,683
Debt securities	-	-	-	-	-	-
Total exposures	**579,867**	**167,199**	**115,133**	**150,824**	**325,107**	**5,864,683**

31 December 2016	**Gross carrying values**					
	≤ 30 days	**>30 days ≤ 60 days**	**>60 days ≤ 90 days**	**>90 days ≤ 180 days**	**>180 days ≤ 1 year**	**> 1 year**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Loans and advances to customers[35]	517,513	181,480	222,883	178,247	192,152	7,375,193
Debt securities	-	-	-	-	-	-
Total exposures	**517,513**	**181,480**	**222,883**	**178,247**	**192,152**	**7,375,193**

The loans and advances to customers arrear for more than 90 days were reduced by €1.4 billion (17%). The decrease is mainly due to write offs (€0.9 billion) and debt for asset swaps (€0.5 billion).

[35] Amounts presented are before 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 and originates credit impaired loans. This adjustment has decreased the gross balance of loans and advances to customers.

6.2.11 Non-performing and forborne exposures

The table below discloses NPEs based on the definitions of the EBA standards. The tables are presented using figures per the Consolidated Financial Statements of the Company for 2017.

EU CR1-E - Non-performing and forborne exposures

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
2017	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Debt securities	**950,928**	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances													
Central banks	**3,250,029**	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	**1,192,633**	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers[36]	**18,754,715**	**69,967**	**1,949,760**	**8,803,716**	**7,223,764**	**5,519,836**	**4,734,716**	**163,565[36]**	**67,670**	**3,988,696[36]**	**1,703,858**	**4,373,050**	**4,513,476**
Off-balance-sheet exposures	**3,077,646**	**n/a[37]**	**19,910**	**429,267**	**310,298**	**n/a[37]**	**17,090**	**3,121**	**15**	**48,866**	**772**	**57,322**	**14,465**
2016													
Debt securities	619,568	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances													
Central banks	1,373,802	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	1,087,837	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers[36]	20,130,095	107,160	2,206,634	11,034,249	8,837,158	6,886,890	5,889,332	160,992[37]	50,531	4,319,702[36]	1,617,028	7,854,750	6,760,774
Off-balance-sheet exposures	2,882,532	n/a[37]	11,817	481,273	365,335	n/a[37]	24,421	1,793	2	36,403	391	83,957	22,056

The decrease of €1.4 billion in loans and advances to customers is the net result of: 1) restructuring activity, mainly write offs (€0.9 billion) and debt for asset swap (€0.5 billion), 2) new loan originations (€2.2 billion), and 3) repayment and other movements.

The decrease in non-performing exposures of €2.2 billion is mainly due to restructuring activity, mainly write offs (€0.9 billion) and debt for asset swap (€0.5 billion). The remaining is the net result of curing and transfer to performing exposures and repayments.

[36] Amounts presented are before 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 and originates credit impaired loans.

[37] Per EBA guidelines no disclosure is required.

6.2.12 Changes in the stock of defaulted and impaired loans and debt securities

Defaulted exposures are exposures that are defaulted in accordance with Article 178 of the CRR.

EU CR2-B - Changes in stock of defaulted and impaired loans and debt securities

31 December 2017	**Gross carrying value defaulted exposures**
	€000
Opening balance	13,412,707
Loans and debt securities that have defaulted or impaired since the last reporting period	1,150,874
Returned to non-defaulted status	(434,721)
Amounts written off	(970,509)
Other changes	(797,849)
Closing balance	**12,360,502**

31 December 2016	
Opening balance	13,998,357
Loans and debt securities that have defaulted or impaired since the last reporting period	968,108
Returned to non-defaulted status	(284,897)
Amounts written off	(1,055,265)
Other changes	(213,596)
Closing balance	**13,412,707**

The decrease in the gross carrying value of defaulted exposures resulted from customer restructurings, debt for asset swaps and other debt repayment.

6.2.13 Credit Risk Adjustments

6.2.13.1 Provisions for Impairment of Loans and Advances to Customers

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

2017	Cyprus	United Kingdom	Other countries	Total
Individual and collective impairment	**€000**	**€000**	**€000**	**€000**
1 January	3,170,161	10,782	371,298	**3,552,241**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Foreign exchange and other adjustments	77,234	(183)	(7,059)	**69,992**
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	(3,222)	16,000	**937,939**
31 December	**3,236,103**	**7,522**	**240,151**	**3,483,776**

Individual impairment				
1 January	2,779,379	7,788	370,623	**3,157,790**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Foreign exchange and other adjustments	82,743	(94)	(7,044)	**75,605**
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	441,536	(3,088)	4,248	**442,696**
31 December	**2,367,205**	**4,751**	**227,739**	**2,599,695**

Collective impairment				
1 January	390,782	2,994	675	**394,451**
Foreign exchange and other adjustments	(5,509)	(89)	(15)	**(5,613)**
Charge for the year	483,625	(134)	11,752	**495,243**
31 December	**868,898**	**2,771**	**12,412**	**884,081**

6.2.13.1 Provisions for Impairment of Loans and Advances to Customers (continued)

2016	**Cyprus**	**United Kingdom**	**Other countries**	**Total**
Individual and collective impairment	**€000**	**€000**	**€000**	**€000**
1 January	3,731,750	39,394	422,289	**4,193,433**
Dissolution of subsidiaries	-	(6,154)	-	**(6,154)**
Acquisition of subsidiary	(8,577)	-	-	**(8,577)**
Foreign exchange and other adjustments	113,109	(2,232)	16,725	**127,602**
Applied in writing off impaired loans and advances	(923,723)	(16,945)	(114,597)	**(1,055,265)**
Interest accrued on impaired loans and advances	(138,603)	-	(1,909)	**(140,512)**
Collection of loans and advances previously written off	1,872	-	81	**1,953**
Charge for the year	394,333	(3,281)	48,709	**439,761**
31 December	**3,170,161**	**10,782**	**371,298**	**3,552,241**

Individual Impairment				
1 January	3,255,398	36,096	415,746	**3,707,240**
Dissolution of subsidiaries	-	(6,154)	-	**(6,154)**
Acquisition of subsidiary	(8,577)	-	-	**(8,577)**
Foreign exchange and other adjustments	112,674	(1,775)	16,608	**127,507**
Applied in writing off impaired loans and advances	(923,723)	(16,945)	(114,597)	**(1,055,265)**
Interest accrued on impaired loans and advances	(138,603)	-	(1,909)	**(140,512)**
Collection of loans and advances previously written off	1,872	-	81	**1,953**
Charge for the year	480,338	(3,434)	54,694	**531,598**
31 December	**2,779,379**	**7,788**	**370,623**	**3,157,790**

Collective impairment				
1 January	476,352	3,298	6,543	**486,193**
Foreign exchange and other adjustments	435	(457)	117	**95**
Charge for the year	(86,005)	153	(5,985)	**(91,837)**
31 December	**390,782**	**2,994**	**675**	**394,451**

6.2.13.2 Credit Risk Adjustments recorded to Income Statement

Impairment of financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans

The table is presented using figures per the Consolidated Financial Statements of the Company for 2017.

	2017	2016
	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows	**173,443**	63,315

Impairment/(reversal of impairment) of other financial instruments		
Available-for-sale equity securities	**63**	839
Available-for-sale mutual funds	**-**	56
Loans and advances to banks	**7,775**	13,820
Other receivables	**(1,379)**	(3,869)
Deposits by banks	**-**	447
	6,459	11,293

6.2.13.3 Changes in the accumulated specific and general credit risk adjustment

The changes in the accumulated specific and general adjustment are as follows:

EU CR2-A - Changes in stock of general and specific credit risks adjustment

2017	Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1 January	**3,157,790**	**394,451**
Increases due to amounts set aside for estimated loan losses during the year	830,792	630,507
Decreases due to amounts reversed for estimated loan losses during the year	(388,096)	(135,264)
Decreases due to amounts taken against accumulated credit risk adjustments	(970,509)	-
Impact of exchange rate differences	75,605	(5,613)
Business combinations, including acquisitions and disposals of subsidiaries	(12,792)	-
Interest accrued on impaired loans and advances	(99,359)	-
Collection of loans and advances previously written off	6,264	-
31 December	**2,599,695**	**884,081**
Recoveries on credit risk adjustments recorded directly to the income statement	-	-
Specific credit risk adjustments directly recorded to the income statement	-	-

6.2.13.3 Changes in the accumulated specific and general credit risk adjustment (continued)

EU CR2-A - Changes in stock of general and specific credit risks adjustment

2016	Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1 January	**3,707,240**	**486,193**
Increases due to amounts set aside for estimated loan losses during the year	1,154,231	164,962
Decreases due to amounts reversed for estimated loan losses during the year	(622,633)	(256,799)
Decreases due to amounts taken against accumulated credit risk adjustments	(1,055,265)	-
Impact of exchange rate differences	127,507	95
Business combinations, including acquisitions and disposals of subsidiaries	(14,731)	-
Interest accrued on impaired loans and advances	(140,512)	-
Collection of loans and advances previously written off	1,953	-
31 December	**3,157,790**	**394,451**
Recoveries on credit risk adjustments recorded directly to the income statement	-	-
Specific credit risk adjustments directly recorded to the income statement	-	-

All recoveries on credit risk adjustments and specific credit risk adjustments are made via the accumulated allowance account.

6.2.14 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 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 which may be temporary or permanent 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. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

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 indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

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.

6.2.14 Forbearance (continued)

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 sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

6.2.14 Forbearance (continued)

Rescheduled loans and advances to customers

The following table is presented using figures per the Consolidated Financial Statements of the Company for 2017:

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
2017	**€000**	**€000**	**€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	338	70,595	2,149	18,170	**1,987,144**
	6,272,946	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**
2016						
Neither past due nor impaired	4,021,923	-	-	85,722	85	**4,107,730**
Past due but not impaired	1,212,177	-	671	2,509	225	**1,215,582**
Impaired	2,167,770	337	83,222	2,092	78,571	**2,331,992**
	7,401,870	**337**	**83,893**	**90,323**	**78,881**	**7,655,304**

6.3 External Credit Assessment Institutions (ECAIs) used for calculating Risk-Weighted Assets under the Standardised Approach

6.3.1 Application of External Ratings from Recognised ECAIs

For the Group's exposure classes listed below, Moody's external credit ratings have been applied:

- Exposures to central governments or central banks
- Exposures to regional governments or local authorities
- Exposures to public sector entities
- Exposures to multilateral development banks
- Exposures to institutions
- Exposures to corporates
- Exposures in the form of covered bonds
- Exposures in the form of units or shares in CIUs

The general ECAI association with each credit quality step complies with the standard association published by the CBC, as at 31 December 2017 and 2016, as follows:

Credit Quality Step	Moody's Rating	Risk Weight [38]			Sovereigns Risk Weight	Corporates & CIUs Risk Weight	Covered Bonds Risk Weight
		Own Rating		Country Rating			
		Residual Maturity up to 3 months	Residual Maturity more than 3 months	Original Maturity more than 3 months			
1	Aaa to Aa3	20%	20%	20%	0%	20%	10%
2	A1 to A3	20%	50%	50%	20%	50%	20%
3	Baa1 to Baa3	20%	50%	100%	50%	100%	20%
4	Ba1 to Ba3	50%	100%	100%	100%	100%	50%
5	B1 to B3	50%	100%	100%	100%	150%	50%
6	Caa1 or lower	150%	150%	150%	150%	150%	100%

Exposures without an available Moody's credit rating are considered to be unrated.

6.3.2 Transfer of Credit Assessments onto Items in the Banking book

For exposures to regional governments or local authorities, public sector entities and institutions, or in the form of covered bonds, the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty
3. Sovereign

For exposures to central governments or central banks, multilateral development banks, corporates and CIUs, the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty

The ECAIs are not taken into account in the risk weight determination where all relative exceptions apply.

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[38] It includes regional governments, local authorities and public sector entities. As noted above, the rating applied is that of the Central Government in which the counterparty is incorporated

6.3.3 Net Exposure Values before and after Credit Risk Mitigation

Net exposures relate to amounts post value adjustments but before the application of credit conversion factors.

All unrated exposures whose risk weight does not depend on an external credit assessment, have been included in Uniform Regulatory Treatment. Exposures to Central governments or central banks and exposures to Public sector entities that are treated as exposures to central banks and they take a risk weight of 0% under Article 114-(4) to 114-(7) of the CRR have been mapped to credit quality step 1 irrespective of the external credit assessment of that exposure or counterparty. Similarly the exposures to Multilateral development banks included in the list of organisations of Article 117 (2) of the CRR with an assigned 0% risk weight and exposures to International organisations that meet the requirements of Article 118 of the CRR with an assigned 0% risk weight, have been mapped to credit quality step 1. Exposures to Institutions for which Articles 119(2) and 121(3) of the CRR are applied and take a risk weight of 20% have been mapped to credit quality step 1.

6.3.3.1 Net Exposure Values before Credit Risk Mitigation (eligible credit protection)

The classification of exposures in the tables below follows from Sections 6.2.3.1 and 6.2.3.2 above.

	1	2	3	4	5	6	Uniform Regulatory Treatment	Total
2017	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	4,078,766	-	-	-	-	-	-	**4,078,766**
Regional governments or local authorities	67,425	-	-	-	-	-	7,132	**74,557**
Public sector entities	-	-	-	-	-	-	28,488	**28,488**
Multilateral development banks	9,058	-	-	-	-	-	-	**9,058**
International organisations	11,443	-	-	-	-	-	-	**11,443**
Institutions	1,139,423	65,470	1,812	24,371	670	49,450	-	**1,281,196**
Corporates	-	-	-	-	-	-	5,032,199	**5,032,199**
Retail	-	-	-	-	-	-	3,230,580	**3,230,580**
Secured by mortgages on immovable property	-	-	-	-	-	-	4,096,985	**4,096,985**
Exposures in default	-	-	-	-	-	-	3,165,594	**3,165,594**
Items associated with particularly high risk	-	-	-	-	-	-	1,952,309	**1,952,309**
Covered bonds	100,136	-	-	-	-	-	-	**100,136**
Collective investment undertakings (CIU)	-	-	-	-	-	-	47	**47**
Equity	-	-	-	-	-	-	143,240	**143,240**
Other items	-	-	-	-	-	-	2,404,961	**2,404,961**
Total	**5,406,251**	**65,470**	**1,812**	**24,371**	**670**	**49,450**	**20,061,535**	**25,609,559**

6.3.3.1 Net Exposure Values before Credit Risk Mitigation (eligible credit protection) (continued)

	1	2	3	4	5	6	Uniform Regulatory Treatment	Total
2016[39]	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	1,992,660	-	-	-	-	-	2,274	**1,994,934**
Regional governments or local authorities	70,936	-	-	-	-	-	-	**70,936**
Public sector entities	-	-	-	-	-	-	32,870	**32,870**
Multilateral development banks	9,360	-	-	-	-	-	-	**9,360**
International organisations	11,823	-	-	-	-	-	-	**11,823**
Institutions	949,872	61,930	1,271	37,066	32,200	66,268	9,193	**1,157,800**
Corporates	-	-	-	-	-	-	4,661,287	**4,661,287**
Retail	-	-	-	-	-	-	3,155,179	**3,155,179**
Secured by mortgages on immovable property	-	-	-	-	-	-	4,318,536	**4,318,536**
Exposures in default	-	-	-	-	-	-	3,963,916	**3,963,916**
Items associated with particularly high risk	-	-	-	-	-	-	2,278,134	**2,278,134**
Covered bonds	11,667	-	-	-	-	-	-	**11,667**
Collective investment undertakings (CIU)	-	-	-	-	-	-	41	**41**
Equity	-	-	-	-	-	-	143,773	**143,773**
Other items	-	-	-	-	-	-	2,268,656	**2,268,656**
Total	**3,046,318**	**61,930**	**1,271**	**37,066**	**32,200**	**66,268**	**20,833,859**	**24,078,912**

[39] The 2016 table has been restated from net values after the application of credit conversion factors to net values before the application of credit conversion factors.

6.3.3.2 Net Exposure Values after Credit Risk Mitigation (it includes exposures covered by eligible credit protection)

The classification of exposures in the tables below follows from Sections 6.2.3.1 and 6.2.3.2 above.

	1	2	3	4	5	6	Uniform Regulatory treatment	Total
2017	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	4,162,664	-	-	-	-	-	-	**4,162,664**
Regional governments or local authorities	30,659	-	-	-	-	-	-	**30,659**
Public sector entities	-	-	-	-	-	-	28,488	**28,488**
Multilateral development banks	9,058	-	-	-	-	-	-	**9,058**
International organisations	11,443	-	-	-	-	-	-	**11,443**
Institutions	1,145,180	65,470	1,812	24,542	670	49,450	-	**1,287,124**
Corporates	-	-	-	-	-	-	5,015,390	**5,015,390**
Retail	-	-	-	-	-	-	3,220,920	**3,220,920**
Secured by mortgages on immovable property	-	-	-	-	-	-	4,082,542	**4,082,542**
Exposures in default	-	-	-	-	-	-	3,161,398	**3,161,398**
Items associated with particular high risk	-	-	-	-	-	-	1,951,489	**1,951,489**
Covered bonds	100,136	-	-	-	-	-	-	**100,136**
Collective investments undertakings (CIU)	-	-	-	-	-	-	47	**47**
Equity	-	-	-	-	-	-	143,240	**143,240**
Other items	-	-	-	-	-	-	2,404,961	**2,404,961**
Total	**5,459,140**	**65,470**	**1,812**	**24,542**	**670**	**49,450**	**20,008,475**	**25,609,559**

6.3.3.2 Net Exposure Values after Credit Risk Mitigation (it includes exposures covered by eligible credit protection) (continued)

	1	2	3	4	5	6	Uniform Regulatory treatment	Total
2016[40]	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	2,043,087	-	-	-	-	-	2,274	**2,045,361**
Regional governments or local authorities	30,105	-	-	-	-	-	-	**30,105**
Public sector entities	-	-	-	-	-	-	32,870	**32,870**
Multilateral development banks	9,360	-	-	-	-	-	-	**9,360**
International organisations	11,823	-	-	-	-	-	-	**11,823**
Institutions	959,951	61,930	1,271	37,066	32,200	66,268	9,193	**1,167,879**
Corporates	-	-	-	-	-	-	4,658,387	**4,658,387**
Retail	-	-	-	-	-	-	3,154,436	**3,154,436**
Secured by mortgages on immovable property	-	-	-	-	-	-	4,318,417	**4,318,417**
Exposures in default	-	-	-	-	-	-	3,952,044	**3,952,044**
Items associated with particular high risk	-	-	-	-	-	-	2,274,093	**2,274,093**
Covered bonds	11,667	-	-	-	-	-	-	**11,667**
Collective investments undertakings (CIU)	-	-	-	-	-	-	41	**41**
Equity	-	-	-	-	-	-	143,773	**143,773**
Other items	-	-	-	-	-	-	2,268,656	**2,268,656**
Total	**3,065,993**	**61,930**	**1,271**	**37,066**	**32,200**	**66,268**	**20,814,184**	**24,078,912**

[40] The 2016 table has been restated from net values after the application of credit conversion factors to net values before the application of credit conversion factors.

6.3.3.3 Breakdown of exposures by asset class and risk weight under the Standardised Approach

The table below presents the breakdown of exposures under the Standardised Approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to the standardised approach). The exposures are disclosed post credit conversion factors and post credit risk mitigation techniques.

All rows and columns that are not relevant to the Group's activities are not included in the table below.

EU CR5 - Standardised Approach

December 2017	Risk weight										Total	Of which unrated[41]
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	4,162,575	-	-	-	-	-	-	-	-	-	**4,162,575**	-
Regional government or local authorities	-	-	3,835	-	-	-	-	-	-	-	**3,835**	-
Public sector entities	23,836	-	6	-	-	-	-	-	-	-	**23,842**	-
Multilateral development banks	9,058	-	-	-	-	-	-	-	-	-	**9,058**	9,058
International organisations	11,443	-	-	-	-	-	-	-	-	-	**11,443**	11,443
Institutions	2,524	-	1,103,571	-	69,387	-	12,507	42,078	-	-	**1,230,067**	-
Corporates	-	-	-	-	-	-	3,738,286	670	-	-	**3,738,956**	3,738,956
Retail	-	-	-	-	-	2,073,945	-	-	-	-	**2,073,945**	2,073,945
Secured by mortgages on immovable property	-	-	-	3,209,947	737,131	-	121	-	-	-	**3,947,199**	3,947,199
Exposures in default	-	-	-	-	-	-	2,542,167	434,921	-	-	**2,977,088**	2,977,088
Higher-risk categories	-	-	-	-	-	-	-	1,686,506	-	-	**1,686,506**	1,686,506
Covered bonds	-	100,136	-	-	-	-	-	-	-	-	**100,136**	-
Collective investment undertakings	-	-	-	-	-	-	47	-	-	-	**47**	47
Equity	-	-	-	-	-	-	21,338	-	121,902	-	**143,240**	143,240
Other items	143,901	-	56,603	-	-	-	1,983,594	-	220,863	206,943	**2,611,904**	2,611,904
Total	**4,353,337**	**100,136**	**1,164,015**	**3,209,947**	**806,518**	**2,073,945**	**8,298,060**	**2,164,175**	**342,765**	**206,943**	**22,719,841**	**17,199,386**

[41] Includes all exposures for which an issue/issuer or country rating is not available or they follow uniform regulatory treatment.

6.3.3.3 Breakdown of exposures by asset class and risk weight under the Standardised Approach (continued)

EU CR5 - Standardised Approach

December 2016	Risk weight										Total	Of which unrated[42]
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	2,045,333	-	-	-	-	-	-	-	-	-	**2,045,333**	-
Regional government or local authorities	-	-	3,131	-	-	-	-	-	-	-	**3,131**	-
Public sector entities	18,041	-	7	-	-	-	-	-	-	-	**18,048**	-
Multilateral development banks	9,360	-	-	-	-	-	-	-	-	-	**9,360**	9,360
International organisations	11,823	-	-	-	-	-	-	-	-	-	**11,823**	11,823
Institutions	3,543	-	944,899	-	85,098	-	18,619	61,524	-	-	**1,113,683**	-
Corporates	-	-	-	-	-	-	3,493,834	952	-	-	**3,494,786**	3,494,786
Retail	-	-	-	-	-	2,007,816	-	-	-	-	**2,007,816**	2,007,816
Secured by mortgages on immovable property	-	-	-	2,833,605	1,284,913	-	56,794	-	-	-	**4,175,312**	4,175,312
Exposures in default	-	-	-	-	-	-	2,984,899	725,066	-	-	**3,709,965**	3,709,965
Higher-risk categories	-	-	-	-	-	-	-	2,047,824	-	-	**2,047,824**	2,047,824
Covered bonds	-	11,667	-	-	-	-	-	-	-	-	**11,667**	-
Collective investment undertakings	-	-	-	-	-	-	41	-	-	-	**41**	41
Equity	-	-	-	-	-	-	17,663	-	126,110	-	**143,773**	143,773
Other items	132,588	-	41,085	-	-	-	1,815,351	-	279,632	193,226	**2,461,882**	2,461,882
Total	**2,220,688**	**11,667**	**989,122**	**2,833,605**	**1,370,011**	**2,007,816**	**8,387,201**	**2,835,366**	**405,742**	**193,226**	**21,254,444**	**18,062,582**

Material shifts in the risk weight allocation of exposures in comparison to 31 December 2016 are observed in the 0% risk weight which resulted from the increase in "Balances with central banks", in the 10% risk weight from the increase in investments in covered bonds, in the 50% risk weight from a decrease in exposures secured by commercial real estate from the redefinition of eligible real estate collateral following ECB guidance, and in the 150% risk weight from debt-for-asset swaps for which the assets taken by the Bank are transferred to the 100% risk weight.

[42] Includes all exposures for which an issue/issuer or country rating is not available or they follow uniform regulatory treatment.

6.4 Exposures in Equities in the Banking book

The Group holds certain legacy equity securities and certain equity securities obtained from customers in satisfaction of debt. The intention, in line with an ALCO decision, is to run this portfolio down.

Listed equity securities are measured at fair value, being the market value of these securities on a recognised stock exchange. Unlisted securities are also measured at fair value (except for certain securities that are carried at cost), which is determined using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. These models are periodically reviewed by qualified personnel.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity include, where applicable, prevailing government bond yields, country risk premiums, industry inputs (e.g. beta, debt to equity ratio), discount for size premium, prevailing borrowing cost level, country GDP growth rate. In addition, valuation is based on business plans and cash flow projections of the company along with the prevailing net debt position of the company. In cases where cash flow projections are not available prevailing industry multiples are utilised for valuation purposes (e.g. P/E ratio, P/B ratio, EV/EBITDA) with relevant adjustments effected where required (e.g for company or market size).

Further information on fair value measurement is disclosed in Note 22 of the Consolidated Financial Statements of the Company for 2017.

Of the total equity securities held by the Group as at 31 December 2017, €27,176 thousand (2016: €21,683 thousand) were classified as AFS and €4,541 thousand (2016: €4,030 thousand) were classified as at FVPL.

The balance sheet value of the Group's equity securities in the Banking Book at 31 December 2017 was €31,717 thousand (2016: €25,713 thousand), analysed as follows:

	2017	2016
	€000	€000
Listed on the CSE	**9,695**	7,985
Listed on other stock exchanges	**546**	430
Other unlisted	**21,476**	17,298
Total	**31,717**	25,713

The net realised gain from disposals of AFS equity securities during 2017 amounted to €1,520 thousand (2016: €58,368 thousand) and was included in the Consolidated Income Statement. In addition, the Group recorded an impairment reversal on AFS equity securities of €63 thousand (2016: impairment charge €839 thousand) and was included in the Consolidated Income Statement.

Regulatory treatment for capital purposes

	2017	2016
	€000	€000
AFS Revaluation Reserve – Equity Securities	**8,124**	2,264
Less: Unrealised gains – transitional provisions*	**(1,625)**	(906)
Amount recognised in CET1 (Section 3.1)	**6,499**	1,358

*According to the EU Regulation 2016/445, credit institutions shall remove from their calculation of CET1 items, 20% and 40% during the years 2017 and 2016 respectively of the unrealised gains measured at fair value.

6.5 Exposure to Interest Rate Risk on Positions in the Banking Book

6.5.1 Nature of the Interest Rate Risk and Key Assumptions

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. It arises as a result of timing differences on the repricing of assets, liabilities and off balance sheet items.

Interest rate risk is measured using interest rate sensitivity gap analysis. The assets and liabilities in each currency are placed in time bands, according to the number of days remaining from the reporting date until their next repricing date. Assets and liabilities that are not sensitive to rate changes are recognised as Non Rate Sensitive (NRS) items. The difference between assets and liabilities repricing in each time band (GAP) is then calculated. A rate change (under different interest rate scenarios) is applied on each item of the balance sheet and the impact on NII for 1 year horizon is calculated and compared to limit.

Impact on NII is measured assuming that the composition of the Banking Book remains the same. As per the analysis undertaken for the preparation of the market risk policy no prepayment models (due to the immaterial amount of loans subject to prepayment risk and the macroeconomic conditions in Cyprus [high unemployment rate, reduction in salaries etc.]) or early withdrawal models of deposits (due to the stability of these accounts) are used. It is noted that the Bank may at its discretion allow its customers to prepay their loans. However, in the case of loan prepayments, penalty charges can apply for fixed rate loans, to cover any associated cost.

Treatment of Non-Maturing Deposits

Non-Maturing Deposits (NMDs) are liabilities which are free to be withdrawn at any time since they have no contractual agreed maturity date. Historically, NMDs prove to be stable, even when market rates change. Any interest rate paid on these deposits is usually lower than that paid on other sources of funding. The core[43] deposit assumptions and the maturity profile of these accounts are modelled. It is noted that the assumed maturity profile for all categories is constrained to the tenor limit in line with the BASEL guidelines. Maturity profile assumptions vary according to depositor characteristics (e.g. retail or wholesale) and accounts characteristics (e.g. transactional or non-transactional).

Floor on Deposits

All deposit categories are assumed to have a 0% floor, given that it would be unlikely for the Bank to offer negative deposit rates without putting its viability at risk.

Notice Accounts

Notice accounts, in the case of decrease in rates, are assumed to have a time lag of 2 months. This means that any decrease in interest rates will impact the interest rate of these accounts only two months after the rate change. This is required given that the Bank is required by the PSD, to give notice (75 days) to its clients for any upcoming interest rate change not in the customers' favour.

Beta of Bank Base Rate Loans, Fixed Deposits and Notice accounts

It is noted that the EUR Bank base rate loans (referenced to the CBC deposit index) have high correlation to the changes of the fixed deposits and notice account rates. The relationship of the fixed and notice deposit rates to market rate changes has been defined, after taking feedback from the Business Lines.

[43] Core deposits are the proportion of stable n<Ds which are unlikely to reprice even under significant changes in interest rates.

6.5.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

Floor on Loans

For existing loans, a floor of 0% is applied only where there is a contractual agreement in place. All new volumes of loans are assumed to have a floor of 0%, given that such a condition is included in all new loan contracts.

Treatment of Equity

Equity does not impact the economic value or NII calculations of the Bank.

Interest Rate scenarios

The interest rate risk scenarios selected by the Bank consider:

a. Up and down parallel shifts in the yield curve of varying magnitude based on statistical analysis of past behaviour of interest rates and

b. Basis risk i.e. changes in the relationships between different key market rates.

It is noted that different interest rate scenarios apply to exposures in different currencies.

For stress test purposes, the Bank also calculates the change in the economic value resulting from the standard regulatory shock which involves sudden +/-200 basis points change of the yield curve applying a floor of 0% to all loans with a contractual floor agreement and to all deposits. If +/-200 basis points is lower than the actual level of change in interest rates, calculated using the 1st and 99th percentile of observed one-day interest rate changes over a five year period scaled up to a 240-day year, the higher level of shock arising from the latter calculation should be applied as the standard shock.

The market rate shocks for EUR, USD and GBP, which currencies correspond to the bulk of the Bank's balance sheet items are indicated below:

Parallel UP / DN: +/- 60 bps, Steepening: 1 day:-60 bps & 360 mons: 60 bps, Flattening: 1 day: +60 bps & 360 mons: -60 bps, Short UP / DN: 1 day: +/- 60 bps & 360 mons: 0 bps, Long UP/DN: 1 day: 0 bps & 360 mons: +/- 60 bps.

The above shocks were calculated using analysis of historical interest rates.

6.5.2 Impact of Downward and Upward Rate Shocks

The ALCO recommends the policy and limits on the maximum allowable interest rate risk in the banking book, for each banking unit and/or currency, which are then approved by the BoD though its RC. The exposure is described below.

6.5.2.1 On Earnings

The maximum loss limit applies for the Year 1 impact on NII. The limit is set as a percentage of the Group capital and as a percentage of Group NII.

The table below indicates how the NII of the Group, over a one-year period, will be affected assuming parallel interest rate changes in the market interest rates of the main currencies:

Parallel Change in interest rates	**Euro**	**US Dollar**	**British Pound**	**Other currencies**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
2017					
Scenario 1: +1.6% for RUB, +0.6% for EUR, USD, GBP, +0.4% for CHF, +0.2% for JPY and +0.6% for all other currencies	**24,280**	**190**	**13,720**	**605**	**38,795**
Scenario 2: -1.74% for RUB, -0.6% for EUR, USD, GBP, -0.3% from CHF, -0.2% for JPY and -0.6% for all other currencies	**(28,459)**	**(1,428)**	**(2,749)**	**(1,333)**	**(33,969)**

2016					
Scenario 1: +2% for RUB, +1% for USD, +0.5% for all other currencies	17,269	15,950	5,081	(43)	38,257
Scenario 2: -4% for RUB and -0.5% for all other currencies	(21,479)	(8,089)	(3,057)	(438)	(33,063)

6.5.2.2 On Economic Value of Equity

The impact on the economic value of equity is measured for the Group's positions, given a 200 basis points change in market interest rates. ALCO has set a maximum internal limit of 10% for this change, compared to the 20% regulatory maximum ratio. The change in the economic value of the Group's equity as at the end of December 2017 amounted to minus €83.2 million as a result of a 200bps increase in market interest rates and to €252.5 million as a result of a 200bps decrease in market interest rates (3.9% and +11.8% of Group Tier 1 capital, calculated in accordance with CBC rules). As at the end of December 2016, the change of the economic value amounted to minus €110.4 million (-4% of Group Tier 1 capital) as a result of 200bps increase in market interest rates.

The economic value change of the foreign branches/subsidiaries given a 200 basis points change in market interest rates as well as a per currency analysis is indicated in the tables below:

Group economic value change of the foreign branches/subsidiaries

2017	**Cyprus**	**United Kingdom**	**Romania**	**Total**
Change in economic value (€000): +200 bps	**(88,152)**	**4,918**	**-**	**(83,234)**
Change in economic value (€000): -200 bps	**257,403**	**(4,918)**	**-**	**252,485**
Change on CET1 (%)	**-4.1% / +12.0%**	**+/-3.45%**	**-**	**-3.9% / +11.8%**

2016				
Change in economic value (€000):+200 bps	(126,329)	15,279	611	(110,439)
Change on CET1 (%)	-4.63%	12.82%	-	-4.05%

6.6 Information on Credit Risk Mitigation Techniques

The Group has implemented various methods in order to achieve effective mitigation of credit risk. Some of the most important methods implemented are listed below:

- Identifying the sectors of the economy where the Bank is not willing to finance or may finance under strict conditions (i.e. dangerous / prohibited sectors of the economy).
- Setting of sanctioning limits for all line/Unit Managers and the various Sanctioning / Approving Authorities of the Bank (including the Credit Committees). Automation of the credit scoring process / sanctioning limit decision (to be implemented in early 2018), will eliminate the risk of a credit application being approved by an incorrect approving authority.
- Setting of thresholds relating to Loan to Value Ratios as well as procedures for taking collaterals especially mortgages on residential and commercial properties.
- Issuing circulars and guidelines concerning the granting of credit which are in line with the regulatory directives.

The purpose of a collateral is to secure the Bank's claims towards a customer when granting a credit facility and it acts as a credit risk mitigant in the case of customer default.

The Group sets the following criteria for accepting collaterals:

(a) They should be sufficient to cover the proposed facility throughout its duration.
(b) They should provide capital efficiency and minimum risk.
(c) They should be easy to realise in the case of customer default in the current regulatory framework and market availability.

As a principle, the financed asset should be obtained as collateral. Deviations from this rule may be allowed in cases where (a) there is a valid reason for not pledging the financed property (b) the alternative collateral fully covers the finance amount, and (c) an official valuation is performed for both properties by the same valuer and the alternative collateral is deemed to be at least as easily realisable as the property to be financed. When the collateral is in the name of a third party, the personal/corporate guarantee of the third party is usually obtained. For capital efficiency, the duration/maturity of the collateral should be at least the same as that of the facility.

Netting and set-off
In most jurisdictions in which the Group operates, credit risk exposures can be reduced by applying netting and set-off. In exposure terms, this credit risk mitigation technique has the largest overall impact on net exposure to derivative transactions, compared with other risk mitigation techniques.

These agreements allow for netting of credit risk exposure to a counterparty resulting from derivative transactions against obligations to the counterparty in the event of default and therefore produce a lower net credit exposure. These agreements may also reduce settlement exposure (e.g. for foreign exchange transactions) by allowing payments on the same day in the same currency to be set-off against one another.

Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Set-off is being applied through the application of the credit mitigation technique of the CRR "On-Balance sheet netting" under Article 195 where same currency reciprocal cash balances between the institution and the counterparty are treated as cash collateral. Set off is only applied where all minimum requirements described in Article 205 of the CRR are met.

On-balance sheet netting is only applied in the calculation of RWA by way of decreasing the exposure amount to be risk weighted. It recognises the balances of deposit accounts which have been flagged as eligible and for which withdrawal is only allowed after internal approval.

6.6.1 Main Types of Collateral Accepted

Collaterals are classified into two categories:

(a) Own (belonging to the borrower).
(b) Third Party (belonging to third party, not being the borrower).

Collaterals cover all the facilities of a customer provided that these facilities are specific and the owner provides its consent.

6.6.1.1 Legal Pledge of Cash Deposit (Cash Collateral)

Pledged deposits (blocked funds) including any interest, are considered as the highest level of security. When the currency of the facility is the same as the currency of the deposit, then the facility must be covered by 105% by cash collateral; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage.

6.6.1.2 Government Guarantees

Guarantees issued by sovereigns are usually governed by the respective law of the country that issues the guarantee and they should be signed by an authorised representative of the government issuing the guarantee.

6.6.1.3 Bank Guarantees

These include guarantees issued by local and foreign banks. Bank guarantees are accepted in line with the various Group limits set by the MR department and which are based on each bank's credit worthiness.

6.6.1.4 Mortgages (Legal Charge on Property)

Mortgage on real estate property is the most common form of collateral accepted by the Group. They are generally accepted only when the Group's claim ranks first over other creditors. Lower ranking mortgages (i.e. 2nd, 3rd, etc.) are accepted only when the Bank has first ranking mortgage as well, or where the country's legal system protects the value of a second mortgage (or the first ranked mortgagees have restricted their claim). All mortgages are written for the equivalent of the facility amount plus 10%, and in the same currency as the related facility's currency; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage. For buildings, a fire/earthquake insurance policy is also required and it should be assigned in favour of the Group.

6.6.1.5 Assignment of Sale of Contract

When the property offered as collateral has no official title deed necessary for a mortgage, the Group can accept the assignment of the contract of sale. With the assignment of the contract of sale, the buyer of the property assigns to the Group the benefits arising from the contract. The assignment of the contract should be registered with the Land Registry and is considered equivalent to a mortgage provided that the assignment of the sale of contract is accompanied by the corporate guarantee of the developer (seller) and the developer's (seller's) related project is mortgaged in favour of the Bank.

6.6.1.6 Personal/Corporate Guarantees

Whilst personal/corporate guarantees are considered as a weaker form of collateral, they are obtained as additional or supporting collateral to other forms of security held by the Group. For corporate guarantees, officers need to ensure that this act is permitted in the incorporation documents of the entity giving the guarantee. When the customer is a legal entity, the personal guarantees of the main shareholders/directors, key persons and any other parties having active participation or control in the entity must be obtained. When the debtor is not a local resident, it is recommended to receive personal guarantees from local residents. The amount of the guarantee should be at least equal to the amount of the facility, and if possible cover any interest or additional charges.

In order to accept the guarantee of an individual or a legal entity, their creditworthiness needs to be assessed. This is done by obtaining the same information for the guarantor as for the borrower, as per the relevant provisions of the CBC Directive on Credit Granting and Review Processes.

6.6.1.6 Personal/Corporate Guarantees (continued)

For example, guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as provide various documents depending on the case e.g. proof of income tax clearance, VAT statements, business plans, building permits. Although the guarantor's income is not taken into account in calculating the repayment ability of the borrower (except for spouses), they are assessed for creditworthiness and may be rejected for any negative financial or other reason. In addition, all guarantors must be evaluated through the credit scoring (individuals) or other evaluation processes (Borrower rating/Financial Index for legal entities) that are issued from time to time, using relevant assets and liabilities statements which must be at least in time with the revision of the customer's facilities. In order for the Group to accept the guarantees, the guarantors should be solvent.

The Group does not have credit derivatives.

6.6.1.7 Fixed Charges

For assets owned by companies, the charge is registered on specific new or existing fixed assets, other than real estate property, of the company. It gives the Bank priority on the charged items over all other creditors including preferential creditors. The ownership, possession and condition of these assets should be verified and where appropriate insurance policies on these assets should be assigned in favour of the Bank.

6.6.1.8 Floating Charges on Bank Assets

This type of security can only be offered by a limited liability company which registers a charge on all of its assets (present and future), without restrictions, in favour of the Group. The Group must ensure that these assets are adequately insured and the insurance policies are assigned to the Group. The charge gives the Group the right to appoint a receiver to manage the company which gives the Group the following advantages:

(a) Priority access to the company's assets in case of dissolution (except over preferential creditors or creditors that hold specific charges on the various assets of the company e.g. mortgages) and
(b) Quick sale of mortgage property owned by the company.

6.6.1.9 Assignment of Life Insurance Policies

The original beneficiary assigns to the Group all (a) indemnities from the insurance company in case of death of the beneficiary or (b) proceeds from liquidation/termination of investment/endowment policies. Insurance policies can be Term, Life or Investment/Endowment. The life insurance policy should be by insurance companies approved by the Group as eligible life insurance policy providers.

The assignment of life insurance policies is a lending condition in the following cases:

(a) Long term facilities, e.g. housing loans.
(b) Unavailability of tangible collateral.
(c) The primary collateral offered is considered illiquid.
(d) There is dependence on a single individual for the repayment of the customer's facility (including the shareholders-company relationship).

6.6.1.10 Assignment of General Insurance Policies

Insurance protection on a mortgaged property is a key factor for the reduction of credit risk. It also directly affects the capital adequacy and asset quality. Therefore, it is mandatory for all mortgaged property to be properly and adequately secured against fire, earthquake and other risks and that the rights of the policy are assigned to the Bank. Other General Insurance policies may include buildings, content, motor, personal accident, public liability, etc.

6.6.1.11 Assignment of Receivables

The original beneficiary assigns the receivables to the Group without notification to the paying party. It is a weaker form of collateral unless the Group can notify the debtor of the assignment. Their eligibility depends on:

(a) The degree of trust and confidence the Bank has in the assignor.
(b) The legal assignability of the receivables.
(c) The clear and unambiguous definability of the receivables and their value.
(d) The receivables being free from third-party rights.

6.6.1.12 Pledge on Marketable Securities (Shares, Debt Securities, etc.)

Due to its high market volatility and dependency on the prevailing economic conditions, the pledge on marketable securities should be avoided and be accepted only in special cases after careful evaluation. Where the pledge is justified, the market value should be closely monitored to adhere to the Group's requirements. Credit Risk Management in co-operation with MR sets the minimum haircut to be applied to such pledged securities.

6.6.2 Collateral Valuation Policy

It is essential that collaterals offered to the Group as security are valued at the point of credit origination and also monitored at regular intervals. This ensures that the value of the collateral is still adequate to cover the facilities granted by the Group and that they can be taken into account for capital adequacy purposes.

6.6.2.1 Mortgages (Legal Charge on Property)

Valuation Frequency / Monitoring

New Lending

New Lending Amount	**No. of Valuations**
2017	
Lending < €3 million	1
Lending > €3 million	2

2016	
Lending < €3 million	1
Lending > €3 million	2

For new lending over €3 million, in case there is a discrepancy greater that 20% between the two valuations then a third valuation should be performed.

When an application is evaluated for new lending with property offered as collateral, the valuations are carried out by an external independent valuer.

In all cases, the lower of the market value and the purchase value (based on the sales contract) is used.

Revision of Facilities
Properties mortgaged to the Group and held as security are to be monitored at regular intervals, according to the table below, to ensure that the value of the property is still adequate to cover the facilities given by the Group.

6.6.2.1 Mortgages (Legal Charge on Property) (continued)

For the purpose of monitoring the property values, the Group uses the appropriate property price indices.

Amount of Customer Facilities	**Official Valuation Period**
	Commercial and Residential Properties
Below €3million	No valuation unless there is a material decline in property value
Above €3million	3 years
	Index Monitoring
Irrespective of amount	Quarterly

Restructuring Facilities

During restructuring applications, the age of the valuation is as follows, unless the LTV of the customer is below 50% based on the most recent valuation:

Facility Amount	**Date of last Valuation**	
2017	Commercial	Residential
Irrespective of amount	1 year	3 years
2016		
Irrespective of amount	1 year	3 years

Terminated Facilities
For customers whose accounts have been terminated the frequency of valuations is as follows:

Facility Amount	**Frequency / Age of Valuation**
2017	
At the time of termination (irrespective of amount)	6 months
Properties securing already terminated accounts	Monitored using appropriate indices, as per paragraph "Revision of Facilities" above
2016	
At the time of transfer to RRD (irrespective of amount)	6 months
Irrespective of amount	Monitored using appropriate indices, as per paragraph "Revision of Facilities" above

6.6.2.2 Assignment of Sale of Contract

Sales contracts do not have a recoverable amount but indirectly acquire value in the following cases:

(a) When there is a developer guarantee for the buyer's loan and the project is financed and mortgaged within the same bank.
(b) When accompanied by a bank guarantee or letter of allocation (within the Group).

6.6.2.3 Fixed and Floating Charges

In order to calculate the value of the fixed or floating charge, then the last audited accounts/item certificate must not be older than 18 months.

For the calculation of the sale value for the assets included in the fixed and/or floating charge, the percentages are included within regulatory directives.

6.6.2.4 Personal / Corporate Guarantees

For the purpose of facility approval no monetary value is assigned to personal or corporate guarantees.

6.6.2.5 Government Guarantees

The recoverable amount is equal to a variable % of the guarantee amount (plus interest from the date that the guarantee is provided), which varies depending on the risk rating of the country offering the guarantee. In addition government guarantees must be within the approved country limits.

6.6.2.6 Bank Guarantees

100% of the guarantee value (entered by the user at origination) plus interest where applicable (from the date of issue). The market value of the bank guarantee is the face value of the guarantee.

6.6.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.)

When listed shares are taken as collateral, the Bank should also ensure:

- Such shares are listed on recognised exchanges where access via its own brokers is feasible.
- That these shares are adequately liquid and the Bank will be able to have an exit route without undue risks on its position.
- That no undue concentration exists on any listed share that the Bank holds as collateral.
- BOC shares listed on recognised stock exchanges are generally not accepted as collateral, unless approved by the appropriate sanctioning authority.

Recoverable Amounts	Listed	Non Listed
Shares (Cyprus and abroad)	75 / 50*% * Where the % of shares pledged, per customer group, does not / does exceed 3% of the total shares of the company, respectively	50% of company net worth
Bonds & Debentures issued by Banks (Cyprus and abroad)	90%	90% of NPV
Bonds & Debentures issued by other public companies (Cyprus and abroad)	70%	50% of nominal value provided issuer has positive net asset value
Government Bonds (Cyprus)	100%	100%
Government Bonds & Debentures	Subject to CBC approval	Subject to CBC approval

The recoverable amount is based on the current market value of the securities. For shares listed on the CSE, the market value is updated on a daily basis automatically based on the latest closing price. For shares traded in other recognised stock exchanges, the market value should be updated manually on a daily basis by the responsible unit/branch. For non-listed shares, the recoverable amount is calculated manually based on 50% of the net worth of the company based on recent audited accounts (not older than 18 months).

6.6.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.) (continued)

For monitoring purposes, the appropriate action should be taken by the responsible officer as follows:

LTV increase	Action taken
+15%	Inform appropriate Director – Request additional collateral,/deposits, decrease lending, evaluate the possibility of liquidation)
+25%	Inform appropriate Director and obtain approval from the related approving authority for immediate liquidation, assessing the impact of such action on the company and its related group

6.6.2.8 Assignment of Life Insurance Policies

Term life insurance policies have no recoverable amount.

For endowment (investment) life insurance policies, the recoverable amount is 100% of the latest surrender value. This should take into account any possible expenses associated with redeeming the policy.

6.6.2.9 Other Collateral Types

- Pledge on goods (0%).
- Assignment of receivables (0%).
- Positive/Negative pledge (0%).
- Vehicles under stocking finance (0%-75%) depending on the age of the vehicle (recorded manually at origination and then depreciated automatically by the system).
- Items under hire-purchase, 50% of net book value at origination and subsequently depreciated automatically according to the type of item.

6.6.2.10 Shipping Mortgages

Shipping collateral is considered a specialised collateral. Valuations need to be based on acceptable valuation sources such as recognised shipbroking firms. Since there is no international recognised body for shipping valuations (equivalent to RICS), it is important to receive estimates from recognised firms with long-standing experience and acceptance by the market. Revaluations are conducted at least on annual basis.

Age of vessel	Recoverable Amount
Up to 20 years	70% of market value
Over 20 years	100% of scrap value

6.6.3 Concentrations within Credit Risk Mitigation

The Group has a material concentration of property collateral. Further analysis on fair value of collateral and credit enhancements held by the Group is presented in Note 44 of the Consolidated Financial Statements of the Company for 2017.

The table below illustrates the effect of all CRM techniques applied in accordance with the CRR, including the financial collateral comprehensive method. The exposure amount figures (displayed in table below) are after the application of specific credit risk adjustments, as explained in Section 6.2 above.

RWA density is a synthetic metric on the riskiness of each portfolio.

All rows and columns that are not relevant to the Group's activities are not included in the table below.

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 - Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2017	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
	€000	€000	€000	€000	€000	%
Central governments or central banks	4,078,677	89	4,162,575	-	-	0.0%
Regional government or local authorities	61,596	12,961	3,545	290	767	20.0%
Public sector entities	27,898	590	23,835	7	1	0.0%
Multilateral development banks	9,058	-	9,058	-	-	0.0%
International organisations	11,443	-	11,443	-	-	0.0%
Institutions	1,158,910	61,514	1,163,100	18,803	309,468	26.2%
Corporates	3,614,036	1,417,842	3,440,145	298,490	3,687,153	98.6%
Retail	2,267,261	963,319	2,018,338	55,607	1,470,032	70.9%
Secured by mortgages on immovable property	4,036,794	60,191	3,915,969	31,230	1,422,667	36.0%
Exposures in default	2,953,194	212,400	2,925,634	51,454	3,194,550	107.3%
Higher-risk categories	1,700,990	251,319	1,598,448	88,058	2,529,759	150.0%
Covered bonds	100,136	-	100,136	-	10,014	10.0%
Collective investment undertakings	47	-	47	-	47	100.0%
Equity	143,240	-	143,240	-	326,093	227.7%
Other items	2,404,961	-	2,404,961	-	2,547,073	105.9%
Total	**22,568,241**	**2,980,225**	**21,920,474**	**543,939**	**15,497,624**	**69.0%**

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 - Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2016	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
	€000	€000	€000	€000	€000	%
Central governments or central banks	1,994,906	28	2,045,333	-	-	0.0%
Regional government or local authorities	58,384	12,552	3,036	95	626	20.0%
Public sector entities	32,270	600	18,041	7	1	0.0%
Multilateral development banks	9,360	-	9,360	-	-	0.0%
International organisations	11,823	-	11,823	-	-	0.0%
Institutions	1,019,117	74,146	1,027,587	31,190	318,843	30.1%
Corporates	3,449,820	1,210,744	3,267,286	226,777	3,449,352	98.7%
Retail	2,157,150	998,029	1,948,526	59,290	1,422,499	70.8%
Secured by mortgages on immovable property	4,255,562	62,974	4,145,741	29,571	1,615,895	38.7%
Exposures in default	3,726,558	237,358	3,675,261	34,704	4,072,498	109.8%
Higher-risk categories	2,058,042	220,092	2,003,647	44,177	3,071,736	150.0%
Covered bonds	11,667	-	11,667	-	1,167	10.0%
Collective investment undertakings	41	-	41	-	41	100.0%
Equity	143,773	-	143,773	-	332,938	231.6%
Other items	2,255,096	13,560	2,255,096	13,560	2,522,648	111.2%
Total	**21,183,569**	**2,830,083**	**20,566,218**	**439,371**	**16,808,244**	**80.0%**

The overall decrease in the RWA density resulted mainly from the increase in exposure values included in “Central governments or central banks” that carry a 0% risk weight. Additionally, the RWA density and the slight decreases in the RWA density at individual class level is observed for “Institutions” from improved ratings and decreases in residual maturities, “Secured by mortgages on immovable property” from increased exposures secured by residential real estate rather than commercial real estate, “Exposures in default” from increased provisioning that drives the average risk weight down and “Equity” from the decreased amounts that take a 250% risk weight.

6.6.3 **Concentrations within Credit Risk Mitigation** (continued)

The table below presents the exposure value covered by financial collateral, other collateral, guarantees and credit derivatives.

EU CR3 – Credit risk mitigation techniques overview

2017	**Exposures unsecured – carrying amount**	**Exposures secured - carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
	€000	**€000**	**€000**	**€000**	**€000**
Total loans	949,410	13,653,044	11,617,518	91,284	-
Total debt securities	850,214	100,136	100,136	-	-
Total exposures	**1,799,624**	**13,753,180**	**11,717,654**	**91,284**	**-**
Of which defaulted	245,440	3,372,643	2,928,009	37,186	-

2016	**Exposures unsecured – carrying amount**	**Exposures secured - Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
	€000	**€000**	**€000**	**€000**	**€000**
Total loans	1,266,949	14,382,452	13,153,794	109,433	-
Total debt securities	607,378	11,673	11,673	-	-
Total exposures	**1,874,327**	**14,394,125**	**13,165,467**	**109,433**	**-**
Of which defaulted	261,835	4,393,611	3,906,527	46,853	-

Bonds have materialised increased from 2016 to 2017 (from a total €619 million in 2016 to a total €950 million in 2017). The increase is mainly due to €400 million of new bonds being purchased (of which more than half were Cyprus government Bonds). Minor purchases of Covered Bonds also took place, hence the increase in ''Exposures secured-carrying amount''.

The decreases in the total loans is the net result of new loan origination, debt for asset swaps and repayments.

6.7 Exposure to Market Risk

The Total Capital Requirement for MR as at 31 December 2017 consists of capital requirement of €284 thousand due to equities in the trading book (2016: €308 thousand due to equities in the trading book).

There were no large exposures for institutions as at 31 December 2017 and 2016 that exceeded the relevant limits.

For further details refer to Section 5.5.2.

7. Remuneration Policy and Practices

The Group Remuneration Policy captures provisions from the CSE's Corporate Governance Code (Code), the UK Code in line with the Bank's decision to comply with the UK Corporate Governance Code 2016 as of 4 October 2016 and relevant Directives of the CBC. The Group Remuneration Policy aims to align the remuneration of directors, Executive Management, officers and staff with the business strategy, objectives and long-term interests of the Group. It is consistent with the effective management of risks and does not encourage excessive risk-taking.

7.1 Human Resources and Remuneration Committee (HRRC)

7.1.1 The Role of the HRRC

The HRRC is responsible for the development and periodic review of the Group Remuneration Policy which is presented to the BoD for ratification. In addition, the BoD, through the HRRC, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy.

The role of the HRRC is:

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement.
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market.
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies.
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

The HRRC:

Through a formal and transparent process, considers, agrees, recommends to the Board and maintains an overall remuneration policy for the Group (the "Group Remuneration Policy") on an annual basis which:

- applies to all executive directors, senior management and other staff across the Group;
- aligns remuneration with position value, individual performance and potential;
- takes into account market conditions;
- is aligned with the Group's long term business strategy and objectives, its values and its long-term interests;
- is in line with the regulatory framework;
- is aligned with the Group's capital and liquidity availability, the interests of its shareholders, does not encourage excessive risk taking and ensures an appropriate balance between fixed and performance-related remuneration, immediate and deferred remuneration;

7.1.1 The Role of the HRRC (continued)

- reviews and approves the remuneration packages of executive members of Group BoD vis-à-vis their performance;
- reviews remuneration packages of senior management and other key personnel whose total annual fixed remuneration exceeds €120 thousand as follows:
    - **All Divisional Directors that report to the CEO or Deputy Chief Executive Officer and Chief Operating Officer (D-CEO), General Managers of major subsidiaries (EuroLife, GIC) and other employees whose total annual remuneration exceeds €120 thousand:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, (including salary, pension policy or any additional provident fund, contributions, option plans and other types of compensation), recommended by the CEO or D-CEO.
    - **Divisional Directors and other staff that report to Board Committees (RMD, Internal Audit, Compliance):** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, recommended by the Chairmen of Risk and Audit Committees respectively (in consultation with CEO and Group Human Resources (HR).
    - **Country CEOs:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration (jointly with the Country Board Remuneration Committee), recommended by the chairperson of the Country Board.
- proposes to the Board for approval, the fees payable to the Chairperson and Vice Chairperson of the Board.

7.1.2 Composition and Meetings of the HRRC

The HRRC has a minimum of 3 members who are appointed by the BoD on an annual basis. The HRRC must consist entirely of independent non-executive directors. Following the resignation of a member on 27 June 2017 the HRRC comprises of only two independent non-executive members, until the appointment of a new independent non-executive director to the BoD and the HRRC on 27 October 2017.

The HRRC holds regular meetings and, additionally, ad hoc meetings whenever called by the chairman, or any two other members of the Committee. The quorum for a meeting is assumed to be when 2 members or 50% rounded up whichever is the highest. The HRRC keeps detailed minutes of its meetings. The HRRC has authority to obtain independent advice and information from external parties whenever this is considered necessary.

The HRRC held 6 meetings at Group level during 2017. The HRRC reviewed and approved the Group's Remuneration Policy, reviewed the Provision of Vehicles, Mobile Devices and Expense Reimbursement Policy and then recommended it to the BoD for approval. Additionally, the HRRC was instrumental in effecting remuneration initiatives to selected staff.

The HRRC reviewed its terms of reference in order to ensure continuing appropriateness and full compliance with regulatory framework especially with the UK Code. Amongst other things, the Committee reviewed the 2017 Training Plan and the Bank's annual performance appraisal results and the main findings.

7.1.3 Relevant Stakeholders

The HRRC ensures that internal control functions (i.e. Internal Audit, RMD and Compliance) and the HR Division are involved in the design, review and implementation of the Group Remuneration Policy.

In developing its Group Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the UK Code as well as the CBC Directive on Governance and Management Arrangements of Credit Institutions which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in CRD IV, as well as the regulatory restrictions currently pertinent to the banking sector.

7.2 Performance Related Pay

Remuneration consists of fixed plus variable pay.

7.2.1 Fixed Remuneration

Fixed Remuneration refers to the staff's main form of remuneration. It comprises of salary and any applicable (including non-discretionary) position allowances and is determined by employment contracts, collective agreements (where applicable) and employment legislation in the countries in which the Group operates.

- **Fixed Remuneration will be based on the following criteria:**
  - **Value of job position:** The focus is on the content of the job and the job requirements rather than the job holder's seniority or education. Additionally, the emphasis is on rewarding for the contribution of the job to the Bank's business results, differentiating consistently between various levels.
  - **Individual contribution and potential (results, attitude and behaviour)**
    This requires the following:
    - Job clarity – what the Group expects from each job in terms of accountabilities/KPIs and skills/competencies.
    - Effective implementation of a performance management process in building a performance culture.
  - **Market Value (compared with external employee markets/segments):** Reward will be linked in a clear and justifiable way to relevant and appropriate external market practices and conditions.
  - **Employment legislation and regulations of each country.**
- **Changes in fixed remuneration:**
  Fixed remuneration and annual increases are currently negotiated with the Trade Union through the collective agreement. Once the collective agreement is renegotiated, fixed remuneration may change as a follows:
  - **Performance Related Increases (Pay Movement within same Grade's Pay Range)**
    Under normal circumstances, performance related increases - within the approved budget - should be granted to employees once per year, as a percentage increase to monthly gross salary following the announcement of Group annual results and available budget amount.
    The exact salary increases cannot be defined in a static manner and will depend on budget availability. The amount of the increase will also be associated with the three elements that influence salary decisions, i.e. Annual Base Salary (ABS) comparative ratio, performance appraisal score and potential.
  - **Pay Movement across different pay ranges**
    Under normal circumstances, in cases where an employee moves to a higher grade during the course of the year, the move to a higher grade may be accompanied by a pay increase, especially in cases where the upgraded employee's current salary (before the upgrade) is below the limits of the pay range of his/her new grade.
    The exact level of base salary increase will be determined by the employee's base pay positioning versus the pay ranges of the current as well as the new position. These pay increases will be implemented once a year subject to certain conditions (e.g. minimum time at new position etc).

7.2.2 Variable Remuneration

Variable remuneration refers to the additional discretionary remuneration paid to an individual as an incentive for increased productivity and competitiveness. It is based on the performance of the specific individual, the overall performance of the business unit the individual belongs to, the Group's consolidated financial results the prevailing economic market conditions. Variable remuneration might include instruments such as cash bonus schemes, stock option schemes and stock schemes, at the discretion of the Bank.

Variable remuneration should reflect a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description. The assessment of the performance is set in a multi-year framework in order to ensure that the process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes into account the underlying business cycle of the Group and its business risks.

7.2.2 **Variable Remuneration** (continued)

Variable remuneration aims to:

(a) Incentivize the appropriate behaviours that will produce the desired outcome, both in the short and long term;
(b) Increase employee commitment towards the achievement of the Group's long-term objectives within a given set of values
(c) Enhance employee performance over a long-term basis, within the Bank's risk-taking framework;
(d) Align employee long-term interests with those of the Bank's shareholders;
(e) Ensure a fair allocation of value, produced between employees and shareholders and
(f) Retain high performers and attract talent.

Up to 100% of variable remuneration is subject to vesting, claw back and malus in accordance with criteria which include the following:

- Evidence of misbehaviour or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks and compliance);
- When the Bank and/or the business unit in which the staff member works subsequently suffers a significant downturn in its financial performance;
- When the employee leaves the Group;
- When there are significant changes in the Bank's economic or regulatory capital base;
- Manipulation of financial performance or window dressing practices and
- Hedging against a downward adjustment in compensation.

No amount of variable remuneration has been paid during 2017 and 2016. In line with the 2016 and 2017 SREP decisions, the variable pay is capped at 10% of consolidated net revenues.

In case the Group benefits from government intervention, then all restrictions that derive from the relevant legislation will apply.

7.2.3 Long-Term Incentive Plans (e.g. Performance Shares or Share Option Plans)

The Board of Directors, following recommendation of the Group HRRC, may approve the implementation of a Long-Term Incentive Plan (such as Performance Share Plans or Share Option Plans) for employees. The implementation of share based or share linked Long-Term Incentive Plans is subject to approval by shareholders at a General Meeting by special resolution.

The AGM in November 2015 approved a Long-Term Incentive Plan which is still valid, pending on a number of preconditions that must be met (Section 5.1).

The Plan is currently on hold and as such, the design and the eligibility criteria of the Plan have not been finalised.

There is no outstanding deferred remuneration as at 31 December 2017 and 2016.

7.3 Design and Structure of Remuneration

7.3.1 Non-Executive Directors

The remuneration of non-executive directors is not linked to the profitability of the Group. The remuneration of non-executive directors is related to the responsibilities and time devoted for BoD meetings and decision-making for the governance of the Group, and for their participation in the committees of the BoD and the boards of Group subsidiary companies. The shareholders' AGM held on 29 August 2017 approved the same levels of remuneration as those approved at the AGM on 25 October 2016 and further approved equivalent remuneration for the members and chairperson of the Technology Committee which was formed in February 2017.

Non-Executive Directors are not eligible for variable remuneration or participation to a share option scheme.

7.3.2 Executive Directors

Remuneration Policy
The HRRC sets the remuneration of executive directors, and reviews their employment contracts (unless they are members of the senior management team and their terms of employment are based on the provisions of the collective agreement).

Contracts of Employment
The remuneration (salary and bonus) of executive directors is set out in their employment contracts which can have a maximum duration of five years, unless any of the executive directors is an appointed member of the senior management team, in which case the terms of employment are based on the provisions of the collective agreement in place.

The employment contract of the CEO was extended to 31 December 2018.

The Group at present does not grant guaranteed variable remuneration or discretionary pension payments.

Service Termination Agreements
The service contract of the CEO includes a clause for termination, by service of four months' notice to that effect upon the executive director, without cause but at its sole discretion. In such a case the Bank shall have the right to pay the director, in lieu of notice for immediate termination.

The terms of employment of D-CEO are based on the provisions of the collective agreement in place, as with the rest of the employees, which provides for notice of termination (by the Bank) or compensation based on years of service (1 month's salary for the first completed year of service plus 0,5 monthly salary for every completed year of service thereafter) and a four month prior written notice by the Executive Director in the event of a voluntary resignation.

Bonus
No bonus were recommended by the BoD for executive directors for the year 2017.

Retirement Benefit Schemes
The CEO participates in a defined contribution plan largely on the same basis as other employees. The D-CEO participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 14 of the Consolidated Financial Statements of the Company for 2017.

Share Options
No share options were granted to executive directors during 2017.

Other Benefits
Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. The CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for Executive Management are disclosed in Note 49 of the Consolidated Financial Statements of the Company for 2017.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel

2017	**Executive Directors**	**Other key management personnel**	**Other Material Risk Takers (MRTs)***
	€000	**€000**	**€000**
Salaries and other short term benefits	2,300	3,150	8,189
Termination benefits	-	-	338
Employer's contributions	91	202	973
Retirement benefit plan costs	202	189	725
Total	**2,593**	**3,541**	**10,225**
Number of beneficiaries during the year	**2**	**13**	**117**

*Number of MRTs as at 31 December 2017 (list of MRTs was approved by the Board in December 2017).

2016	**Executive Directors**	**Other key management personnel**
	€000	**€000**
Salaries and other short term benefits	1,848	3,144
Termination benefits	-	397
Employer's contributions	110	190
Retirement benefit plan costs	168	158
Total	**2,126**	**3,889**
Number of beneficiaries during the year	**2**	**18**

The ''Other key management personnel'' emoluments include the remuneration of the members of the Senior Management namely:

- All Divisional Directors that report to the CEO or D-CEO and
- Divisional Directors that report to Board Committees.

MRTs do not form part of other key management personnel.

Remuneration for year 2017 (excluding termination benefits) by business line

	Remuneration**	**Number of employees****
2017	**€000**	
Corporate	1,730	21
Retail	1,545	14
IBUs and Private Banking	1,435	16
RRD	2,002	11
Insurance operations	1,043	11
Head office	8,266	59
Total	**16,021**	132

** Includes MRTs

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

Remuneration for year 2016 (excluding termination benefits) by business line

	Remuneration	Number of employees/ positions
2016	**€000**	
Corporate	264	2
Retail	192	1
IBUs	158	1
Private Banking	40	1
RRD	1,190	1
Insurance operations	298	3
Head office	3,476	11
Total	**5,618**	20

One executive director and one key management personnel in 2017 had total emoluments for the year, including employer's contributions and other benefits in the range of €2.0 million to €2.5 million and €1.0 million to €1.5 million respectively. In 2016, one executive director and one key management personnel had total emoluments for the year, including employer's contributions and other benefits in the range of €1.5 million to €2.0 million and €1.0 million to €1.5 million respectively. No other employee other than as disclosed in this paragraph has emoluments on a Group level over €1 million.

Termination benefits

	Executive Directors	Other Key Management Personnel	Other Material Risk Takers
2017	**€000**	**€000**	**€000**
Total amount of severance payments made during the year	-	-	338
Total number of beneficiaries	-	-	2
Total amount of severance payments awarded during the year	-	-	338
Total number of beneficiaries	-	-	2
Single highest amount of severance payment awarded to an individual during the year	-	-	190
Total amount of new sign-on payments made during the year	-	-	-
Total number of beneficiaries	-	-	-

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

Termination benefits

	Executive Directors	Other Key Management Personnel
2016	**€000**	**€000**
Total amount of severance payments made during the year	-	397
Total number of beneficiaries	-	2
Total amount of severance payments awarded during the year	-	397
Total number of beneficiaries	-	2
Single highest amount of severance payment awarded to an individual during the year	-	200
Total amount of new sign-on payments made during the year	-	-
Total number of beneficiaries	-	-

Non-executives directors	**2017**	2016
	€000	€000
Total fees	**882**	861

The fees of the non-executive directors include fees as members of the BoD of the Bank and its subsidiaries, as well as of committees of the BoD. They include the fees and benefits for the period that they serve as members of the BoD. There is no other remuneration other that what is disclosed in this note.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

Information regarding the remuneration of Members of the Board of Directors

2017	Remuneration for services*	Remuneration for participation in the Board of Directors and its Committees	Total remuneration for services	Remuneration and benefits from other Group companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of benefits that are considered to form remuneration	Total remuneration and benefits	Annual contribution to retirement benefits
	€000	€000	€000	€000	€000	€000	€000	€000
Executive Directors								
John P. Hourican	2,180	-	**2,180**	-	-	-	**2,180**	**184**
Christodoulos Patsalides	211	-	**211**	-	-	-	**211**	**18**
Non-Executive Directors								
Josef Ackermann	-	150	**150**	-	-	-	**150**	**-**
Maksim Goldman	-	120	**120**	-	-	-	**120**	**-**
Wilbur L. Ross	-	20	**20**	-	-	-	**20**	**-**
Arne Berggren	-	115	**115**	-	-	-	**115**	**-**
Anat Bar-Gera		15	**15**	-	-	-	**15**	**-**
Lyn Grobler		72	**72**	-	-	-	**72**	**-**
Michael Heger		110	**110**	-	-	-	**110**	**-**
Marios Kalochoritis	-	45	**45**	-	-	-	**45**	**-**
Michael Spanos	-	100	**100**	-	-	-	**100**	**-**
Ioannis Zographakis	-	135	**135**	-	-	-	**135**	**-**
	2,391	**882**	**3,273**	**-**	**-**	**-**	**3,273**	**202**

2016								
Executive Directors								
John P. Hourican	1,743	-	**1,743**	-	-	-	**1,743**	150
Christodoulos Patsalides	215	-	**215**	-	-	-	**215**	18
Non-Executive Directors								
Josef Ackermann	-	150	**150**	-	-	-	**150**	-
Maksim Goldman	-	120	**120**	-	-	-	**120**	-
Wilbur L. Ross	-	120	**120**	-	-	-	**120**	-
Arne Berggren	-	115	**115**	-	-	-	**115**	-
Michael Heger		51	**51**	-	-	-	**51**	-
Marios Kalochoritis	-	90	**90**	-	-	-	**90**	-
Michael Spanos	-	100	**100**	-	-	-	**100**	-
Ioannis Zographakis	-	115	**115**	-	-	-	**115**	-
	1,958	861	**2,819**	-	-	-	**2,819**	168

* Includes employers' contributions excluding contributions to retirement benefits.

7.5 Material Risk Takers (MRTs) of the Group

MRTs are the members of the senior management and employees of the Group whose professional activities could have a material impact on the Group's risk profile. A total of 132 individuals were classified as MRTs in 2017 (15 key management personnel and 117 other employees).

MRTs do not form part of other key management personnel.

7.6 Additional Information

Every year, the HRRC proposes to the BoD, the Annual Remuneration Policy Report which forms part of the Annual Corporate Governance Report of the Group. The Remuneration Policy Report is submitted to the shareholders' AGM for approval.

8. Asset Encumbrance

Asset encumbrance means pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

8.1 Encumbered and Unencumbered Assets by Asset Type

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2017	**€000**	**€000**	**€000**	**€000**
Assets of the reporting institution	**3,575,278**	**n/a[44]**	**18,566,624**	**n/a[44]**
Equity instruments	1,740	1,740	76,754	76,754
Debt securities	315,427	315,425	635,501	641,949
Other assets[45]	3,258,111	n/a[44]	17,854,369	n/a[44]
2016				
Assets of the reporting institution	**3,446,873**	**n/a[44]**	**17,203,702**	**n/a[44]**
Equity instruments	1,562	1,562	52,514	52,514
Debt securities	358,251	358,454	261,317	262,491
Other assets[45]	3,087,060	n/a[44]	16,889,871	n/a[44]

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. An asset is categorised as unencumbered if it has not been pledged against an existing liability.

The vast majority of encumbered assets are within the Bank. Of the unencumbered assets around 20% (2016: 27%) are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in the 2017 Additional Risk and Capital Management Disclosures included in the 2017 Annual Financial Report.

[44] n/a: per EBA guidelines, no disclosure required.
[45] Other assets consist of cash and bank placements, loans and advances and property.

8.2 Collateral Received by Product Type

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
2017	**€000**	**€000**
Collateral received by the reporting institution	**-**	**-**
Equity instruments	**-**	**-**
Debt securities	**-**	**82,254**
Other collateral received	**-**	**-**
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	**-**	**-**
2016		
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	29,071
Other collateral received	-	-
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	-	-

8.3 Encumbered Assets/Collateral Received and Associated Liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
2017	**€000**	**€000**
Carrying amount of selected financial liabilities	**1,243,105**	**3,575,278**[46]
2016		
Carrying amount of selected financial liabilities	1,180,595	3,446,873[46]

The total of balance sheet encumbered assets of the Group amounted to €3,575,278 thousand as at 31 December 2017 (2016: €3,446,873 thousand).

[46] It includes the carrying value of balance sheet encumbered assets.

8.3 Encumbered Assets/Collateral Received and Associated Liabilities (continued)

The on balance sheet encumbered assets primarily consist of loans and advances to customers, investments in debt securities and property. These are mainly pledged for the funding facilities of the Central Banks (ECB, CBC and Bank of England) for the covered bond and for deposits of the Republic of Cyprus. Investments in debt securities are also used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements, which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (a) derivatives and repurchase transactions and (b) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

As of October 2015 the €650 million covered bond own-issue is placed as collateral for accessing funding from the ECB.

As at 31 December 2017 no loans and advances to customers or property were pledged as collateral for ELA (2016: €787 million). Loans and advances to customers include mortgage loans of a nominal amount €1,001 million (2016: €1,002 million) in Cyprus, pledged as collateral for the covered bond issued by BOC PCL in 2011 under the Covered Bond Programme. Furthermore housing loans of a nominal amount €1,273 million (2016: €765 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 30). As at 31 December 2017, loans of a nominal amount of €715 million in Cyprus are pledged as collateral for deposits of the Republic of Cyprus. As at 31 December 2017 BOC PCL's subsidiary Bank of Cyprus UK Ltd has pledged €161 million (2016: €244 million) of loans and advances to customers with the Funding for Lending Scheme (FLS) of the Bank of England. As at 31 December 2017 the subsidiary had drawn down Treasury bills of €82 million (2016: €29 million) under the FLS. These Treasury bills are not recorded on the consolidated balance sheet as ownership remains with the Bank of England.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB does not include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations.

Following the full repayment of ELA on 5 January 2017, all ELA collateralised loans and ELA pledged properties have been released.

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes

The subsidiary companies and branches, their activities and their consolidation method as at 31 December 2017 are presented in the table below:

EU LI3 – Outline of the differences in the scope of consolidation – entity by entity

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bank of Cyprus Holdings Public Limited Company	Full consolidation	x	-	-	-	Holding Company
Bank of Cyprus Public Company Ltd	Full consolidation	x	-	-	-	Commercial bank
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Full consolidation	x	-	-	-	Investment banking, asset management and brokerage
General Insurance Of Cyprus Ltd	Full consolidation	-	-	-	x	General insurance
Eurolife Ltd	Full consolidation	-	-	-	x	Life insurance
Kermia Ltd	Full consolidation	-	-	-	x	Property trading and development
Kermia Properties & Investments Ltd	Full consolidation	-	-	-	x	Property trading and development
Cytrustees Investment Public Company Ltd	Full consolidation	-	-	-	x	Closed-end investment company
LCP Holdings and Investments Public Ltd	Full consolidation	x	-	-	-	Holding Company
JCC Payment Systems Ltd	Full consolidation	x	-	-	-	Card processing transaction services
CLR Investment Fund Public Ltd	Full consolidation	-	-	-	x	Investment company
Auction Yard Ltd	Full consolidation	x	-	-	-	Auction company
BOC Secretarial Company Ltd	Full consolidation	-	-	-	x	Secretarial services
S.Z. Eliades Leisure Ltd	Full consolidation	x	-	-	-	Land development and operation of a golf resort
Bank of Cyprus Public Company Ltd (branch of BOC PCL)	Full consolidation	x	-	-	-	Administration of guarantees and holding of real estate properties
Bank of Cyprus UK Ltd	Full consolidation	x	-	-	-	Commercial bank
Bank of Cyprus Financial Services Ltd (formerly BOC Financial Services Ltd)	Full consolidation	x	-	-	-	Financial advisory services
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	Full consolidation	x	-	-	-	Collection of the existing portfolio of receivables, including third party collections
MC Investment Assets Management LLC	Full consolidation	x	-	-	-	Problem asset management company
Kyprou Finance (NL) B.V.	Full consolidation	x	-	-	-	Financing services
Fortuna Astrum Ltd	Full consolidation	x	-	-	-	Problem asset management company
Canosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Citlali Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Edoric Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Indene Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ingane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jobelis Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kernland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kimrar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lozzaria Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Melsolia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otoba Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thryan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vameron Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Koralmon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Petrassimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kedonian Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lasteno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Armozio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spacous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Calinora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marcozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Soluto Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Solomaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Linaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Andaz Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Unital Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Astromeria Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Neraland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Orzo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pariza Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Wingstreet Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nolory Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lynoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fitrus Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lisbo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mantinec Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Syniga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Colar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Carnota Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Demoro Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Irisa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Venicous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Primaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Basiga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Regetona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bracando Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Provezaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hillbay Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Senadaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jungax Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Arcandello Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mostero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Camela Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ofraco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Forenaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hovita Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Helal Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Subworld Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lasmane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes(continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Lorman Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Yossi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gozala Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jongeling Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Introserve Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Badrul Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Belaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Alomco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cereas Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fareland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sindelaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Barosca Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fogland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebasco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Desogus Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dolapo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Homirova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Birkdale Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Blodar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bramwell Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cobhan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cranmer Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Domita Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ecunaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Emovera Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Estaga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Innerwick Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Joberco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Labancor Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Laiki Lefkothea Center Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ligisimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Memdes Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nalmosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Newington Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pamaco Platres Complex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Polkima Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ramendi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Skellom Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Smooland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spaceglowing Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Steparco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Threefield Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Timeland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zecomex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valecross Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Altco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Forsban Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nicosia Mall Property (NMP) Ltd (previously GILECO PROPERTIES Ltd)	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marisaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Olivero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jaselo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garveno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pendalo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Toreva Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Frontyard Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Resoma Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bascot Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Consoly Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Venetolio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bonsova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nasebia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vanemar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garmozy Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Palmco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Intelamon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Weinar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Balasec Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Eracor Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thermano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nouralia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mazima Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Alomnia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Diafor Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Prosilia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rulemon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lancast Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thelemic Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Maledico Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dentorio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valioco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bascone Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Artozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elizano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nelipo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allodica Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Resocot Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jomento Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Soblano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Talamon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Unoplan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Paradexia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rosalica Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Zandexo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Paramina Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tasabo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Coeval Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bendolio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Letimo Properties Ltd (previously K. Athienitis Kalamon Ltd)	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kartama Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zemialand Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Secretsky Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Riveland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fastflow Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kenelyne Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Barway Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Asianco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nigora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Comenal Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nivoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Finacap Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ganina Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Cimonia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elosis Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Finevo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nesia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dominion Industries Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Eurolife Properties Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Ledra Estate Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Les Coraux Estates Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Natakon Company Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Oceania Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Vieman Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Battersee Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bocaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Green Hills Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otherland Properties Dorobanti SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Romaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Trecoda Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Imoreth Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Inroda Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Tantora Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zunimar Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allioma Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nikaba Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gosman Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Obafemi Holdings Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Stamoland Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Nicosia Mall Management (NMM) Limited (previously DEVOCO PROPERTIES Limited)	Full consolidation	x	-	-	-	Holding of shares and other investments
Nicosia Mall Finance (NMF) Limited (previously HARIMO PROPERTIES Limited)	Full consolidation	x	-	-	-	Holding of shares and other investments
Nicosia Mall Holdings (NMH) Limited (previously NCMH Nicosia City Mall Holdings Limited)	Full consolidation	x	-	-	-	Holding of shares and other investments
Axxel Ventures Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
CLR Private Equity Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
Belvesi Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Tavoni Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Amary Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Hamura Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Meriaco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Flymoon Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Holstone Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Alepar Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Calandomo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Cramonco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Bigwaive Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Valecast Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Monata Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Legamon Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Teresan Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Arleta Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Azemo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Kuvena Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Noleta Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Nuca Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Orleania Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Prodino Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Racotino Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Ravenica Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Rouena Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Rylico Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Stormino Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Vatino Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Vivevo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Wiceco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Zedoma Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Aktilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Alezia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Aparno Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Asendo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Domilas Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Dorfilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Enelo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Gylito Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Lamezoco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Mikosa Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Odolo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Rondemio Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Sailoma Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Tolmeco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Volparo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Selilar Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Battersee Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
BC Romanoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Blindingqueen Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Bocaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bonayia Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Buchuland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Commonland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Fledgego Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Frozenport Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Hydrobius Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Imoreth Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Inroda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Janoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Loneland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Melgred Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Otherland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Pittsburg Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Romaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Tantora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Trecoda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Unknownplan Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Zunimar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Allioma Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Mirodi Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Nallora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Nikaba Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Selilar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Landanafield Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Cyprialife Ltd	Full consolidation	x	-	-	-	Inactive

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Fairford Properties Ltd	Full consolidation	x	-	-	-	Inactive
Iperi Properties Ltd	Full consolidation	x	-	-	-	Inactive
Paneuropean Ltd	Full consolidation	x	-	-	-	Inactive
Philiki Ltd	Full consolidation	x	-	-	-	Inactive
Philiki Management Services Ltd	Full consolidation	x	-	-	-	Inactive
Thames Properties Ltd	Full consolidation	x	-	-	-	Inactive
Renalandia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Ilera Properties Ltd	Full consolidation	x	-	-	-	Inactive
Sylvesta Properties Ltd	Full consolidation	x	-	-	-	Inactive
Finerose Properties Ltd	Full consolidation	x	-	-	-	Inactive
Weinco Properties Ltd	Full consolidation	x	-	-	-	Inactive
Crolandia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Calomland Properties Ltd	Full consolidation	x	-	-	-	Inactive
Lameland Properties Ltd	Full consolidation	x	-	-	-	Inactive
Fantasio Properties Ltd	Full consolidation	x	-	-	-	Inactive
BOC Asset Management Ltd	Full consolidation	x	-	-	-	Inactive
Imperial Life Assurance Ltd	Full consolidation	-	-	-	x	Inactive
Laiki Bank (Nominees) Ltd	Full consolidation	-	-	-	x	Inactive
Nelcon Transport Co. Ltd	Full consolidation	-	-	-	x	Inactive
Europrofit Capital Investors Public Limited	Full consolidation	-	-	-	x	Inactive
Kyprou Commercial SA	Full consolidation	x	-	-	-	Inactive
Kyprou Properties SA	Full consolidation	-	-	-	x	Inactive
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Full consolidation	-	-	-	x	Inactive
Kyprou Zois (branch of EuroLife Ltd)	Full consolidation	-	-	-	x	Inactive
Frozenport Properties SRL	Full consolidation	x	-	-	-	Inactive

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Loneland Properties SRL	Full consolidation	x	-	-	-	Inactive
Melgred Properties SRL	Full consolidation	x	-	-	-	Inactive
Blindingqueen Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
BOC Ventures Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Buchuland Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Corner LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Diners Club (Cyprus) Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Janoland Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Leasing Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Omiks Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Pittsburg Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Salecom Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Unknownplan Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Mirodi Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Nallora Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Bank of Cyprus (Channel Islands) Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Samarinda Navigation Co Ltd	Full consolidation	-	-	-	x	In the process of dissolution/ in the process of being struck off
Bank of Cyprus Romania (Romanian branch)	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off

APPENDIX II – Information flow on risk to management body

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Frequency
1	Asset Quality Target Setting	Asset Quality Target Setting for front line divisions	Cyprus	Credit Risk	RC, ExCo	Annually
2	Credit Limits & Authorities	Credit Limits & Authorities	Cyprus	Credit Risk	RC, BoD, ExCo	Annually
3	Provisions Material	All relevant material that is provided for the determination of provisions	Group	Credit Risk	Joint AC & RC, BoD, Provisioning	Quarterly
4	Write-Offs Report Semi-Annual	Present write offs cases>1 million	Cyprus	Credit Risk	RC, BoD	Semi-annually
5	Material decisions over €100 million	Presents summary of all material approvals (restructurings, large exposures, etc)	Group	Credit Risk Assessment	RC, BoD	Quarterly
6	Applied solutions under delegated Limits	To demonstrate the use of limits delegated by the RC to the Bank's approval authorities, and uncover shortcomings which require policy enhancements	Cyprus	Credit Risk Assessment	RC	Quarterly
7	Annual Information Security Report	Reports to CBC current Risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	RC, BoD, OpCo, ExCo	Annually
8	Semi Annual Risk Report on Cloud Assessments	Reports risks and progress on Cloud Assessments	Cyprus	Information Security	RC, OpCo	Semi-annually
9	Semi-Annual Country Report	Monitoring of exposures per country	Group	Market Risk	RC, BoD, ALCO	Semi-annually
10	Annual Review of Market Risk Limits	Review and revision, where necessary of market risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
11	Annual Review of Credit Limits (counterparty & country)	Review and revision, of credit risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
12	Authorisation Levels for Market Risk Related Limits	Authorisation Levels for Market Risk Related Limits	Group	Market Risk	RC, BoD	Annually
13	Market Risk Related Violations	Group ALCO to ratify the violations upto 50%, and the Board RC the violations greater than 50%	Group	Market Risk	RC, ALCO	Semi-annually
14	Insurance Cover Strategy & recommendation to the BOD	Insurance Cover Strategy & recommendation to the BOD	Group	Operational Risk	RC, BoD	Annually

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Frequency
15	Semi-annual Reputational Risk Report	Providing information on major risks bearing an important reputational impact for the Bank	Group	Operational Risk	RC, ExCo	Semi-annually
16	Quarterly Outstanding Findings Monitoring Dashboard	Report integrates Operational Risks, Information Security risks, Regulatory & Compliance risks (Financial Crime and RSCO) and provides data on open risks as well as completed and outstanding actions on such risks (analysis per level of risk and division). Includes Internal Audit review of RCSA results	Cyprus	Operational Risk	AC	Quarterly
17	Yearly Report for the Appeals Committee (ApC) and the Financial Ombudsman (FO) Mediation process for the period 1st January 2017 to 31st December 2017	Presents cases examined by the Committee and the FO over a quarter and certain statistics as per CBC's requirement.	Cyprus	Operational Risk	Joint AC & RC, ExCo	Annually
18	Monthly update on the status of pending actions from RC decisions	Monthly update on the status of pending actions from RC decisions	Cyprus	RDO	OpCo	Monthly
19	Regulatory Communication	Regulatory Communication	Group	RSCO	RC, BoD	Monthly
20	Monthly update on the actions to support compliance with prudential requirements of SREP 2016 and 2017 letters	Monthly update on the actions to support compliance with prudential requirements of SREP 2016 and 2017 letters	Group	RSCO	OpCo, ExCo	Monthly

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
21	Annual Risk Management Report	Report includes: 1) Review of the main financial developments during the year which had a significant influence on the institution's operations and risk profile.2) Description of the risk management framework, including the organization and operation of the risk management function, and of the risk management process in place. 3)Assumptions and results of the main stress tests and scenario analyses carried out during the year under review.4)Detailed information on the risk profile of the institution and the capital allocation process.5) Summary of the results of the risk and control self-assessment exercise conducted during the year under review together with recommendations for minimizing any increased operational risks identified.6) Information on operational losses incurred during the year under review. 7) Information on key risk indicators and key performance indicators on non-performing loans monitored by the institution. 8) Calculation of the institution's capital requirements and capital adequacy ratio. 9) A comprehensive gap analysis section by major risk department whereby the risk management function will comment on the recommendations made in its report of the previous year including an assessment of the progress achieved and the current status.10)Risk Management function action plans for 2017 by each major department/area.	Group	Credit Risk	RC, BoD, ExCo	Annually
22	Monthly Risk Report	Report of key Risk indicators and events as well as data on selected Credit Appraisal statistics. Encompases the full spectrum of Risks (Credit, Market, Operational, Information Security, International & Subsidiaries).	Group	Credit Risk	RC, BoD, ExCo	Monthly
23	Risk Management Strategy	Report documenting the Bank's key challenges in the risk area, focus areas, ambition, strategy, SWOT and needs.	Group	GCRO	RC	Annually

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
24	Strategy Risk Assessment	Risk assessment of the 3 year business plan.	Group	GCRO	RC, BoD, ExCo	Annually
25	Risk Appetite Statement	Risk Appetite Statement of the Group	Group	RDO	RC, BoD, ExCo	Semi-annually
26	Risk Management's Division Budget	Risk Management's Division Budget	Group	RDO	RC	Annually
27	ECB SREP Stress Test (Bi-annual)	Update on ECB Stress Tests: process followed and outcome	Group	GCRO	RC, ExCo	Annually
28	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Group	Market Risk	RC, ALCO	Annually
29	ICAAP	Internal Capital Adequacy Assessment Process	Group	Market Risk	RC, BoD, ALCO, ExCo	Annually
30	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Group	Market Risk	RC, ALCO	Annually
31	ILAAP	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ALCO, ExCo	Annually
32	Liquidity Adequacy Statement	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ExCo	Annually
33	Capital Adequacy Statement	Capital Adequacy Statement	Group	Market Risk	RC, ALCO, ExCo	Annually
34	ICAAP update of stress tests	ICAAP update of stress tests	Group	Market Risk	RC, ALCO	Semi-annually
35	ILAAP update of stress tests	ILAAP update of stress tests	Group	Market Risk	RC, ALCO	Other
36	Review of Risk Management Policies universe	Policy revisions	Cyprus	All RMD Departments	ExCo, RC	Annually
37	Semi-Annual Risk Departments Reports	Updates & monitoring on all risk areas (credit, market, operational, regulatory, information security etc)	Group	All RMD Departments	OpCo, ExCo, RC	Semi-annually

APPENDIX III – List of immaterial countries

Other countries included in significant area 'EU countries'

Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg , Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

Other geographical areas included in significant area 'Non EU Countries'

Algeria, Angola, Anguilla, Antigua and Barbuda, Argentina, Armenia, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belarus, Belize, Bermuda, Bosnia and Herzegovina, Botswana, Bouvet Island, Brazil, British Indian Ocean Territory, Brunei Darussalam, Cameroon, Canada, Cayman Islands, China, Colombia, Costa Rica, Curacao, Dominica, Egypt, Gambia, Georgia, Ghana, Gibraltar, Greenland, Guernsey, Guinea, Hong Kong, Iceland, India, Indonesia, Islamic Republic of Iran, Iraq, Isle of Man, Israel, Japan, Jersey, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Lebanon, Liberia, Libya, Liechtenstein, Macao, The Former Yugoslav Republic of Macedonia, Malawi, Malaysia, Marshall Islands, Mauritania, Mauritius, Mexico, Federated States of Micronesia, Moldova, Monaco, Montenegro, Morocco, Mozambique, Nepal, New Zealand, Nigeria, Niue, Norway, Oman, Pakistan, Occupied Palestinian Territory, Panama, Philippines, Qatar, Russian Federation, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Sri Lanka, Sudan, Switzerland, Syrian Arab Republic, Province of China Taiwan, Tajikistan, Thailand, Turkey, Turkmenistan, Turks and Caicos Islands, Ukraine, United Arab Emirates, United States, Uzbekistan, Venezuela, Vietnam, British Virgin islands, U.S. Virgin islands, Zambia, Zimbabwe.

APPENDIX IV – List of other countries with their % countercyclical buffer rate

Other countries with 0% countercyclical buffer rate for 2017 & 2016

Austria, Belgium, Bulgaria, Croatia, , Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, , Slovenia, Spain, Algeria, Angola, Anguilla, Antigua and Barbuda, Argentina, Armenia, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belarus, Belize, Bermuda, Bosnia and Herzegovina, Botswana, Bouvet Island, Brazil, British Indian Ocean Territory, Brunei Darussalam, Cameroon, Canada, Cayman Islands, China, Colombia, Costa Rica, Curacao, Dominica, Egypt, Gambia, Georgia, Ghana, Gibraltar, Greenland, Guernsey, Guinea, Hong Kong, , India, Indonesia, Islamic Republic of Iran, Iraq, Isle of Man, Israel, Japan, Jersey, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Lebanon, Liberia, Libya, Liechtenstein, Macao, The Former Yugoslav Republic of Macedonia, Malawi, Malaysia, Marshall Islands, Mauritania, Mauritius, Mexico, Federated States of Micronesia, Moldova, Monaco, Montenegro, Morocco, Mozambique, Nepal, New Zealand, Nigeria, Niue, , Oman, Pakistan, Occupied Palestinian Territory, Panama, Philippines, Qatar, Russian Federation, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Sri Lanka, Sudan, Switzerland, Syrian Arab Republic, Province of China Taiwan, Tajikistan, Thailand, Turkey, Turkmenistan, Turks and Caicos Islands, Ukraine, United Arab Emirates, United States, Uzbekistan, Venezuela, Vietnam, British Virgin islands, U.S. Virgin islands, Zambia, Zimbabwe.

Other countries with 0.5% countercyclical buffer rate

Czech Republic, Slovakia
(Slovakia was at 0% as at 31.12.2016)

Other countries 1.25% countercyclical buffer rate as at 31.12.2017

Iceland (Iceland was at 0% as at 31.12.2017, Hong Kong at 1.25% as at 31.12.2016).

Other countries with 2% countercyclical buffer rate

Norway, Sweden (both at 1.5% as at 31.12.2016)

APPENDIX V – Full Terms and Conditions of Capital Resources

Full terms and conditions of the ordinary shares of the Group

		2017	2016
		Group	**BOC group**
1	Issuer	Bank of Cyprus Holdings Public Limited Company	Bank of Cyprus Public Company Ltd
2	Unique identifier	IE00BD5B1Y92	CY0104810110
3	Governing law(s) of the instrument	Irish Law	Cyprus Law
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated	Consolidated and Individual
7	Instrument type	Ordinary Shares	Ordinary Shares
8	Amount recognised in regulatory capital	€44,619,993	€892,294,453
9	Nominal amount of instrument	€44,619,993	€892,294,453
9(a)	Issue price	Various	Various
9(b)	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' Equity	Shareholders' Equity
11	Original date of issuance	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	N/A
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	Yes[47]	Yes
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

[47] The company and BOC PCL are currently under a regulatory dividend distribution prohibition and therefore no dividends were declared or paid during years 2017 and 2016.

APPENDIX V – Full Terms and Conditions of Capital Resources (continued)

Full terms and conditions of the Note

		2017 Group	2016 BOC group
1	Issuer	Bank of Cyprus Public Company Ltd	N/A
2	Unique identifier	XS1551761569	N/A
3	Governing law(s) of the instrument	English law, save for Subordination and Set-off provisions which will be governed by the laws of the Republic of Cyprus.	N/A
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital Notes	N/A
5	Post-transitional CRR rules	Tier 2 Capital Notes	N/A
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated & Sub-consolidated & Solo	N/A
7	Instrument type	Tier 2 Capital Notes	N/A
8	Amount recognised in regulatory capital	€233,660,365	N/A
9	Nominal amount of instrument	€250,000,000	N/A
9(a)	Issue price	100	N/A
9(b)	Redemption price	100	N/A
10	Accounting classification	Subordinated loan stock	N/A
11	Original date of issuance	19 January 2017	N/A
12	Perpetual or dated	Dated	N/A
13	Original maturity date	19 January 2027	N/A
14	Issuer call subject to prior supervisory approval	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	19 January 2022	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	N/A
18	Coupon rate and any related index	(i) 9.25% per annum up to call date of 19 January 2022 (ii) After call date, the interest rate is the 5-year Mid-Swap rate plus a margin of 9.176%	N/A
19	Existence of a dividend stopper	N/A	N/A
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	N/A
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non cumulative or cumulative	Non-cumulative	N/A
23	Convertible or non-convertible	Non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	Subordinated to any unsubordinated obligations and any subordinated obligations that rank senior to this Note. Senior to Additional Tier 1 instruments and share capital.	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

APPENDIX V – Full Terms and Conditions of Capital Resources (continued)

Full terms and conditions of the Loan

		2017	2016
		Group	BOC group
1	Issuer	Bank of Cyprus UK Ltd	N/A
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	English Law	N/A
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital Loan	N/A
5	Post-transitional CRR rules	Tier 2 Capital Loan	N/A
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated & Sub-consolidated	N/A
7	Instrument type	Tier 2 Capital Loan	N/A
8	Amount recognised in regulatory capital	GBP 20,558,795	N/A
9	Nominal amount of instrument	GBP 30,000,000	N/A
9(a)	Issue price	GBP 30,000,000	N/A
9(b)	Redemption price	GBP 30,000,000	N/A
10	Accounting classification	Subordinated loan stock	N/A
11	Original date of issuance	19 December 2017	N/A
12	Perpetual or dated	Dated	N/A
13	Original maturity date	21 December 2027	N/A
14	Issuer call subject to prior supervisory approval	Yes, subject to PRA approval	N/A
15	Optional call date, contingent call dates and redemption amount	21 December 2022	N/A
16	Subsequent call dates, if applicable	Any Interest payment date (21st June/21st December) after first call date by giving not less than 30 days notice nor more than 60 days written notice	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed up to call date and floating thereafter	N/A
18	Coupon rate and any related index	(i) 8% per annum up to call date of 21st December 2022 (ii) After the call date, the interest rate is the 5-year mid swap rate plus a margin of 6.99% (5 year mid-swap rate determined by quotations from 'Reset Reference Banks')"	N/A
19	Existence of a dividend stopper	N/A	N/A
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	N/A
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non cumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	Non cumulative – interest paid every six months	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	Ranks above 'Junior debt holders'	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

Specific References to CRR Articles

CRR ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar III disclosures.	Section 2.2
431 (2)	Disclosure of operational risk information.	Section 4.3
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	The Bank has a dedicated Pillar III policy
431 (4)	Explanation of ratings decisions to SMEs upon request.	Not applicable to the Bank
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information – EBA Guidelines on materiality, proprietary, confidentiality and on disclosure frequency	The Bank follows the EBA guidelines – Compliance with this provision is covered through the Report
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements and more frequently if necessary.	Section 2.2
Means of disclosures		
434 (1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	All applicable disclosures are contained within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Cross-references to accounting and other disclosures are indicated in the Report
Risk management objectives and policies		
435 (1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Sections 2.4 and 4
435 (1) (b)		Sections 2.4 and 4
435 (1) (c)		Sections 2.4 and 4
435 (1) (d)		Sections 2.4 and 4
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.4.1(b)
435 (1) (f)	Concise risk statement approved by the BoD.	Section 1, 2.4.3, 2.4.5 and 2.4.6
435 (2)	Information, once a year at a minimum, on governance arrangements.	Section 2.3.2 and Annual Corporate Governance Report 2017
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2017
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2017
435 (2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Section 2.3.3
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 2.3.5 to 2.3.7
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.8 and Appendix II

Specific References to CRR Articles (continued)

Scope of application		
436 (a)	Name of institution.	Section 2.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 3 and Appendix I
436 (b) (i)	Fully consolidated;	Section 3 and Appendix I
436 (b) (ii)	Proportionally consolidated;	Section 3 and Appendix I
436 (b) (iii)	Deducted from own funds;	Section 3 and Appendix I
436 (b) (iv)	Neither consolidated nor deducted.	Section 3 and Appendix I
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 4.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Section 2.2
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not applicable to the Bank
Own funds		
437 (1)	Requirements regarding capital resources table.	Section 5.1 to 5.4
437 (1) (a)		Section 5.1 to 5.4
437 (1) (b)		Section 5.1 to 5.4
437 (1) (c)		Section 5.1 to 5.4
437 (1) (d) (i)		Section 5.1 to 5.4
437 (1) (d) (ii)		Section 5.1 to 5.4
437 (1) (d) (iii)		Section 5.1 to 5.4
437 (1) (e)		Section 5.2 and 5.3
437 (1) (f)		Not applicable to the Bank
437 (2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above.	The Bank follows the implementation standards. (Section 5)
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 5.5
438 (b)	Result of ICAAP on demand from competent authority.	Not such a request received
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class (8% of risk-weighted exposure).	Section 5.5.1
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not applicable to the Bank
438 (d) (i)		Not applicable to the Bank
438 (d) (ii)		Not applicable to the Bank
438 (d) (iii)		Not applicable to the Bank
438 (d) (iv)		Not applicable to the Bank
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 5.5.2
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised Approach, and the advanced measurement approaches as applicable.	Section 5.5.3

Specific References to CRR Articles (continued)

Exposure to counterparty credit risk (CCR)		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 6.1.1
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Section 6.1.2
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Section 6.1.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 6.1.4
439 (e)	Derivation of net derivative credit exposure.	Section 6.1.5
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Section 6.1.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Section 6.1.8
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable to the Bank
439 (i)	Estimation of alpha, if applicable.	Not applicable to the Bank
440 (1) (a)	Geographical distributions of credit exposures	Section 6.2.3.1
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 2.2 and 5.4
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 2.2 and 5.4
Indicators of global systemic importance		
441	Indicators of global systemic importance	Not applicable to the Bank
Credit risk adjustments		
442 (a)	Definitions for accounting purposes of ‘past due’ and ‘impaired’.	Section 6.2.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.2.1
442 (c)	Exposures post-value adjustments by different types of exposure classes.	Section 6.2.2
442 (d)	Exposures post value adjustments by significant geographic areas and material exposure classes and by industry and exposure class.	Section 6.2.3.1
442 (e)	Distribution of exposures by industry	Section 6.2.3.2

Specific References to CRR Articles (continued)

Credit risk adjustments		
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.2.4
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Section 6.2.5
442 (g) (i)		Section 6.2.5
442 (g) (ii)		Section 6.2.5
442 (g) (iii)		Section 6.2.5
442 (h)	Impaired, past due exposures, by geographic area, and amounts of specific and general impairment for each geography.	Section 6.2.6
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.2.13.1 and 6.2.13.3
442 (i) (i)		Section 6.2.13.1 and 6.2.13.3
442 (i) (ii)		Section 6.2.13.1 and 6.2.13.3
442 (i) (iii)		Section 6.2.13.1 and 6.2.13.3
442 (i) (iv)		Section 6.2.13.1 and 6.2.13.3
442 (i) (v)		Section 6.2.13.1 and 6.2.13.3
442 endnote	Specific credit risk adjustments recorded to income statement.	Section 6.2.13.2
Unencumbered assets		
443	Disclosures on unencumbered assets.	Section 8
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes.	Section 6.3.1
444 (b)	Exposure classes associated with each ECAI.	Section 6.3.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Section 6.3.2
444 (d)	Mapping of external rating to credit quality steps.	Section 6.3.1
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step.	Section 6.3.3
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 6.7
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 5.5.3

Specific References to CRR Articles (continued)

Exposure in equities in the Banking book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 6.4
447 (b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	Section 6.4
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 6.4
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 6.4
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Section 6.4
Exposure to interest rate risk on positions in the Banking book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 6.5.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 6.5.2
Exposure to securitisation positions		
449	Exposure to securitisation positions	Not applicable to the Bank
Remuneration disclosures		
450	Remuneration policy.	Section 7
Leverage		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 5.6.1 and 5.6.2
451 (1) (b)		Sections 5.6.1 and 5.6.2
451 (1) (c)		Sections 5.6.1 and 5.6.2
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	Section 5.6
451 (1) (e)		Section 5.6
451 (2)	EBA shall develop implementation standards for points above.	The Bank follows the implementation standards.
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	Not applicable to the Bank

Specific References to CRR Articles (continued)

Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Bank makes use of on-balance sheet and off-balance sheet netting.	Section 6.6
453 (b)	Policies and processes for collateral valuation and management.	Section 6.6.2
453 (c)	Description of types of collateral used by the Bank.	Section 6.6.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 6.6
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 6.6.3
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 6.6.3
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.2.8
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not applicable to the Bank
Use of Internal Market Risk Models		
455	Use of Internal Market Risk Models	Not applicable to the Bank

Specific References to EBA guidelines published on 14 December 2016 – version 2 as amended on 9 June 2017

	Compliance Reference	Section
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Section 3.2.2
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements	Section 3.2.3
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Appendix I
EU OV1	Overview of RWAs	Section 5.5.4
EU INS1	Non-deducted participations in insurance undertakings	Section 5.5.5
EU CRB-B	Total and average net amount of exposures	Section 6.2.2
EU CRB-C	Geographical breakdown of exposures	Section 6.2.3.1
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 6.2.3.2
EU CRB-E	Maturity of exposures	Section 6.2.4
EU CR1-A	Credit quality of exposures by exposure class and instrument	Section 6.2.9.1
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 6.2.9.2
EU CR1-C	Credit quality of exposures by geography	Section 6.2.9.3
EU CR1-D	Ageing of past-due exposures	Section 6.2.10
EU CR1-E	Non-performing and forborne exposures	Section 6.2.11
EU CR2-A	Changes in the stock of general and specific risk adjustments	Section 6.2.13.3
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Section 6.2.12
EU CR3	CRM techniques – Overview	Section 6.6.3
EU CR4	Standardised Approach – Credit risk exposure and CRM effects	Section 6.6.3
EU CR5	Standardised Approach	Section 6.3.3.3
EU CCR1	Aanalysis of CCR exposure by approach	Section 6.1.6
EU CCR2	CVA capital charge	Section 6.1.6
EU CCR3	Standardised Approach – CCR exposures by regulatory portofolio and risk	Section 6.1.7
EU CCR5-A	Impact of netting and collateral held on exposure values	Section 6.1.5
EU CCR5-B	Composition of collateral for exposures to CCR	Section 6.1.2
EU MR1	Market risk under the Standardised Approach	Section 5.5.2

GLOSSARY

A	
ADC	Asset Acquisition and Disposal Committee
ALCO	Asset and Liability Committee
AFS	Available-for-Sale
AT1	Additional Tier 1
AS	Agency Services
AM	Asset Management
ABSs	Asset Backed Securities
AC	Board Audit Committee
ApC	Appeals Committee
ACCs	Additional Credit Claims
ALM	Asset Liabilities Management
ABS	Annual Base Salary
ALMM	Additional Liquidity Monitoring Metrics
AVA	Additional Valuation Adjustments
AGM	Annual General Meeting
Annual Report 2017	Annual Report of Bank of Cyprus Holdings Group for the year ended 31 December 2017
B	
Bank	Bank of Cyprus Public Company Ltd
BoD	Board of Directors
BRRD	Bank Recovery and Resolution Directive
BOC PCL	Bank of Cyprus Public Company Limited
C	
CEO	Chief Executive Officer
Company	Bank of Cyprus Holdings Public Limited Company
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive IV
CBC	Central Bank of Cyprus
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Appraisal Department
CRCU	Credit Risk Control Unit
CRU	Credit Reporting Unit
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CVA	Credit Valuation Adjustment
CF	Corporate finance
CB	Commercial Banking
CSA	Credit Support Annex
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
CCC	Collection Call Center
CRR	Capital Requirements Regulation
CCyB	Countercyclical Capital Buffer
CRA	Credit Risk Assessment
CCB	Capital Conservation Buffer
CRAD	Credit Risk Assessment Department
CRM	Credit Risk Mitigation
CCF	Credit Conversion Factor
CRR&C	Credit Risk Reporting & Control
CCR	Counterparty Credit Risk
CyCEC	Cyprus Securities and Exchange Commission
CCP	Central Clearing Counterparty

GLOSSARY (continued)

D	
DR	Disaster Recovery
DTA	Deferred Tax Asset
D-CEO	Deputy Chief Executive Officer and Chief Operating Officer
E	
ExCo	Executive Committee
ECB	European Central Bank
EBA	European Banking Authority
ELA	Emergency Liquidity Assistance
ERC	Expected Replacement Cost
ECAIs	External Credit Assessment Institutions
EMTN	Euro Medium Term Note
ECP	Euro Commercial Paper
EEPE	Effective expected positive exposure
EAD	Exposure at default
EEA	European Economic Area
ECAIs	External Credit Assessment Institutions
EPS	Earnings per share
EMU	Economic and Monetary Union
EV	Economic Value
EBITDA	Earnings before interest, tax, depreciation and amortisation
F	
FX	Foreign Exchange
FVPL	Fair Value through Profit and Loss
FLS	Funding for Lending Scheme
FO	Financial Ombudsman
FIRP	Fraud Incident Response Plan
G	
GIC	General Insurance of Cyprus
Group	Bank of Cyprus Holdings Public Limited Group
GCRO	Group Chief Risk Officer
GDP	Gross Domestic Product
GMRAs	Global Master Repurchase Agreements
GIA	Group Internal Audit
H	
HR	Human Resources
HRRC	Human Resources & Remuneration Committee
HQLA	High Quality Liquid Assets
I	
IFRS	International Financial Reporting Standards
IT	Information technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAAP	Internal Liquidity Adequacy Assessment Process
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association, Inc.
IBU	International Business Unit
IRB	Internal Rating Based
IRE	Interest Rate Exposure
K	
KRIs	Key Risk Indicators
KPIs	Key Performance Indicators
L	
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
LSE	London Stock Exchange
LRO	Long Term Refinancing operations
LCP	Liquidity Contingency Plan
LSD	Legal Services Department

GLOSSARY (continued)

M	
MR	Market Risk
MM	Money Market
MRO	Main Refinancing Operations
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MTF	Multilateral Trading Facility
MRR	Minimum Reserve Requirements
MRTs	Material Risk Takers
N	
NCGC	Nominations and Corporate Governance Committee
NPEs	Non Performing Exposures
NPV	Net Present Value
NRS	Non Rate Sensitive
NSFR	Net Stable Funding Ratio
NII	Net Interest Income
NMDs	Non-Maturing Deposits
O	
OCI	Other Comprehensive Income
ORM	Operational Risk Management
OTC	Over-The-Counter
O-SIIs	Other Systemically Important Institutions
OpCo	Operational Committee
ORMD	Operational Risk Management Department
P	
PS	Payment and Settlement
PD	Probability of Default
PRA	Prudential Regulation Authority
Plan	Three year plan
PSD	Payments Service Directive
Q	
QIS	Quantitative Impact Study
R	
Report	Pillar 3 Disclosures 2017 report
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	Risk Control Self-Assessment
RAM	Retail Arrears Management Department
RBr	Retail Brokerage
RB	Retail Banking
REMU	Real Estate Management Unit
RC	Board Risk Committee
RAS	Risk Appetite Statement
RCMS	Risk Compliance Management System
RSCO	Regulatory/Supervisory Coordination office
RWA	Risk Weighted Assets
S	
SREP	Supervisory Review and Evaluation Process
SMEs	Small Medium Enterprises
SFTs	Securities Financing Transactions
SSM	Single Supervisory Mechanism
T	
T2	Tier 2
TC	Total capital
TS	Trading and Sales
TLTRO	Targeted-long term refinancing operations
T1	Tier 1
V	
VaR	Value at Risk

Definitions and explanations on Alternative Performance Measures Disclosures

Accumulated provisions	Accumulated provisions comprise (i) provisions for impairment of customer loans and advances to customers, (ii) the fair value adjustment on initial recognition of loans, and (iii) provisions for off-balance sheet exposures (contingent liabilities and commitments) disclosed on the balance sheet within other liabilities.
Cost to Income ratio	Cost-to-income ratio is calculated as the total staff costs and other operating expenses (excluding advisory and other restructuring costs) divided by total income (excluding gains/(losses) on disposals of non-core assets).
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, investments (excluding equities and mutual funds) and derivatives.
Leverage ratio	The leverage ratio is calculated as the tangible total equity to total assets as presented on the balance sheet.
Loans in arrears for more than 90 days (90+ DPD)	Loans in arrears for more than 90 days (90+ DPD) are defined as loans past-due for more than 90 days and loans that are impaired (impaired loans are those (i) for which a provision for impairment has been recognised on an individual basis or (ii) for which incurred losses existed at their initial recognition or (iii) customers in Debt Recovery).
Loans in arrears for more than 90 days (90+ DPD) ratio	Loans past-due for more than 90 days (as defined) divided by loans before the deduction of accumulated provisions (as defined).
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined), but excluding gains/(losses) on disposals of non-core assets.
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets.
Net loans to deposit 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.
Non-performing exposures (NPEs)	According to the EBA standards, a loan is considered a non-performing exposure if: (i) the debtor 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, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period. The NPEs are reported before the deduction of accumulated provisions (as defined).
NPE ratio	NPE ratio is non-performing exposures (as defined) divided by loans before the deduction of accumulated provisions (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the operating profit divided by the average of total assets for the relevant period.
Provisioning charge (cost of risk)	Provisioning charge (cost of risk) is calculated as the provisions for impairment of customer loans plus the gain on derecognition of loans and advances to customers for the year divided by average customer loans before accumulated provisions (as defined).

Definitions and explanations on Alternative Performance Measures Disclosures (continued)

Provisioning coverage ratio for 90+ DPD	Provisioning coverage ratio for 90+ DPD is calculated as the accumulated provisions (as defined) divided by 90+ DPD (as defined).
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined).
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, 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.