Pillar 3 Disclosures 2014

1 Introduction

1.1 Corporate Information

Bank of Cyprus Public Company Ltd (Bank, Company) is the holding company of the Bank of Cyprus Group (Group). The principal activities of the Bank and its subsidiary companies involve the provision of banking, financial and insurance services.

The Bank is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Bank has a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX). During the period from 19 March 2013 to 15 December 2014, the shares of the Company were suspended from trading on the CSE and ATHEX. As from 16 December 2014, all ordinary shares of the Company are listed and traded on the CSE and ATHEX.

1.2 Pillar III Regulatory Framework

Regulatory framework overview
In 2013, the European Union adopted a legislative package to reinforce the regulation of the banking sector and to implement the Basel III agreement into the European Union's legal framework. The new package replaced the Capital Requirements Directives (2006/48 and 2006/49) with the Capital Requirements Regulation (EU) 575/2013 (CRR) and the Capital Requirements Directive (CRD IV) and is considered as a key step towards creating a sounder and safer financial system. The CRR and CRD IV came into force on 1 January 2014.

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The current regulatory framework comprises three pillars:

- Pillar I covers the calculation of risk weighted assets for credit risk, counterparty risk, market risk and operational risk.
- Pillar II covers the Supervisory Review Process (SREP), which assesses the internal capital adequacy processes 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.

Basis and frequency of disclosure
The 2014 Pillar III disclosures report (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 III framework requirements (see Appendix I for specific references to CRR).

The Report is published annually on the Group's website http://www.bankofcyprus.com (Investor Relations) and in conjunction with the Group's Annual Financial Report, in accordance with regulatory guidelines. The Report provides additional information on the capital and risk profile of the Group.

Verification
This Report is published by the Group as per the formal disclosure policy approved by the Group's Board of Directors (BoD).

The 2014 Pillar III Report was approved by the BoD on 31 March 2015. The information contained in the Report has been approved by the Group's Audit and Risk Committees and was reviewed and verified for management purposes. The review and verification found no material inconsistencies as regards the reasonableness of the disclosures and compliance with the disclosure requirements of Part 8 of the CRR.

1.3 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 accounting data prepared in line with International Financial Reporting Standards as adopted by the EU (IFRS), mainly due to differences between the prudential consolidation basis and the accounting consolidation basis and/or differences in the definitions used (reconciliation between the balance sheet presented in Consolidated Financial Statements with the balance sheet prepared for prudential purposes is presented in Section 3).

The accounting consolidation basis of the Group is determined in accordance with IFRS and is described in Note 3.4 of the Consolidated Financial Statements of year 2014. The basis of consolidation for prudential purposes includes only those which form the basis for the calculation of regulatory capital requirements. The basis of consolidation of the Group entities for accounting and prudential purposes is presented in Appendix II.

2. Risk management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

2.1.1 Risk Management Framework

The Group aims to embed explicit and robust risk management practices in all areas of the business, from the initial design of its business strategy to the sale of services and products to its customers, so as to ensure that the level of risk it faces is consistent with the BoD's approved Risk Appetite Statement and corporate objectives. This is achieved by implementing a sound, coherent and comprehensive risk management framework for the identification, assessment, monitoring and control of risks within the Group. The Group's risk management framework improves the service provided to customers, enhances the Group's productivity and cost effectiveness, and protects and maximises shareholder value. It also allows the Group to adapt and meet challenges in a structured way, so that it can continuously align its strategy and business objectives against a background of changing risk and uncertainty.

The Group's risk management framework is based on four key elements: a) Risk Governance; b) Organisational model and risk functions (policies, guidelines, monitoring and reporting); c) Risk Appetite; and d) Risk Culture.

The Group's risk management framework has been developed to:

- Ensure that the level of capital adequacy as approved from time to time in the Risk Appetite Statement is maintained and safeguards that the total risk taken across the Group is not greater than the Group's ability to absorb losses.
- Allow the Group to proactively manage its risks in a systematic and structured way and to continuously refine its processes in order to reduce its risk profile and ultimately its capital requirements.
- Ensure appropriate strategies are in place to mitigate or transfer risks.
- Ensure that risk management is an integral part of the Group's process of strategic decision making and capital planning.
- Help create a culture of risk awareness at all levels within the Group.
- Engage Group management in monitoring, reviewing, reporting and managing of identified risks, as well as consider new and emerging risks on a continuous basis.

The Group's risk management framework is monitored by various executive and board committees as described further below (Section 2.1.3). The framework and its constituents are subject to compliance and assurance reviews that endorse its effectiveness or where necessary identify issues to be addressed.

The Group's management and BoD are satisfied that these arrangements are appropriate given the risk profile of the Group.

2.1.2 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. The Group holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk (including litigation risk).

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 Bank or failure to perform as agreed. Within the general concept of credit risk, the Bank also identifies and manages the following risk types:

- Counterparty credit risk: the Bank's credit exposure products with other counterparties.
- Settlement risk: the risk that a counterparty fails to deliver the terms of a contract with the Bank.
- Issuer risk: the risk to earnings arising from a credit deterioration of an issuer of instruments in which the Bank has invested.
- Concentration risk: the risk that arises from the uneven distribution of exposures to individual borrowers or by industry, economic sector or geographical regions.
- Country risk: the Bank'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, 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 Bank, 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 loss and the material adverse impact resulting from inadequate or failed internal processes, systems and personnel or from events external to the Bank. It includes potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies and procedures, including the possibility of unauthorised transactions by employees. Further, Operational risk encompasses certain other risks such as information security and Information Technology (IT) risk, legal/litigation risk (see further below), taxation risk, reputational and conduct risk and compliance risk (in close cooperation with the compliance function).

Litigation risk

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 proceedings against the Group and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it. Additional information on Litigation risk is disclosed in Note 41 of the Consolidated Financial Statements of year 2014.

Additional information on other risks is disclosed in Note 49 of the Consolidated Financial Statements of year 2014.

2.1.3 Risk Management Governance

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

1. The Board's Risk Committee (BRC).
2. The Group's Executive Committee (EXCO).
3. The Group's Acquisitions and Disposals Committee (ADC).
4. The Group's Asset and Liability Committee (ALCO).
5. Executive Management Credit Committees (including three sub-committees).

The Group Chief Risk Officer (GCRO) oversees the entire risk management function, including overseas and local subsidiaries.

The GCRO oversees and promotes the development and implementation of a consistent Group-wide risk management framework. The Group Executive Committee and other Group committees receive regular briefings and guidance from the GCRO to ensure awareness of the overarching risk management framework and a clear understanding of their accountabilities for risk and control. Risk managers who report directly to GCRO are allocated responsibility for certain specific risk types and are responsible for ensuring the adequacy of the risk management framework for their risk types, as well as the oversight of the risk profile across the Group.

The GCRO is a member of the EXCO, the ADC (veto power), the ALCO and an observer with veto power in the Credit Committee 3, the highest executive credit committee. His representatives (Credit Risk Assessment Department) are observers in Credit Committees 1 and 2 with equal power of veto.

The GCRO chairs the Risk Committee of the subsidiary company, CB Uniastrum Bank LLC and together with the manager of International Risk Management and Other Subsidiaries participate in overseas and local subsidiaries' risk committees (where applicable).

In addition to the Group ALCO, there are ALCO committees in every overseas banking unit where the Group operates. Managers from Group Risk Functions (International Risk Management and Other Subsidiaries, Group Market Risk) and the Group Treasurer participate as observers in all ALCO committees.

Risk governance is based on the three lines of defence model, according to which the first line of defence against impending risks lies with line management and the second line of defence lies with the Risk Division and other relevant control functions as set out in the diagram shown below. The third line of defence rests with Internal Audit and independent assurance providers.

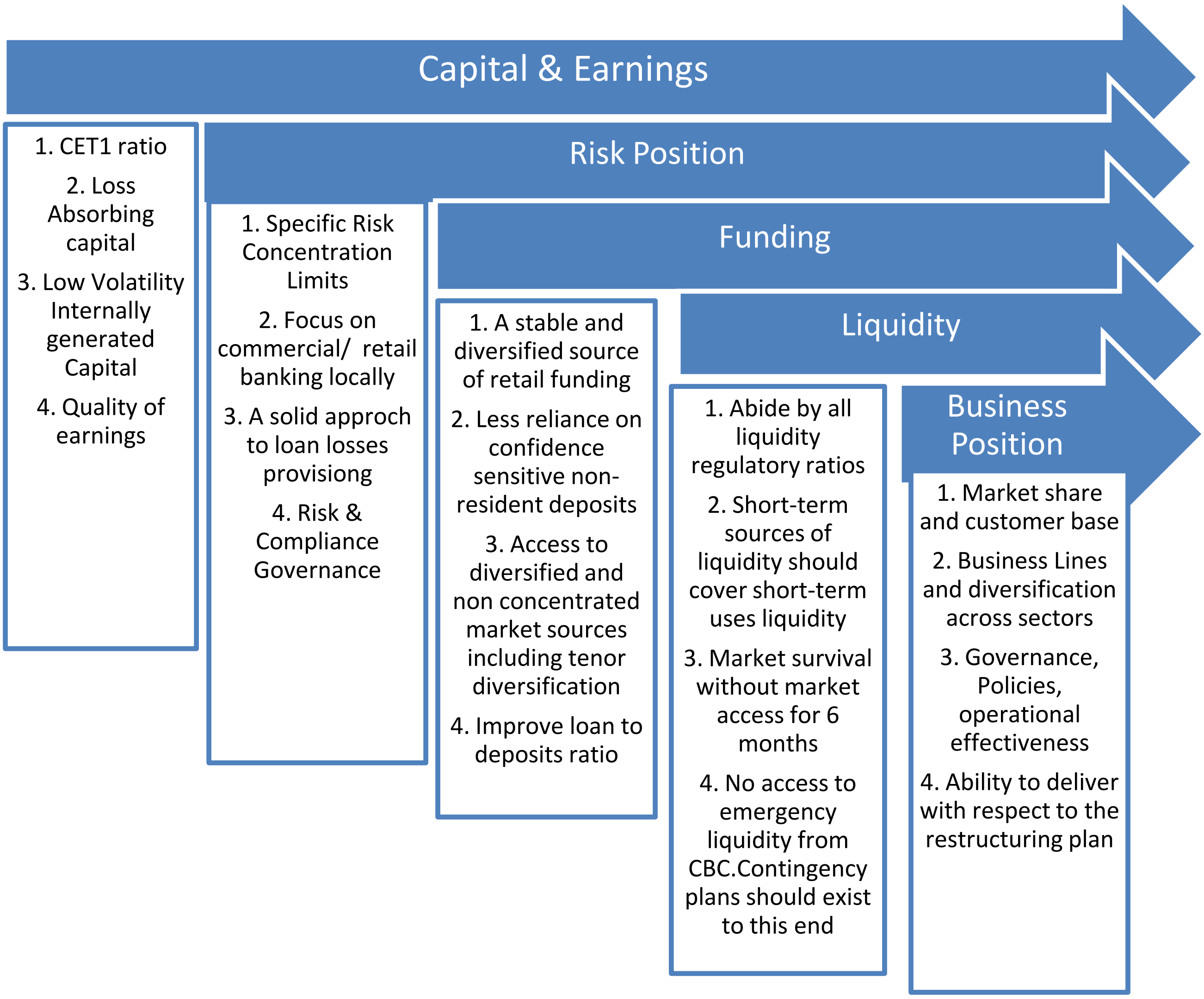
The main role of the divisions/units assigned to the second line of defence is to provide the tools and methodologies for risk management to the business units, to promote risk awareness, to engage business units in identifying, measuring and mitigating risks as appropriate, to report the losses from risks identified to Executive Management and the Regulatory Authorities, to facilitate the collection and monitoring of Key Risk Indicators (KRIs), to identify 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.

As of 4 November 2014, the Bank is supervised by the Single Supervisory Mechanism (SSM) of the European Central Bank (ECB), which is the supervisory body for all banks in the Eurozone. The SSM exercises its supervision in cooperation with the Cyprus Central Bank (CBC). In order to facilitate a more efficient and effective communication process with all regulators, Group management decided to form the Regulatory Steering Group (RSG) during 2014. The RSG is a forum comprising seven Senior Executives of the Group and is chaired by the CEO. The RSG meets on a regular basis and has responsibility for the overall oversight of all activity concerning regulatory/supervisory obligations, ensures requests are completed within the set target date, to the standard that was expected by the regulators/supervisors and, where necessary, quality assured.

The RSG is supported and informed by the Regulatory/Supervisory Coordination Office (RSCO). The RSCO reports to the GCRO and acts as the RSG secretary. The RSCO acts as a primary point of contact, together with the Group Compliance Division, with the Competent Authorities for all regulatory/supervisory obligations. It is responsible to properly record all incoming and outgoing activity/correspondence from all Competent Authorities, to promptly distribute all regulatory obligations and to subsequently monitor their prompt implementation within the set target dates through regular reports from the responsible owners.

2.1.4 Risk Appetite Statement

Risk appetite is the amount and type of risk that the Group is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk. The BoD has approved a Risk Appetite Statement, expressed along multiple dimensions, including both 'normal' business conditions and 'stressed' scenarios with zero tolerance for regulatory, legal or compliance risks.



Where necessary, risk appetite statements for subsidiaries and business lines are also prepared. These risk appetite statements are subject to approval by the local boards of directors as well as the Bank's BoD. Currently, the risk appetite statements of CB Uniastrum Bank LLC and Eurolife Ltd have been approved by the BoD. Bank of Cyprus UK Ltd has prepared a Risk Appetite Statement as part of the Internal Capital Adequacy Assessment Process (ICAAP) which has been approved by the UK regulator. Similar statements are currently being drafted for General Insurance of Cyprus Ltd and JCC Payment Systems Ltd.

The Group currently operates in a macro environment well outside its risk appetite and as a result almost all major risk areas are significantly affected. The BoD is deemed as the appropriate body to set the risk appetite, which provides medium to long term direction to executive management.

During 2014 the Group has taken steps to move closer to its risk appetite by lowering emergency liquidity reliance, raising capital to strengthen its capital position, improving its governance and building on its reputational weaknesses. Despite the many positive steps, as at the end of 2014 the Group operates outside of its risk appetite in the following major areas:

- *Liquidity*: reliance on emergency liquidity continues; along with violation of regulatory ratios.
- *Funding*: funding diversification and adequate maturity/tenor diversification is not achieved. The loans to deposit ratio is above 100%.
- *Risk Position*: asset quality with significant legacy issues continues to be stressed and the current Non Performing Exposures (NPEs) level is not within the Group's risk appetite. There are also violations of concentration limits due to legacy positions that are currently being worked down.
- *Capital and Earnings*: the raising of €1 billion new equity in 2014 has largely addressed this issue, although volatility and quality of earnings needs to be closely monitored and managed together with deleveraging actions and disposal of non-core assets.

As described above, the Group's Risk Appetite Statement is not static and thus is continuously monitored and evaluated against Group performance so as to ensure it reflects its business model and that any deviations are promptly identified and receive the appropriate attention. The BoD is satisfied that during 2014 the Group has taken steps to move closer to its risk appetite in areas of deviation.

Following consultation between the Group and the CBC, the following Key Performance Indicators (KPIs), including medium-term targets, have been selected reflecting the priorities of the Group in relation to asset quality, funding, capital and efficiency. These are published on a quarterly basis in order for the public to assess the progress of the restructuring plan and the financial performance of the Group.

Group Key Performance Indicators		**Actual December 2014**
Asset Quality	90+ Days Past Due provision coverage	41%
	Provisioning charge (Cost of Risk) (YTD)	3,6%
	90+ Days Past Due (€ million)	12.653
Funding	Loans to Deposits ratio (net)	141%
Capital	Common Equity Tier 1 capital ratio (transitional)	14,0%
	Leverage ratio (Assets/Equity)	7,7x
Efficiency	Cost-to-Income ratio (YTD)	36%
	Net Interest Margin (YTD)	3,94%

As part of its deleveraging strategy, and through specific, deliberate and well-timed actions, the Group has managed to reduce its risk profile, to enhance its liquidity position and to improve its capital position through the disposal of operations that are considered as non-core.

During 2014, the Group disposed its Ukrainian operations, its significant Serbian exposures, part of its Romanian portfolio and the majority of the UK loan portfolio acquired from Laiki Bank in March 2013.

Following the significant deleveraging achieved, the remaining non-core overseas operations as at 31 December 2014 are as follows: (a) Greece, comprising net on-balance sheet exposures totalling €120 million, about 600 foreclosed properties with a book value of €179 million and off-balance sheet exposures totalling €185 million, (b) Romania, with an overall net exposure of €520 million, and (c) Russia, with an overall net exposure of €130 million.

Further information on non-current assets and disposal groups classified as held for sale is disclosed in Note 28 of the Consolidated Financial Statements of year 2014.

2.1.5 Risk Culture

The BoD and BRC have a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Group's Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

The independent and strengthened Risk Management Division (RMD) has a mandate to define sound policies reflecting the approved Risk Appetite of the Group and monitor risks in a proactive manner across the business segments. RMD is structured in such a way to ensure all risks across the Group have ownership, accountability and clear reporting lines.

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 wishes to build is reflected in its policies and procedures and these are closely aligned to its Risk Appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon.

The Group has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

- Embedding risk culture at all levels of the organisation with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in job content and descriptions of key personnel.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training of front-line personnel.

Furthermore, the Group takes risks in connection with its normal business and as such, the following principles underpin the inherent risk culture:

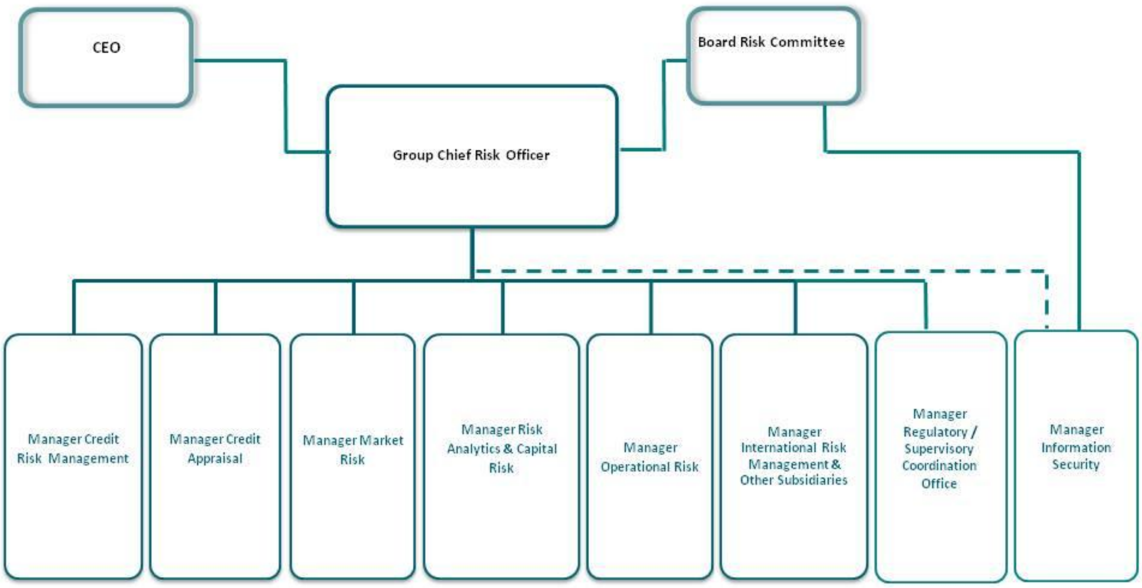
- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated.
- Risk should be continuously monitored and managed.

The Group's RMD focuses its efforts on monitoring the extent to which the risk culture is embedded in the day-to-day operations. Measures to monitor the degree to which this is achieved include, but are not limited to, tracking:

- The number and frequency of risk limits exceeded.
- Causes of limit breaches.
- The number of issues identified in internal audit reports.
- The manner in which audit issues have been addressed.
- The percentage of self-reported risk problems.
- The degree to which information is filtered as it is escalated.
- How the Bank deals with staff that have violated risk policy, including how many unintentional mistakes are addressed.

2.1.6 Risk Management Division

The RMD is structured in such a manner so as to ensure that all risks across the Group have proper ownership, accountability and clear reporting lines and to promote the proper empowerment in key risk areas that will form the foundation towards the proper risk culture in the organisation. The structure of the RMD is shown in the diagram below:



Several teams within the RMD cover overarching aspects of risk management. Broadly, they are responsible for the following functions within the Group's risk management framework:

- Facilitation of policy setting in line with the strategic and business objectives.
- Development of the framework for appropriate risk governance.
- Co-ordination of risk management activities within the Group.
- Development of risk measurement and monitoring tools.
- Assessment and aggregation of all material risks to ascertain the Group's overall risk position.
- Development of capital adequacy assessment models.
- Compliance with relevant Regulatory and Competent Authorities requirements.

In addition, a dedicated risk manager for the overseas operations and local subsidiaries has been appointed in an effort to be more proactive with respect to those operations. The mandate of all risk personnel is to have increased focus on holistic risk management and cross-risk oversight in order to further enhance the Group's risk portfolio steering. Key objectives are to:

- Provide a strategic and forward-looking perspective on the key risk issues for discussion by senior management within the Group (risk appetite, stress testing framework).
- Strengthen the risk culture in the Group.
- Foster the implementation of consistent risk management standards.

The integration of the risk management of the Group's overseas and local subsidiaries is promoted through:

- Harmonised processes for identifying, assessing, managing, monitoring and communicating risk.
- The strategies and procedures for determining and safe guarding risk-bearing capacity, and corresponding internal control procedures.

2.1.7 Risk Management Process and Policies

The Group places great emphasis on robust risk governance processes and policies as they form part of the decision-making process, in order to ensure that risk issues, risk mitigants and the cost of accepting or managing risks are taken into account. Ad-hoc or rushed processes are avoided to the extent possible.

The risk management process is integrated within the Group through established internal policies, systems, controls and comprehensive reporting, commensurate with the complexity of the Group's activities and structure. The system of internal controls provides reasonable assurance for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.

Processes 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. The vast majority of these policies were approved by the BoD during 2014 and the implementation throughout the Group's subsidiary companies is in progress.

The risk management policy universe is as follows:

S/N	Policy name	BoD Approval Date	Revision Frequency
1	Lending Policy (New Loans/Renewals/Credit)	29/08/2014	Annual
2	Information Security Policy	28/02/2014	Annual
3	Valuation Policy	30/04/2014	Annual
4	Liquidity Policy Statement	28/02/2014	Annual
5	Provisioning Policy	27/08/2014	Annual
6	Concentration Risk Policy	28/02/2014	Annual
7	Business Continuity Planning Policy	30/05/2014	Annual
8	Reputational Policy (New Policy adopted in 2014)	30/05/2014	Annual
9	Liquid Assets Investment Policy	30/05/2014	Annual
10	Country Risk Policy (New Policy adopted in 2014)	30/05/2014	Annual
11	Restructuring Policy	18/12/2013	Annual
12	Fraud Management Policy (New Policy adopted in 2014)	29/08/2014	Annual
13	Operational Risk Management Strategy and Governance	29/08/2014	Annual
14	Stress Testing Policy	29/08/2014	Annual
15	Market Risk Policy	29/08/2014	Annual

2.1.8 Recovery Plan

The CBC instructed the Bank on 14 March 2014 to build a Recovery Plan based on the guidelines provided by the European Banking Authority (EBA).

Following the principles laid out by the EBA, the Bank's Recovery Plan:

- Distinguishes between critical and non-critical business lines and assets, in order to prioritise the parts that can be disposed of.
- Provides for a concrete and well-functioning crisis governance system to ensure appropriate action under stress.
- Includes recovery measures that leverage on the Group's own resources to get out of the crisis, instead of relying on State or EU funds and support mechanisms.
- The Recovery Plan also provides a listing of overall Bank's recovery indicators and early warning "trigger" indicators, it details the potential recovery options, it describes severe stress scenarios, and it defines an implementation plan for measures in these scenarios, and lastly articulates a communication plan and information management principles.

2.1.9 Stress Testing

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 market risk variables and portfolios.

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

- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Use 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.

The Bank participated in the 2014 ECB Comprehensive Assessment. Following the share capital increase of €1 billion in September 2014, the Group passed the Assessment run prior to the inception of the SSM in November 2014. The Comprehensive Assessment was conducted by the ECB in cooperation with the CBC and it comprised two pillars, an Asset Quality Review (AQR) and a stress test.

The Comprehensive Assessment was based on a capital benchmark of 8% CET1 ratio, including transitional arrangements of CRR/CRD IV. For the purposes of the EU-wide stress test, the minimum ratios applied across all participating banks were set at 8% CET1 ratio for the Baseline Scenario and 5,5% CET1 ratio for the Adverse Scenario.

The Comprehensive Assessment concluded that the theoretical aggregated capital shortfall of the Group was €919 million. Taking into account the successful capital increase of €1 billion completed on 18 September 2014, the theoretical shortfall was covered, leading to a capital surplus of €81 million and, therefore, the Group was not obliged to proceed with any capital enhancing actions.

2.1.10 ICAAP and Pillar II

Following the resolution measures, the Bank was required to prepare a restructuring plan for the period 2013 to 2017 aiming at ensuring its viability and the reduction of its dependence on central bank funding. The CBC has assessed the Bank's restructuring plan to ensure it is based on a robust and coherent strategy and is supported by a set of prudent financial projections. The restructuring plan was approved by the Central Bank of Cyprus on 26 November 2013. Based on the above, the CBC did not require the bank to submit an ICAAP report for 2014.

The minimum Common Equity Tier 1 (CET1) capital ratio under the CRR and the CRD IV was set by the CBC at 8% on a transitional basis (Pillar I capital requirement). 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). The Group's current capital position satisfies both its Pillar I capital requirement and Pillar II add-on capital requirement. However, the Group's Pillar II add-on capital requirement is a point in time assessment and therefore is subject to change over time.

2.2 Risk Management Functions

2.2.1 Credit Risk Management

The role of credit risk management is critical, especially given the current environment in which the Group operates.

There are various functions 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.

2.2.1.1 Measurement and Assessment - Systems

The effective management of the Group's credit risk is achieved through a combination of highly trained and specialised staff and appropriate credit risk assessment systems. The Bank aims to continuously upgrade its systems and models used in assessing the creditworthiness of Group customers. This is 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 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 five scorecards (customer level, mortgage loans, fixed term loans, cheque accounts and credit cards).

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:

(a) *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, 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.
(b) *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.
(c) *The **transaction rating***: An overall assessment of the customer is performed taking into account the customer's financial index, their borrower rating, as well as the collaterals/security gap of the Bank. This module (facility structure module) will support the creation of loss given default, exposure at default and expected loss in compliance with the Basel III internal-ratings based approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

2.2.1.2 Credit Risk

The Credit Risk Policy (CRP) department develops a number of policies necessary to address credit risk in the Bank. These policies are reviewed and updated by the CRP department 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 Restructuring and Recoveries Division (RRD), the Group has strengthened the management and recovery of its delinquent loans, especially the large corporate exposures.

The key elements of the Group's Credit Risk Policy and processes are:

(a) A clear and separate organisational responsibility for the management of credit risk for the Group as follows:

- Credit origination is the responsibility of the relevant business division.
- Credit appraisal is the responsibility of the Credit Appraisal Department (CAD) which is independent of the relevant business divisions and is under the supervision of the GCRO.
- The monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy are the responsibility of the Credit Risk Reporting and Control Department (CRRCD).

(b) The implementation of prudent credit risk policies 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, these credit risk policies include strict credit criteria (such as restricted/high risk sectors of the economy and ratios such as EBITDA to annual debt service, interest rate cover, gearing and total leverage) for all lending segments as determined by the CRP. The application of these credit risk policies is combined with the assessment of a customer's creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department.

(c) An increase in the frequency of the review of credit approval and concentration limits.

(d) Delegation of credit approving powers to allow for credit risk assessment by personnel of the appropriate experience and seniority.

2.2.1.3 Credit Approval Limits and Structure

The structure and general rules of the credit approval limits are documented in the Bank'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. The review process includes a consideration of the following factors:

- The quality of the credit facility applications.
- The quality of the customer portfolio per unit/division.
- The inflow of accounts from the different units/divisions to the RRD.
- The corporate level targets on quality of advances and new lending.

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 results of credit scoring system for private individuals or the borrower rating for legal entities as calculated by Risk Analyst.

Basic Credit Criteria

The Group's primary lending criterion is the borrower's repayment ability. The Group places paramount importance on the assessment of a prospective borrower's ability to meet repayment schedules.

Application scoring is used for new customers and the score/decision is based on the customer's characteristics and the terms of credit of the requested facilities at the time of the application. In relation to lending to existing customers, the Group 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.

With respect to Small Medium Enterprises (SME) and corporate lending, the CRP department has introduced the following additional credit criteria which are in line with its conservative credit risk policy:

- *Collateral coverage*: Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities.
- *Restricted/high risk sectors*: The CRP has defined specific economic sectors to be avoided (such as trade in tobacco, weapons, online betting, etc) that are outside the strategy of the Group or pose other risks that the Group is not willing to accept.
- *Foreign exchange disbursements*: Disbursements in foreign currencies are generally not permitted but applications can be examined exceptionally by the CAD or higher approving authorities (Committees), depending on the exposure of the customer.

In cases where collateral is sought, the Group generally lends on the basis of a first charge and takes a second charge only in exceptional circumstances, such as where the Group's primary collateral is taken in some other way and the second charge provides additional comfort. Generally, the Group requires a review of the collateral held if the borrower makes a request for a new facility, an application for restructuring of existing facilities or during the annual review. Additional criteria include the loan-to-value ratio, which may have restrictions imposed by the CBC, the term of the loan and the age of the borrower in case of private individuals.

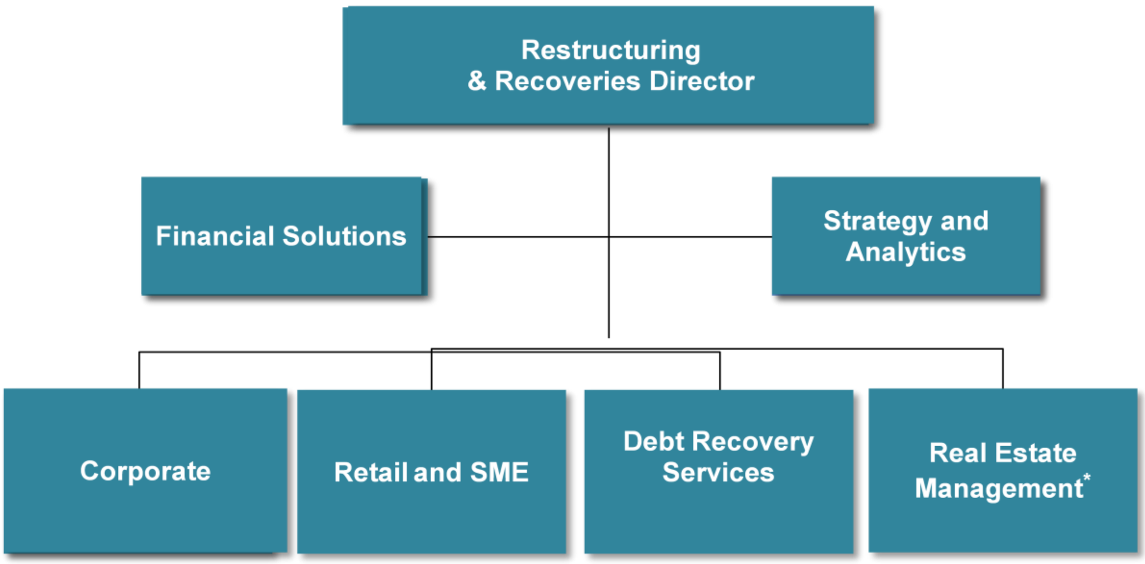
Efficient management, monitoring and control of customer advances

Credit Risk Management is responsible to manage credit risk at all levels in the Bank. To that effect, various policies, procedures and processes are in place in order to maintain the Bank's credit risk exposure within acceptable parameters.

- *Collateral revaluations*: The Credit Risk Control Unit (CRCU) produces a comprehensive report on a quarterly basis of all mortgaged properties that require revaluation, analysed 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.
- *Borrowers' audited financial statements*: The CRCU monitors the submission of borrowers' audited financial statements 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 Bank'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 perceptive; that is, whether the new product satisfies the Bank's risk appetite statement, its characteristics are according to the credit policy and its financial analysis includes all related risks.
- *Portfolio Quality Indicators/Key Performance Indicators*: Monitoring closely the quality/performance of the Bank's client portfolio is of great importance. Sound credit monitoring practices can help the Bank 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.

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 establishment of the RRD in 2014, as part of the new organisational structure, aims to manage arrears across all portfolios. The RRD is responsible for the managing of problematic loans in Cyprus with a dedicated workforce close to 500 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



***Currently using the services of external property consultants**

2.2.1.4 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 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 in provisions.
- Roll rates.

The daily monitoring of key quality indicators such as non-performing exposures and restructuring activity facilitates the identification of early warnings, which are reported to senior management for the necessary actions and corrective measures.

Concentration risk

A key aspect of credit risk is concentration risk, 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 types or currencies. High-levels of credit concentration require capital buffers. Therefore, the Group exercises effective management for this type of risk through limit setting (e.g. industry limits) and reporting.

2.2.1.5 Credit Risk with Correspondent Banks and Countries

The Market Risk (MR) department is responsible for the credit risk, with correspondent banks and countries. Counterparty Risk is explained in Section 5.1 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.

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 presented to ALCO and BoD, through the BRC:

- *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 Bank 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.
- *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.
- *Commercial transactions*: relate to letters of credit, letters of guarantee or other similar products.
- *Committed lines of credit* are also taken into account, where present.
- *Investment properties* of overseas operations.

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. Such information is obtained from various international publications and from country reports of various organisations (such as Moody's, S&P and Fitch) and/or economic data published by the country's supervising authorities. Statistical information prepared by the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS) is also taken into account. Important factors taken into consideration are, among others, the official reserves of the country as well as its balance of payments, inflation and historic data in relation to servicing its external debt. Relevant information may also be obtained from correspondent banks, as well as, from Bloomberg/Reuters.

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.
- The Group's capital base, in accordance with maximum percentages of the approved model.

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 sub-limits for Treasury transactions (excluding countries where the Bank is operational) are allocated based on the CET1 capital of the Bank and the country's credit rating. Any exceptions are approved by the BoD through the BRC.

The 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 through the GCRO to the ALCO and/or the BRC, 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.

The GCRO and the Group's CEO, may reduce the limits already approved by the BoD if market conditions deteriorate.

2.2.1.6 Policies for Credit Risk Mitigation

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

- *Lending Policy*: the main/core policy of the Group which includes collateral, customer and facility types, lending criteria, repayment ability calculation and loan-to-value rules.
- *Concentration Policy*: covers sectoral, geographical, counterparty, currency, collateral, funding source and derivative concentration. Regarding collateral, limits are imposed on shares/marketable securities and specialised assets (properties or assets that can be used for a specific purpose or serve a particular function, such as petrol stations, shopping malls, hospitals, farms, hotels, aircraft, ship vessels etc).
- *Dangerous/prohibited sectors*: provides guidelines on which sectors/customer types are considered high risk and are approved by exception at higher committee levels.
- *Sanctioning limits*: details of approving authorities and related credit limits as well as parameters for approval.
- *New loan origination and revision of existing facilities*: based on the relevant CBC directives.
- *Restructuring of private individuals and legal entities*: detailed guidelines on the restructuring process for all customer types such as definitions of cooperative/viable customers, approval process, evaluation criteria, restructuring solutions/packages, required information to be collected.
- *Valuation and monitoring of collaterals*: for each collateral type, the relevant guidelines are given on when to value/revalue as well on the recoverable amount based on CBC directives.

2.2.2 Market Risk Management

Market risk is the risk of loss from changes in market prices and from changes in interest rates, exchange rates and security prices.

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

- Interest rate risk.
- Exchange Rate risk.
- Liquidity risk.
- Credit risk with correspondent banks (Section 2.2.1.5).
- Country risk.
- Price risk.

The monitoring of these risks at local banking units is carried out by market risk officers in the various countries in which the Group operates. The officers report directly to the MR department.

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

2.2.2.1 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 and liabilities.

In order to control the interest rate risk, there are limits on the maximum reduction of net interest income of each banking unit that can take place each year, over the three years after the reporting date. There are different limits for Euro and foreign currencies. These 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 accordance with their contribution to the Group net interest income. Small limits have also been set for open interest rate positions in the over three-year period after the reporting date.

MR department measures the impact of a 2% change in interest rates on the economic value of the Group as per the CBC guidelines. The ALCO has set a maximum limit for this change equal to 10% of Group CET1 capital. 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 to the amount of their Risk Weighted Assets and/or to the amount of their capital (where it exists). This analysis is presented in Section 10.

As at 31 December 2014, the total economic value effect for a 200 basis points decrease in the yield curves in all currencies was €23,6 million (0,67% of CET1 capital).

The 2% change in interest rates on the economic value of the Group is within the ALCO approved limit of 10%. On an individual basis all units are within the desired ratio of 10%. For the foreign subsidiaries (BOC UK, Channel Islands and Uniastrum Bank) the change in economic value is depicted both as a percentage on 8% of RWA and their own capital.

Interest Rate Risk Management

The nature of interest rate risk as well as the impact from an upward and downward change in interest rates is covered in Section 10.

Interest rate risk is managed centrally at Group level. Group Treasury either provides fixed rate funding to other banking units that grant fixed rate loans, or accepts fixed rate funding from banking units to hedge their fixed rate deposits. Interest rate risk is also hedged using Interest Rate Swaps (IRS) between the various banking units of the Group as well as with external counterparties.

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 hedge accounting. Every month tests are carried out to ensure that hedges fulfil the objective for which they have been set up.

For over three year positions, there are strict position limits. Any positions not hedged are identified since they violate the open position limits and are communicated to senior management for further guidance.

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 IFRS.

2.2.2.2 Exchange Rate Risk

Exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to 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.

	Intraday	**Overnight**
	€ million	**€ million**
Cyprus	20	20 (10 per currency)
United Kingdom	3	1,5
Uniastrum	8	4
Romanian branch and Romania Leasing	1	0,5
Total	**32**	**26**

Each local market risk officer is responsible for monitoring both their intraday and overnight Foreign Exchange (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.

Exchange Rate Risk Management

The table below sets out the Group's currency risk resulting from its FX open positions as at 31 December 2014, assuming reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on historical price fluctuations:

	Change in exchange rate	**Impact on loss after tax**	**Impact on equity**
2014	**%**	**€000**	**€000**
US Dollar	+10	9.717	-11.664
Russian Rouble	+40	-1.065	-11.952
Romanian Lei	+10	-2	4.165
Swiss Franc	+20	6.506	-
British Pounds	+10	1.904	-16.110
Japanese Yen	+10	854	-
Other currencies	+10	65	-
US Dollar	-10	-7.950	9.543
Russian Rouble	-40	456	5.122
Romanian Lei	-10	2	-3.408
Swiss Franc	-20	-4.337	-
British Pounds	-10	-1.558	13.181
Japanese Yen	-10	-699	-
Other currencies	-10	-53	-

It is noted that the impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries, whose functional currency is not the euro. The net assets are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

Policies for Hedging and Mitigating Exchange Rate Risk

The Group aims to minimise market risks through hedging. Only minimal open positions are allowed for exchange rate risk.

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

The exchange rate risk for the Bank mainly arises from:

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

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

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

2.2.2.3 Liquidity Risk

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.

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.

Responsibility for Liquidity Management

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 this strategy 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 BRC. While the BoD has the ultimate responsibility for liquidity management, it has appointed the ALCO to ensure the timely and effective implementation of the liquidity policy.

Local ALCOs have the responsibility for ensuring that they comply with local regulatory liquidity guidelines, any internal requirements and Group liquidity policies. The ALCO, at its monthly meetings, reviews the liquidity reports submitted from all Group banking entities and decides on specific actions with respect to Group liquidity.

The Treasurer of each banking unit has the responsibility for the day-to-day management of the liquidity position of its unit, with the ultimate aim to ensure that there is sufficient liquidity to meet obligations as they fall due and that they comply with all regulatory and Group ratios/guidelines. The local Treasurers have dual reporting to local management and to the Group Treasurer.

Group Treasury coordinates and has executive responsibility for liquidity management across the Group and implements ALCO decisions with respect to liquidity. Group Treasury is also responsible for the liquidity management both at Group level and at the level of each individual unit. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Group's liquidity position, such as the issuance of covered bonds, which can be used as collateral in refinancing operations of the ECB.

The MR department is responsible for monitoring compliance with regulatory and internal limits and policy guidelines.

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

- Group CEO.
- Finance Director.
- GCRO.
- Group Treasurer.

All regulatory limit violations with the recommended remedy are reported to the ALCO and BRC.

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 Group's liquidity policy is designed to avoid reaching a crisis point. However, in case a liquidity or 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.

In 2015, an Internal Liquidity Adequacy Assessment (ILAA) will take place, which will be co-ordinated by the MR department and submitted to the regulators in May 2015.

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's significantly strengthened capital position, the ECB Comprehensive Assessment results and the overall improvement in its financial position are expected to enhance its funding options and facilitate access to the capital markets. Depending on market conditions and investor appetite, the Bank will assess the possibility of raising wholesale funding, with the proceeds of such funding used to reduce Emergency Liquidity Assistance (ELA).
- 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 problematic loans.

The Group liquidity ratio[1] was as follows:

Group Liquidity ratio	**2014 %**
31 December	20,97
Average ratio of the period	15,27
Highest ratio	20,97
Lowest ratio	12,11

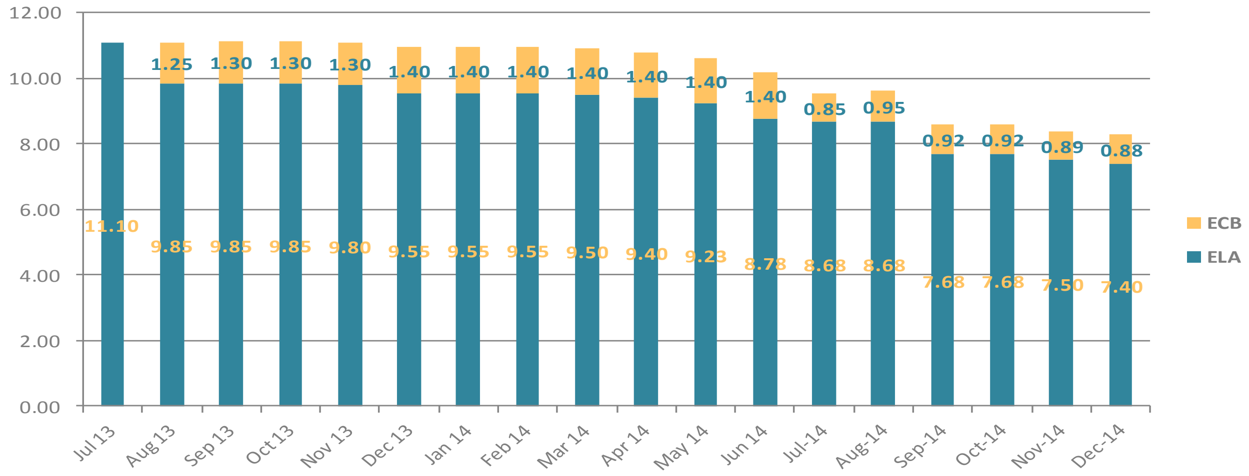
The minimum liquidity ratios for operations in Cyprus are set at the levels required by the CBC: 20% for Euro and 70% for foreign currencies. It is also noted that in the calculation of the above ratios, as well as for CBC regulatory reports, ELA is treated as a long term liability.

Despite the current crisis and the liquidity stress the Group has been under, various actions (i.e. deleveraging, disposal of non-core assets) that have taken place during 2014 have led to an improvement of the liquidity position of the Group.

As at 31 December 2014, the Group had available cash of €1,56 billion compared to €0,9 billion at the end of 2013. The main events that contributed to the increase of cash were the sale of the UK Loans, the disposal of part of the loan portfolio in Romania, the disposal of Serbian loans, the disposal of the Ukrainian subsidiary, the settlement of the receivable from Piraeus Bank, the capital raise and the partial early repayment of a Cyprus Government Bond. During 2014, €2,67 billion of Eurosystem Funding was repaid, reducing ELA funding to €7,4 billion and ECB funding to €0,9 billion on 31 December 2014. Post December 2014, ELA and ECB funding were reduced further to €6,9 billion and €0,8 billion respectively.

[1] *Definition of Group liquidity ratio = cash, short term bank deposits, liquid debt securities and equities available for immediate sale over total liabilities falling due within the next twelve months (all deposits are included irrespective of maturity; other assets as well as customer loans are ignored). The ratio is calculated on a monthly basis.*

The chart below presents the monthly evolution of ELA/ECB funding:

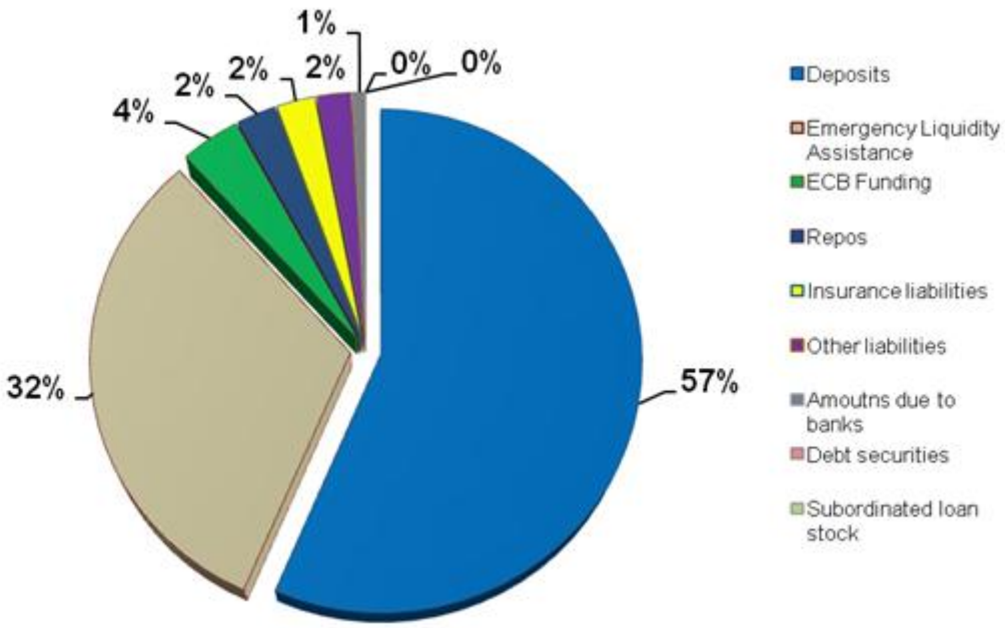


During 2014, all local restrictive measures on the movement of capital have been removed and only restrictive measures on overseas transfers remain in force, but have been extensively relaxed. Moreover, most of the decree deposits were released in 2014 and the remaining €300 million were released in January 2015. Despite the removal of most restrictive measures and the release of decree deposits, deposits have been stabilising and net inflows have been observed every month since May 2014, with the exception of August. Customer inflows have continued during the first quarter of 2015. The last challenge is the full lifting of the remaining restrictive measures for overseas transfers.

Despite the progress made in the Group's liquidity and funding position, the following challenges remain:

(i) Reliance on emergency liquidity and lack of diversification of funding sources.

As presented in the chart below, as at 31 December 2014 the Group's liabilities comprised about 57% customer deposits, 4% ECB funding and 32% ELA. The level of central bank funding as at 31 December 2014 amounted to €8,3 billion, comprising €0,9 billion of ECB funding and €7,4 billion of ELA funding. The ECB funding of €0,9 billion consists of €0,4 billion funding from weekly monetary policy operations and €0,5 billion from targeted – long term refinancing operations (TLTRO). The TLTRO matures in 2018.



Violation of regulatory ratios:

CYPRUS	Minimum Regulatory Ratios	Ratio	Surplus / (Deficit)
			€000
EUR Liquidity mismatch ratio: 0-7 days	-10%	-29,17%	(1.779.702)
Liquidity mismatch ratio: 0-30 days	-25%	-41,10%	(1.494.470)
Stock Liquidity ratio	20%	15,26%	(449.060)
Foreign currency (FCY) Liquidity mismatch ratio: 0-7 days (internal ratio)	-10%	-37,13%	(653.113)
Liquidity mismatch ratio: 0-30 days (internal ratio)	-25%	-56,47%	(757.675)
Foreign Currency Stock Liquidity ratio	70%	26,25%	(982.114)

The other banking units of the Group comply with their respective regulatory ratios, with the exception of Romania, where there was a shortfall of €100 million as at 31 of December 2014.

CHANNEL ISLANDS	**Minimum Regulatory Ratios**	**Ratio**	**Surplus/ (Deficit)**
			GBP 000
Liquidity mismatch ratio: 0-30 days	-20%	44,45%	86.282

UK	**ILG Eligible requirement**	**ILG Eligible liquidity buffer**	**Surplus/ (Deficit)**	**Surplus/ (Deficit)**2
	GBP 000	**GBP 000**	**GBP 000**	**GBP 000**
<2 weeks	159.132	365.722	206.590	240.831
<3 months	159.132	365.722	206.590	234.433

UNIASTRUM BANK	**Minimum Regulatory Ratios**	**Ratio**	**Surplus/ (Deficit)**
			€000
N2 Ratio Instant	15%	77,3%	83.573
N3 Ratio Current 30 days	50%	87,2%	65.317
N4 Ratio Long term >365 days	120%	74,7%	159.292

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

ROMANIA	<1 month	1-3 months	3-6 months	6-12 months	>12 months
Liquidity ratio - all currencies:					
Effective liquidity (€000)	257.088	232.168	232.691	237.475	308.770
Necessary liquidity (€000)	72.253	6	-	-	409.096
Liquidity ratio >100%	356%	3.843.742%	100%	100%	75%
Surplus/(deficit) over minimum (€000)	184.835	232.162	232.691	237.475	(100.326)

Following the events of March 2013, the Cyprus regulatory ratios are in violation and are expected to continue to be, until the ELA is fully repaid. The CBC is aware of this fact. The prompt repayment of the ELA is an important priority for the Bank. The Romanian regulatory ratio is also in breach. The violation occurred after the events of March 2013 and the National Bank of Romania is fully aware of the violation and its causes.

(iii) Lack of funding diversification, as seen in the pie chart above.

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. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required for any capital repayment (including contractual payments upon maturity). The subsidiaries of the Bank, Bank of Cyprus UK Ltd and Bank of Cyprus (Channel Islands) Ltd cannot place funds with the Group in excess of maximum limits set by their respective regulators. Any new funding to subsidiaries requires approval from the CBC.

The subsidiaries can proceed with dividend distribution in the form of cash to the Bank, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

2.2.2.4 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 equities/funds portfolio in its books classified for accounting purposes as either Available-for-Sale (AFS) or Held-for-Trading (HFT). The policy is to manage the current portfolio with the intention to run it down. No new purchases are allowed without ALCO's approval. The portfolio is managed by IWM.

The ALCO and BoD, through the BRC, 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. The equities portfolio of the Bank is very small and the Bank is actively managing it down to zero.

Changes in the prices of equity securities that are classified as HFT affect the results 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 results of the Group).

The table below shows the impact on the loss before tax and on equity (excluding the effect on equity from the impact on loss) 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 loss before tax	Impact on equity
2014	**%**	**€000**	**€000**
Cyprus Stock Exchange	+30	750	3.406
Athens Exchange	+35	-	100
Moscow Exchange	+35	-	258
Other Stock Exchanges and non-listed	+20	-	384
Cyprus Stock Exchange	-30	(3.672)	(484)
Athens Exchange	-35	(27)	(73)
Moscow Exchange	-35	(75)	(183)
Other Stock Exchanges and non-listed	-20	-	(384)

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 and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2014 was Ba3 for the whole bond portfolio. The average rating excluding the Cyprus Government bonds for 31 December 2014 was Aa2.

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of 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 loss before tax	Impact on equity
2014	**€000**	**€000**
Change in market prices		
+4,5%	1.779	31.530
-4,5%	(1.779)	(31.530)

2.2.2.5 Stress Testing

Market Risk performs additional stress tests beyond those referred to in Section 2.1.9, which include the following:

(a) Monthly stress testing for interest rate risk (2% shock on net interest income and economic value).
(b) 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.
(c) Liquidity stress testing on cash flows by both MR department (one month horizon) and Treasury (one and two month horizons).

2.2.3 Operational Risk Management

2.2.3.1 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. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Group acknowledges the importance of managing certain related risks, which are not included in this definition, such as reputational risks.

As such, operational risk encompasses the following risks: conduct[3], reputational[4], legal[5], compliance[6], physical security and information security risks[7]. Operational risk policies and procedures contribute to the management of these risks, which are also directly managed by specialised departments.

The management of operational risk of the Bank has two key objectives:

- To minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses).
- To improve the effective management of the Group and strengthen its brand and external reputation.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards:

- Maintaining a strong internal control governance framework.
- Managing operational risk exposures through a consistent set of processes that drive risk identification, assessment, control and monitoring.

[3] Conduct risk 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 & structured to ensure that it treats its customers fairly by having robust systems & controls, adequate skill, care & judgement.

[4] Reputational risk is defined as the risk arising from negative perception, on the part of the stakeholders, that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.

[5] Legal risk 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.

[6] Compliance risk 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 organisation standards, and codes of conduct applicable to its banking activities.

[7] Information Security Risk is defined as the risk arising from the loss of confidentiality, integrity and availability of information.

Operational risk encompasses the risks emanating from all areas of business within the Group and throughout all of its activities. Due to the direct link of operational risk to the human factor, operational risk management promotes risk culture and awareness within the organisation and the establishment of control policies and procedures.

The overall framework for managing operational risk is approved by the BRC, which oversees the implementation and is updated regularly on operational risk issues. The main objectives of operational risk management within the Group include:

- The development of operational risk awareness and culture.
- The provision of adequate information to the Group's management, at all levels, in relation to the operational risk profile by Group entity and by activity, in order to facilitate decision making for risk control activities.
- The implementation of a strong system of internal controls to ensure that operational losses do not cause material damage to the Group's franchise and have a minimal impact on the Group's profitability and objectives.
- The improvement of productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.

2.2.3.2 Management and Control of Operational Risk

The Group Operational Risk Management Department (GORM) employs specialised tools and methodologies to identify, assess, mitigate and monitor operational risk within the Group. These specialised tools and methodologies assist operational risk management to address any control gaps. To this effect, the following are implemented:

Incident collection

Data on operational risk events (actual losses and 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 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 through the use of specific mitigating actions. Within the year, increased emphasis has been placed on carrying out root-cause analysis of both large operational risk incidents and small-valued but repeated operational risk incidents. This enabled the identification of weaknesses or vulnerabilities and potential threats which in turn supported the specification of actions to minimise the risk of similar incidents occurring in the future. In 2014, 387 loss events with gross loss over €1.000 were recorded, compared to 434 in 2013.

Risk Control Self-Assessment (RCSA)

RCSA workshops are performed by business units, who are responsible to identify their residual risks, as well as the controls/actions needed to mitigate them. A new RCSA methodology has been designed during 2014 that focuses on a step-by-step walkthrough of the major processes of each unit. Risks are identified by considering the weaknesses, vulnerabilities and threats of a given process or system. A universal *Likelihood x Impact scale* has been established, based on which identified risks are assessed to derive the residual risk score. A reputational impact scale has also been defined, to calculate separately reputational risk. Further, as part of the risk assessment process, action plans that list risk mitigating actions have been prepared and are revisited each quarter.

Based on the methodology, business owners are encouraged to identify risks that cover the following areas:

- Information security.
- Money laundering and know your customer.
- Internal and external fraud.
- Continuity of operations.
- Information technology risks.

Key Risk Indicators

A Key Risk Indicator is an operational or financial variable, which tracks the likelihood and/or impact of a particular operational risk. Hence a KRI serves as a metric, which may be used to monitor the level of particular operational risks. KRIs are similar to, and often coincide with, Key Performance Indicators 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 at a department level, and mitigating actions are initiated in the case KRI limit violations are observed. KRIs are reported regularly to the EXCO.

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. GORM actively participates in the evaluation of new or amended procedures, new technology systems and other important decisions or developments in a consultative capacity, with an objective to assist in the identification and assessment of any operational risks.

Business Continuity Risk Management

Business continuity risks are managed to ensure that the Bank has business resiliency and continuity plans in place to ensure it has the ability to operate on an ongoing basis and limit losses in the event of severe business disruption. After the absorption of the operations of Laiki Bank, the Business Continuity Plans (BCP) were in need of major updating and revision, since a number of relocation arrangements had been rendered obsolete or inappropriate. Significant progress was made during 2014, even though some continuity risks remain. Continuity planning for all units of the Bank will be finalised by the end of 2015, since the Bank places significant emphasis on BCP.

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. 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. During the last quarter of 2014, over 200 members of staff, of which 89 GORM liaisons, participated in RCSA training workshops, in which they were trained to organise, participate and assist GORM in the RCSA workshops for their respective business units.

Establishment of a network of operational risk management units in all major subsidiaries

Such units are established in all countries where the Group operates, along with a network of liaisons in Russia and the UK, who act as facilitators in the process of loss data collection, RCSA workshops and personnel training.

Insurance Coverage

The Group maintains insurance coverage for important operational risks. Group insurance coverage includes – inter alia – the following policies:

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

Major activities of Operational Risk during 2014

During 2014, the GORM was mainly involved with the management of risks related to the absorption of Laiki Bank operations and the migration of data to the Bank's systems infrastructure. The project of integrating the IT systems and migrating all customer and account data of Laiki Bank to the Bank's information technology systems has been completed in June 2014. No significant risks have materialised in operational losses from this process.

During 2014, a number of regulatory changes were put in effect that entail a number of operational risks in the sense of increased reporting requirements, increased regulatory scrutiny, new software and procedure development. These give rise to additional operational risks in relation to data integrity, data aggregation as well as non-compliance with the new regulatory provisions. GORM is involved in the management of these risks as a matter of priority in collaboration with other control functions, including Group Compliance and Information Security.

Major effort was also placed on streamlining internal GORM procedures in order to enable the department to cope with the increased volume of requests for review and assessment of updated procedures and operational changes in the Bank. This included:

- Revising and completing a comprehensive Operational Risk Management (ORM) Policy framework.
- Preparing/ revising RCSA methodology.
- Initiating RCSAs.
- Re-establishing proactive risk monitoring through KRIs .

With regards to incident reporting, focus was placed on root-cause analysis of reported incidents with particular emphasis on the increasing number of legal cases.

2.2.3.3 Capital Calculation for Operational Risk

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk and the use of the Standardised approach was approved by the CBC.

2.2.3.4 Reporting

Internal operational risk reports are compiled on a quarterly and monthly basis and are communicated to the EXCO and the BRC. These reports cover all major issues and results of operational risk activities.

2.3 Governance Arrangements

2.3.1 Recruitment Policy

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Nominations and Corporate Governance Committee is assigned the responsibility to review the qualifications of potential director candidates and make 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 comply with the Assessment of the Fitness and Probity Directive of 2014 and obtain the approval of the CBC.

Factors considered by the Nominations and Corporate Governance Committee 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 judgment.
- 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.

For the re-election of incumbent directors, the Nominations and Corporate Governance Committee should also consider 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.

2.3.2 Other Directorships

The Nominations and Corporate Governance Committee 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 determine 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, the following shall count as a single directorship:

- Executive or non-executive directorships held within the same group

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.

Directorships in organisations which do not pursue predominantly commercial objectives shall not count for the purposes of the above guidelines.

The CBC granted permission to five of the directors to hold one additional non-executive directorship to the above. In the meantime, the Chairman has resigned from two outside directorships.

- Mr. Goldman holds 5 non-executive directorships.
- Mr. Ross holds 5 non-executive directorships.
- Mr. Spanos holds one executive and 3 non-executive directorships.
- Mr. Berggren holds one executive and 3 non-executive directorships.

2.3.3 Diversity Policy

The Group recognises the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD. The BoD is committed to issuing a Diversity Policy Statement by 30th June 2015 that will set out targets for enhancing the presence of the underrepresented gender on the BoD and deadlines for achieving these targets.

2.3.4 Risk Committee

The BRC plays a key role in setting the risk appetite and strategy of the Group and ensuring compliance with risk management strategy, policies and regulations. The BRC is also responsible for the development of an 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 BRC comprises 5 non-executive directors all of whom are independent. During 2014 the BRC held 6 meetings.

The Terms of Reference of the BRC are to:

- Advise the BoD on the Bank's overall current and future risk appetite and strategy.
- Assist the BoD in overseeing the effective implementation of the risk strategy by senior management.
- 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 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 Audit Committee, 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 should be approved by the BRC.

2.3.5 Reporting and Control

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

3. Own Funds

3.1 Reconciliation of regulatory capital, on a transitional basis, with Shareholders' Equity per Consolidated Financial Statements

As explained in Section 1.3, the basis of consolidation for financial accounting purposes differs from that used for prudential purposes.

The following table provides a reconciliation between the balance sheet presented in Consolidated Financial Statements with the balance sheet prepared for prudential purposes.

	Ref[8]	**31 December 2014**
		€000
Total equity per Group Consolidated Financial Statements	**a**	**3.481.047**
Deconsolidation of insurance and other entities	**b**	(198.901)
Minority interest adjustment to comply with regulatory requirements		(22.723)
Intangible assets	**c**	(15.784)
Unrealised gains of AFS instruments		(2.132)
Reserves arising from revaluation of properties transferred to Tier 2		(50.552)
Total Common Equity Tier 1 (CET 1)		**3.190.955**
Additional Tier 1 capital		-
Total Tier 1 capital		**3.190.955**
Tier 2		
Properly revaluation reserve and other unrealised gains		42.146
Total Tier 2 capital		**42.146**
Total own funds		**3.233.101**

[8] The references (a) to (c) refer to those in the reconciliation of balance sheets in Section 3.2.

3.2 Reconciliation between the balance sheet presented in Consolidated Financial Statements with the balance sheet prepared for regulatory purposes

	Ref	Group balance sheet per financial statements	Deconsolidation of insurance/ other entities	Held for sale[9] reclassification in line-by-line consolidation	Balance sheet per regulatory scope of consolidation
		€000	€000	€000	€000
Assets					
Cash and balances with central banks		1.139.465	(96)	85.952	1.225.321
Placements with banks		1.646.886	(29.178)	35.994	1.653.702
Investments		1.871.136	(15.092)	348	1.856.392
Investments pledged as collateral		669.786	-	-	669.786
Derivative financial assets		62.598	(9)	-	62.589
Loans and advances to customers		18.168.323	4.627	549.830	18.722.780
Life insurance business assets attributable to policyholders		472.992	(472.992)	-	-
Other assets		335.494	(106.572)	126.106	355.028
Property and equipment		290.420	(55.741)	25.681	260.360
Investment properties		488.598	(15.575)	44.566	517.589
Intangible assets	c	127.402	(111.618)	-	15.784
Investments in associates and joint ventures		116.776	(105.123)	73.683	85.336
Deferred tax assets		456.871	(44)	495	457.322
Non-current assets and disposal groups classified as held for sale		942.655	-	(942.655)	-
Investments in Group undertakings		-	150.453	-	150.453
Total assets		**26.789.402**	**(756.960)**	**-**	**26.032.442**
Liabilities					
Amounts due to banks		161.896	680	29.650	192.226
Funding from central banks		8.283.773	-	-	8.283.773
Repurchase agreements		579.682	-	-	579.682
Derivative financial liabilities		71.967	-	589	72.556
Customer deposits		12.623.558	63.965	545.620	13.233.143
Insurance liabilities		576.701	(576.701)	-	-
Other liabilities		350.431	(18.051)	34.491	366.871
Debt securities in issue		1.185	-	1.770	2.955
Subordinated loan stock		-	-	2.301	2.301
Deferred tax liabilities		44.741	(19.927)	-	24.814
Non-current liabilities and disposal groups classified as held for sale		614.421	-	(614.421)	-
Total liabilities		**23.308.355**	**(550.034)**	**-**	**22.758.321**
Equity					
Share capital		892.238	-	-	892.238
Share premium		552.539	-	-	552.539
Capital reduction reserve		1.952.486	-	-	1.952.486
Shares subject to interim orders		441	-	-	441
Revaluation and other reserves		146.809	(133.838)	-	12.971
Accumulated losses		(79.021)	(65.063)	-	(144.084)
Equity attributable to owners of the Company	**b**	**3.465.492**	**(198.901)**	**-**	**3.266.591**
Non-controlling interests		15.555	(8.025)	-	7.530
Total equity	**a**	**3.481.047**	**(206.926)**	**-**	**3.274.121**
Total liabilities and equity		**26.789.402**	**(756.960)**	**-**	**26.032.442**

[9] As at 31 December 2014 the Russian operations of the Group are classified as a disposal group held for sale. Further information is disclosed in Note 28 of the Consolidated Financial Statements of year 2014.

3.3 CRD IV regulatory capital

The table below discloses the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2014.

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**
	2014	**2014**	**2014**
	€000	**€000**	**€000**
Capital instruments and the related share premium accounts	3.397.263	-	3.397.263
Retained earnings	(144.084)	-	(144.084)
Accumulated other comprehensive income and other reserves	13.412	-	13.412
Minority interests (amount allowed in consolidated CET 1)	(7.168)	-	(7.168)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**3.259.423**	**-**	**3.259.423**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(15.784)	-	(15.784)
Regulatory adjustments relating to unrealised gains and losses	(52.684)	2.132	(50.552)
Deferred tax	-	(138.071)	(138.071)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(68.468)**	**(135.939)**	**(204.407)**
Common Equity Tier 1 (CET1) capital	**3.190.955**	**(135.939)**	**3.055.016**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1 + AT1)	**3.190.955**	**(135.939)**	**3.055.016**
Tier 2 (T2) capital			
Unrealised gains and other reserves	42.146	(42.146)	-
Tier 2 (T2) capital	**42.146**	**(42.146)**	**-**
Total capital (TC=T1+T2)	**3.233.101**	**(178.085)**	**3.055.016**
Risk weighted assets			
Credit risk	20.624.507	-	20.624.507
Market risk	5.025	-	5.025
Operational risk	2.085.000	-	2.085.000
Total risk weighted assets	**22.714.532**	**-**	**22.714.532**
Capital ratios			
Common Equity Tier 1	**14,0%**	-	**13,4%**
Tier 1	**14,0%**	-	**13,4%**
Total capital	**14,2%**	-	**13,4%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	136.531	-	136.531
Deferred tax assets (amount below 10% threshold)	319.096	-	319.096

Issued share capital

The issued share capital consists of 8.922.378 number of shares at nominal value of €0,10 each. The movement of the share capital for year 2014 is shown on the table below:

	2014	
	Shares (thousand)	**€000**
Authorised		
Ordinary shares of €0,10 each	**47.677.593**	**4.767.759**
Issued		
1 January	4.683.985	4.683.985
Bail-in of deposits and structured products	150	150
Shares subject to interim orders withdrawn/cancelled	58.625	58.625
Additional shares issued to Laiki Bank for 2013 acquisition	12.951	12.951
Reduction of nominal value of share capital	-	(4.280.140)
Issue of shares	4.166.667	416.667
31 December 2014	**8.922.378**	**892.238**

All issued ordinary shares carry the same rights.

Further details in relation to the share capital of the Company are presented in Note 37 of the Consolidated Financial Statements of year 2014.

Treasury shares

Shares of the Company held by entities controlled by the Group and by associates 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. The number of these shares at 31 December 2014 was 20.751 thousand of nominal value €0,10 each. The total cost of acquisition of treasury shares was €88.051 thousand.

Part of these shares held by entities controlled by the Group, resulted from the bail-in of deposits that these entities maintained with the Company and shall be disposed of in the near future.

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of Section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

In 2014, as a result of the issuance of 4.166.667 thousand shares of a nominal value of €0,10 each at a subscription price of €0,24 each, the Company's share premium increased by €583.333 thousand. Transaction costs of €30.794 thousand associated with the issue of new shares were deducted from share premium.

Capital Reduction reserve

The capital reduction reserve was created following the reduction of the nominal value of ordinary shares from €1 each and €0,10 each. 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 the amount of €1.952.486 thousand was credited to the capital reduction reserve.

3.4 Main terms and conditions of capital resources

The capital base of the Group for regulatory purposes comprises ordinary shares (CET1 instruments). The main features of the ordinary shares are presented below:

		31 December 2014
		Group
1	Issuer	Bank of Cyprus Public Company Ltd
2	Unique identifier	CY0104810110
3	Governing law(s) of the instrument	Cyprus Law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidation/solo and (sub-) consolidated	Consolidated and Solo
7	Instrument type	Ordinary Shares
8	Amount recognised in regulatory capital	892.237.735
9	Nominal amount of instrument	892.237.735
9(a)	Issue price	Various
9(b)	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	Yes[10]
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

[10] Following the resolution measures, the has prepared a restructuring plan for the period 2013 to 2017. Within this period no dividend distribution is allowed.

4. Minimum required own funds for credit, market and operational risk

Group's approach to assessing the adequacy of its internal capital
The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and on 29 May 2014 it set the minimum Common Equity Tier 1 capital ratio at 8%. The Group is also subject to additional capital requirements (Pillar II add-ons).

4.1 Credit Risk

The Standardised Approach has been used to calculate the minimum capital requirement in accordance with the requirements laid down in Article 92 of the CRR:

Exposure Class	2014
	€000
Central governments or central banks	1.585
Claims in the form of Collective Investment Undertakings (CIU)	63
Corporates	235.982
Equity exposures	28.404
Exposures in default	488.018
Institutions	28.157
International organisations	-
Items associated with particularly high risk	467.331
Multilateral development banks	-
Other items	142.245
Public sector entities	-
Regional governments or local authorities	126
Retail	130.476
Secured by mortgages on immovable property	121.110
Total Capital Requirement for Credit Risk	**1.643.497**

4.2 Market Risk

The minimum capital requirement calculated in accordance with Title IV: Own funds requirements for market risk of the CRR are as follows:

Portfolio Transactions	2014
	€000
Risk Type	
Position risk	402
Total Capital Requirement for Market Risk	**402**

4.3 Operational Risk

The Group uses the Standardised Approach for the operational risk capital calculation. Nonetheless, certain Group companies (mainly operations in Russia) for which an approval has been granted by the CBC, follow the Basic Indicator Approach for the calculation of the operational risk capital requirements until the necessary mechanisms are in place to adopt the Standardised Approach in these operations as well.

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach and Basic Indicator Approach amounts to €166.800 thousand.

2014			
Capital Breakdown to Business Lines Banking Activities	**Standardised approach**	**Basic indicator approach**	**Total**
	€000	**€000**	**€000**
Corporate finance (CF)	136	-	136
Trading and Sales (TS)	3.665	-	3.665
Retail Brokerage (RBr)	163	-	163
Commercial Banking (CB)	112.184	14.960	127.144
Retail Banking (RB)	27.188	-	27.188
Payment and Settlement (PS)	7.914	-	7.914
Agency Services (AS)	274	-	274
Asset Management (AM)	316	-	316
Total Capital Requirement for Operational Risk	**151.840**	**14.960**	**166.800**

4.4 Credit Valuation Adjustment (CVA) Risk

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

	2014
	€000
CVA (Credit Valuation Adjustment) Capital Requirement	**6.464**

5. Counterparty Credit Risk

Counterparty credit risk arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as money market placements, bonds, derivatives, FX, commercial and other transactions.

As at 31 December 2014, the Group's total Counterparty credit risk exposure was €146.574 thousand, of which €31.904 thousand were exposures of derivatives (analysed in Section 5.6) and the remaining €114.670 thousand was due to securities financing transactions (repurchase agreements). The exposure of securities financing transactions was calculated according to Article 223 'Financial Collateral Comprehensive Method' of CRR.

5.1 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 the case it is lower. During 2014 a score system was introduced to take into account qualitative and quantitative factors such as:

- Capital adequacy.
- Profitability.
- Liquidity.
- Market share.
- Ownership strength.

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

Two types of limits are monitored:

(a) Credit: for Money Market (MM), FX (FX Swaps, FX forwards), Bond, derivative, commercial transactions and factoring limits.
(b) Settlement: for maturing FX spot, forward and swaps, money market placements and banknotes.

Allocated Money Market limits are set for a short duration, unless they are used for independent amounts (as defined in 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 CSA can be utilised only after proper CSA agreement is signed prior to any derivative transaction. The only exception of current exposure without a CSA agreement concerns one counterparty.

The derivative limit for the Expected Replacement Cost (ERC) of a contract, counts within the overall limit of the counterparty and is 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.

5.2 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 are:
1. Handling collateral valuations and margin calls (for derivatives),
2. Maintain relevant data and liaise with counterparties regarding issues of collaterals.

The use of collateral for funding purposes is centralized at Group Treasury, with specific authorized 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 / ELA funding. The Liquidity Management desk is jointly responsible with the Money Market 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 collateralized by loans such as Covered Bond Issuance, Additional Credit Claims and ELA funding.

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

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a 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 documenting its repurchase activity. It is a legal agreement designed for parties transacting 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 2014, the Group had signed CSAs to the International Swaps and Derivatives Association (ISDA) agreement with twenty one counterparties. As at 31 December 2014 the Group maintained exposures with eighteen counterparties. It is expected that more such agreements will be entered into. The following total amounts were transferred to (where the indicated amount is negative) or obtained from (where the indicated amount is positive) counterparties as the threshold amounts of sixteen of the counterparties with which the Bank has signed CSA agreement, were reached as at 31 December 2014:

	2014
	€000
Total Positive	**16.685**
Total Negative	**(67.455)**
Total	**(50.770)**

5.3 Policies with respect to wrong-way risk exposures

Wrong way risk occurs when 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.

5.4 Collateral the Bank would have to provide given a downgrade in its credit rating

As at 31 December 2014, 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. Out of the twenty one agreements that were in place as at 31 December 2014, the terms of three CSAs provide for additional collateral in the event of a downgrade. Given the current rating of the Bank as at 31 December 2014, no material additional collateral is expected to be required, in the event of a downgrade.

5.5 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 interest rate swaps and FX contracts, is presented in the table below:

Gross positive fair value	2014 €000
Cyprus	62.521
United Kingdom	153
Group	**62.674**

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	2014 €000
Cyprus	35.439
United Kingdom	153
Group	**35.592**

The net derivative 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 during 2014 was €16,7 million.

Net derivative credit exposure	2014 €000
Cyprus	19.738
United Kingdom	153
Group	**19.891**

5.6 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 guidelines.

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.

Exposures under the mark-to-market method	**Cyprus**	**Group**
	€000	**€000**
Institutions	30.439	30.439
Corporates	1.465	1.465
Total	**31.904**	**31.904**

Further to the above, an additional adjustment, the Credit Valuation Adjustment (CVA) is made to capture the credit risk of derivative counterparties (i.e. the potential loss on derivatives due to increase in the credit spread of the counterparty). According to IFRS 13 'Fair Value Measurement', CVA should be calculated for all derivatives carried at fair value. Repos are not within the scope of accounting CVA since they are not fair valued. As at 31 December 2014 the total accounting CVA charge was equal to €191 thousand. The CVA calculation is an approximation of regulatory CVA, which is calculated based on the CRR requirements:

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. As at 31 December 2014, the total regulatory CVA charge was €6,4 million.

5.7 Notional value of derivative hedges and the distribution of current credit exposure by types of credit exposure

The notional amount of the derivatives hedges which mainly consist of interest rate swaps and FX contracts at 31 December 2014 was €2.294 million.

The exposure values of derivatives are calculated as described in Section 5.5 above. Repurchase transactions are not included. The exposures per country are analysed below:

	Trading Book	**Banking Book**	**Total**
	€000	**€000**	**€000**
Cyprus	-	1.807	1.807
United Kingdom	-	19.406	19.406
Switzerland	-	5.083	5.083
Other Countries	-	5.608	5.608
Group	**-**	**31.904**	**31.904**

6. Bank's exposure to credit risk and impairment risk

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.

6.1 Past due and impaired loans

Past due loans and impaired loans

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

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 prohibit recognition of impairment losses that could arise from future events, no matter how likely those events be.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows that may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. 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.

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

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. 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' in the Consolidated Income Statement.

6.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by exposure class

	31 December	**Average**
	2014	**2014**
	€000	**€000**
Central governments or central banks	3.506.006	3.918.965
Claims in the form of CIU	789	442
Corporates	3.285.856	4.911.552
Equity exposures	150.255	75.128
Exposures in default	5.700.054	6.388.214
Institutions	1.617.227	1.587.182
International organisations	12.063	11.628
Items associated with particularly high risk	3.983.222	2.146.615
Multilateral developments banks	12.832	12.526
Other items	1.564.368	1.618.388
Public sector entities	40.465	41.809
Regional governments or local authorities	73.756	79.251
Retail	2.531.360	2.677.483
Secured by mortgages on immovable property	3.994.236	4.847.995
Total	**26.472.489**	**28.317.178**

6.3.1 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic area and material exposure class

The allocation is based on the country of risk.

Country of Risk	Central governments or central banks	Corporates	Exposures in default	Institutions	Items associated with particularly high risk	Retail	Secured by mortgages on immovable property	Remaining Exposure Classes*	Grand Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
EU Countries	**3.466.370**	**2.864.989**	**5.378.711**	**1.295.406**	**3.910.356**	**2.190.220**	**3.860.963**	**1.757.669**	**24.724.684**
Cyprus	2.329.843	2.584.059	4.745.449	11.543	3.317.933	2.011.229	3.661.039	1.555.688	**20.216.783**
United Kingdom	470.401	86.056	196.862	430.433	493.272	166.399	185.917	23.223	**2.052.563**
France	489.205	9	51	130.831	3.386	468	596	-	**624.546**
Germany	46.186	28	465	302.610	65	763	807	-	**350.924**
Romania	2.397	94.958	286.024	247	66.854	4.424	3.977	42.774	**501.655**
Belgium	41.556	495	13	158.985	-	15	45	-	**201.109**
Greece	246	99.150	139.278	43.225	27.059	2.924	3.496	125.729	**441.107**
Other EU Countries	86.536	234	10.569	217.532	1.787	3.998	5.086	10.255	**335.997**
Non EU Countries	**39.636**	**420.867**	**321.343**	**321.821**	**72.866**	**341.140**	**133.273**	**82.219**	**1.733.165**
Russian Federation	39.636	261.711	87.785	25.872	14.745	307.911	92.264	82.182	**912.106**
Virgin Islands, British	-	70.690	95.074	-	10.848	10	101	-	**176.723**
Australia	-	3	2.477	89.432	365	781	1.072	-	**94.130**
Canada	-	20	3.733	53.698	-	1.826	1.226	-	**60.503**
Other Non EU Countries	-	88.443	132.274	152.819	46.908	30.612	38.610	37	**489.703**
Supranational	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14.640**	**14.640**
Total	**3.506.006**	**3.285.856**	**5.700.054**	**1.617.227**	**3.983.222**	**2.531.360**	**3.994.236**	**1.854.528**	**26.472.489**

* Exposure classes reported as 'Remaining Exposure Classes are: Claims in the form of CIU, Equity exposures, International organisations, Multilateral developments banks, Other items, Public sector entities and Regional governments or local authorities.

6.3.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by industry and exposure class

Exposures which correspond to the 'Other items' category in the table below cannot be allocated to any of the specific industry types as this category includes items such as cash, tangible assets, deferred tax assets, etc.

	Central governments or central banks	Claims in the form of CIU	Corporates	Equity exposu-res	Expo-sures in default	Instit-utons	Interna-tional organisa-tions	Items associated with particularly high risk	Multila-teral developm ent banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Accommodation And Food Service Activities	-	-	526.785	24	541.161	-	-	12.388	-	-	-	-	64.721	88.971	**1.234.050**
Activities of extraterritorial organizations and Bodies	-	-	-	-	-	-	12.063	-	12.832	-	-	-	-	-	**24.895**
Administrative And Support Service Activities	-	-	17.393	-	63.078	-	-	5.073	-	-	-	-	15.049	17.941	**118.534**
Agriculture, Forestry And Fishing	-	-	26.682	-	99.678	-	-	1.168	-	-	-	-	14.718	51.141	**193.387**
Arts, Entertainment And Recreation	-	-	72.883	-	56.642	-	-	6.059	-	-	-	-	33.762	60.488	**229.834**
Central Government and Public Administration	3.506.006	-	-	-	10.077	-	-	-	-	-	40.465	73.756	-	-	**3.630.304**
Construction	-	-	307.572	-	492.060	-	-	2.158.473	-	-	-	-	40.773	87.769	**3.086.647**
Education	-	-	21.396	-	18.076	-	-	-	-	-	-	-	11.028	37.858	**88.358**

6.3.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by industry and exposure class

	Central governments or central banks	Claims in the form of CIU	Corporates	Equity Exposures	Exposures in default	Institutions	International organisations	Items associated with particularly high risk	Multilateral develop-ment banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Total
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Electricity, Gas, Steam And Air Conditioning Supply	-	-	7.882	793	2.340	-	-	-	-	-	-	-	2.933	4.028	**17.976**
Financial And Insurance Activities	-	789	218.602	147.782	779.397	1.617.227	-	56.704	-	39.323	-	-	21.425	82.886	**2.964.135**
Human Health And Social Work Activities	-	-	23.354	-	75.462	-	-	1.363	-	-	-	-	46.993	86.235	**233.407**
Information And Communication	-	-	113.454	-	33.269	-	-	-	-	-	-	-	13.739	28.774	**189.236**
Manufacturing	-	-	208.983	156	295.528	-	-	3.690	-	-	-	-	67.550	140.967	**716.874**
Mining And Quarrying	-	-	17.762	-	42.104	-	-	3.329	-	-	-	-	1.493	2.248	**66.936**
Other Items	-	-	-	-	-	-	-	-	-	1.525.045	-	-	-	-	**1.525.045**
Other Service Activities	-	-	240.185	1.498	78.501	-	-	2.268	-	-	-	-	48.209	27.387	**398.048**
Private Individuals	-	-	341.631	-	1.696.537	-	-	85.890	-	-	-	-	1.770.690	2.502.029	**6.396.777**
Professional, Scientific And Technical Activities	-	-	159.204	-	174.349	-	-	12.573	-	-	-	-	65.021	93.301	**504.448**

6.3.2 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by industry and exposure class

	Central governments or central banks	Claims in the form of CIU	Corporates	Equity exposures	Exposures in default	Institutions	International organisations	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Total
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Real Estate Activities	-	-	322.532	-	390.725	-	-	1.532.035	-	-	-	-	57.986	194.522	**2.497.800**
Transportation and Storage	-	-	64.349	1	81.563	-	-	2.271	-	-	-	-	15.740	27.889	**191.813**
Water Collection, Treatment And Supply	-	-	6.729	-	2.668	-	-	-	-	-	-	-	1.923	5.984	**17.304**
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	-	-	588.478	1	766.839	-	-	99.938	-	-	-	-	237.607	453.818	**2.146.681**
All industry groups - of which SME	-	-	*1.685*	*3*	*2.090*	-	-	*2.255*	-	-	-	-	*620*	*915*	***7.568***
Total	**3.506.006**	**789**	**3.285.856**	**150.255**	**5.700.054**	**1.617.227**	**12.063**	**3.983.222**	**12.832**	**1.564.368**	**40.465**	**73.756**	**2.531.360**	**3.994.236**	**26.472.489**

6.4 Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by residual maturity and by material exposure class

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over 5 years	Total
Exposure Portfolio	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	59.966	1.091.219	1.301.656	431.910	621.255	3.506.006
Claims in the form of CIU	-	-	-	-	789	789
Corporates	96.152	69.861	103.999	1.447.451	1.568.393	3.285.856
Equity exposures	-	-	-	-	150.255	150.255
Exposures in default	2.211.764	97.400	101.520	1.276.768	2.012.602	5.700.054
Institutions	804.524	507.370	175.756	77.355	52.222	1.617.227
International organisations	-	-	-	-	12.063	12.063
Items associated with particularly high risk	1.364.179	47.162	240.731	1.201.588	1.129.562	3.983.222
Multilateral development banks	-	-	2.577	-	10.255	12.832
Other items	-	411	-	-	1.563.957	1.564.368
Public sector entities	-	-	-	9	40.456	40.465
Regional governments or local authorities	-	1	39	5.243	68.473	73.756
Retail	6.103	15.919	95.776	810.292	1.603.270	2.531.360
Secured by mortgages on immovable property	28.508	16.154	46.816	639.530	3.263.228	3.994.236
Total	**4.571.196**	**1.845.497**	**2.068.870**	**5.890.146**	**12.096.780**	**26.472.489**

6.5 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
	€000	€000	€000
Agriculture, forestry and fishing	61.603	45.291	106.894
Mining and quarrying	39.087	4.075	43.162
Manufacturing	198.157	150.113	348.270
Electricity, gas, steam and air-conditioning supply	565	3.080	3.645
Water supply, sewerage, waste management and remediation activities	143	3.831	3.974
Construction	1.604.017	661.294	2.265.311
Wholesale and retail trade, repair of motor vehicles and motorcycles	592.522	382.097	974.619
Transportation and storage	80.982	31.256	112.238
Accommodation and food services activities	307.288	342.315	649.603
Information and communication	35.210	20.462	55.672
Financial and insurance activities	815.833	76.232	892.065
Real estate activities	599.253	505.759	1.105.012
Professional, scientific and technical activities	129.721	99.680	229.401
Administrative and support service activities	44.765	29.354	74.119
Public administration and defence; compulsory social security	1.654	1.682	3.336
Education	14.628	17.819	32.447
Human health and social work activities	9.479	42.357	51.836
Arts, entertainment and recreation	22.744	23.468	46.212
Other service activities	89.892	57.970	147.862
Private individuals	795.095	1.441.591	2.236.686
Activities of extraterritorial organisations and bodies	-	53	53
Total	**5.442.638**	**3.939.779**	**9.382.417**

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

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[11]	Total provisions including fair value adjustments on initial recognition
	€000	€000	€000	€000	€000
Trade	261.897	81.823	343.720	169.687	513.407
Manufacturing	136.672	34.288	170.960	46.564	217.524
Hotels and restaurants	186.890	23.949	210.839	94.943	305.782
Construction	657.969	77.805	735.774	407.901	1.143.675
Real estate	315.337	49.672	365.009	170.448	535.457
Private individuals	462.927	356.383	819.310	336.364	1.155.674
Professional and other services	368.222	70.983	439.205	122.444	561.649
Other Sectors	367.096	35.935	403.031	217.760	620.791
Total	**2.757.010**	**730.838**	**3.487.848**	**1.566.111**	**5.053.959**

The table above does not include the provisions for financial guarantees and undrawn contractual commitments of €85.751 thousand.

6.6 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

	Impaired exposures	Past due but not impaired exposures	Total
	€000	€000	€000
Cyprus	4.740.095	3.860.152	8.600.247
Greece	82.537	-	82.537
Russia	181.710	32.690	214.400
United Kingdom	6.610	14.145	20.755
Romania	378.123	32.792	410.915
Other countries	53.563	-	53.563
Total	**5.442.638**	**3.939.779**	**9.382.417**

[11] Note 46 of the Consolidated Financial Statements of year 2014.

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

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition	Total provisions including fair value adjustment on initial recognition
	€000	**€000**	**€000**	**€000**	**€000**
Cyprus	2.210.864	593.184	2.804.048	1.445.319	**4.249.367**
Greece	15.604	-	15.604	74.883	**90.487**
Russia	286.925	128.970	415.895	-	**415.895**
United Kingdom	47.066	4.423	51.489	10.655	**62.144**
Romania	196.551	4.261	200.812	35.254	**236.066**
Total	**2.757.010**	**730.838**	**3.487.848**	**1.566.111**	**5.053.959**

The table above does not include the provision for financial guarantees and undrawn contractual commitments of €85.751 thousand.

6.7 Loans and advances on the basis of the residency of the counterparty

The following table presents customer loans and advances split by residency of the counterparty. The table is presented using figures per IFRS Consolidated Financial Statements.

	Loans and advances [12]	Total accumulated provisions	Carrying value
	€000	**€000**	**€000**
Cyprus	18.750.213	2.752.577	15.997.636
Greece	210.803	32.217	178.586
United Kingdom	1.268.617	89.888	1.178.729
Netherlands	633	99	534
Romania	406.925	142.704	264.221
Russia	1.135.312	425.217	710.095
Ukraine	105.540	12.892	92.648
Other	327.958	32.254	295.704
Total	**22.206.001**	**3.487.848**	**18.718.153**

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

6.8 Exposures covered by eligible financial collateral and credit protection

	Eligible Financial Collateral	**Credit Protection**	**Total**
	€000	**€000**	**€000**
Central governments or central banks	13	-	**13**
Corporates	296.170	2.459	**298.629**
Exposures in default	79.275	725	**80.000**
Institutions	59.080	12.847	**71.927**
Items associated with particularly high risk	90.746	-	**90.746**
Public sector entities	461	-	**461**
Regional governments or local authorities	7.453	58.535	**65.988**
Retail	232.887	530	**233.417**
Secured by mortgages on immovable property	86.078	-	**86.078**
Total	**852.163**	**75.096**	**927.259**

6.9 Provisions for impairment of loans and advances to customers

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

	Cyprus	Greece	Russia	Other countries	**Total**
2014	€000	€000	€000	€000	**€000**
1 January	2.574.670	189	286.366	215.045	**3.076.270**
Disposal of loans	-	-	-	(137.645)	**(137.645)**
Foreign exchange adjustments	27.764	-	(134.406)	(10.567)	**(117.209)**
Applied in writing off impaired loans and advances	(46.976)	(12)	(187)	(57)	**(47.232)**
Interest accrued on impaired loans and advances/settlements	(162.213)	(1.071)	(301)	(7.136)	**(170.721)**
Collection of loans and advances previously written off	230	-	-	1.267	**1.497**
Charge for the year – continuing operations	493.868	10.169	-	75.901	**579.938**
Charge for the year - discontinued operations	-	-	264.422	38.528	**302.950**
31 December	**2.887.343**	**9.275**	**415.894**	**175.336**	**3.487.848**
Individual impairment	**2.294.160**	**9.275**	**286.924**	**166.651**	**2.757.010**
Collective impairment	**593.183**	**-**	**128.970**	**8.685**	**730.838**

7. 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.

7.1 Encumbered and Unencumbered Assets by Asset Type

2014	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
Assets of the reporting institution	**16.312.764**	**n/a**	**8.877.515**	**n/a**
Equity instruments	-	-	32.603	32.603
Debt securities	2.435.766	2.447.482	72.553	139.437
Other Assets[13]	13.876.998	n/a	8.772.359	n/a

n/a: per EBA guidelines, no disclosure required.

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 Cyprus (Cyprus). Other unencumbered assets of around 50% are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in Additional Risk Disclosures of the Consolidated Financial Statements of year 2014.

7.2 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
	€000	€000
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	1.007.446	-

[13] Other assets consist of cash and bank placements and loans and advances.

7.3 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
	€000	€000
Carrying amount of selected financial liabilities	**8.942.964**	**17.320.210**[14]

The total on balance sheet encumbered assets of the Group amounted to €16.312.764 thousand as at 31 December 2014. In addition, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand (fair value 31 December 2014: €1.007.446 thousand) are pledged as collateral for obtaining funding from the CBC (Note 34 of the Consolidated Financial Statements of year 2014).

The on balance sheet encumbered assets primarily consist of loans and advances to customers, investments in debt securities, primarily Cyprus Government bonds, and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA (Note 31 of the Consolidated Financial Statements of year 2014) and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as for covered bonds (Note 34 of the Consolidated Financial Statements of year 2014). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA 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 under CSA and repurchase agreements, and (b) for trade finance transactions and guarantees issued.

In the case of ELA, however, as collateral is in general not released upon repayment of funding, there may be an inherent buffer which could be utilised for further funding if required.

8. External Credit Assessment Institutions (ECAIs) used for calculating Risk-weighted Assets under the Standardised Approach

8.1 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.
- Claims in the form of collective investment undertakings.

[14] It includes the current value of on balance sheet encumbered assets and the fair value of bonds guaranteed by the Cyprus Government.

The general ECAI association with each credit quality step complies with the standard association published by the CBC as follows:

Credit Quality Step	Moody's Rating	Institutions Risk Weight[15]		Sovereigns Risk Weight	Corporate Risk Weight
		Residual Maturity up to 3 months	Residual Maturity more than 3 months[16]		
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 or lower	150%	150%	150%	150%

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

8.2 Transfer of Credit Assessments onto items not included in the Trading Book

For exposures to regional governments or local authorities, public sector entities and institutions, 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 where all relative exceptions per the CRR apply.

[15] The same risk weight association applies to exposures to regional government, public sector entities and multilateral development banks.

[16] The same risk weight association applies to exposures in the form of CIUs for all maturities.

8.3 Exposures before and after Credit Risk Mitigation

8.3.1 Exposures before Credit Risk Mitigation

The classification of exposures in the table below follows from Sections 8.1 and 8.2 above.

Credit Quality Step	Central gover-nments or central banks	Corporates	Institu-tions	Interna-tional organis ations	Multila-teral develop-ments banks	Public sector entities	Regional govern-ments or local authori-ties	Total
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	3.466.389	-	1.479.420	12.063	12.832	40.511	78.984	**5.090.199**
2	-	-	84.919	-	-	-	-	**84.919**
3	39.636	-	37.728	-	-	-	-	**77.364**
4	-	-	12.953	-	-	-	-	**12.953**
5	-	1.482	323	-	-	-	-	**1.805**
6	-	-	1.888	-	-	-	-	**1.888**
Total	**3.506.025**	**1.482**	**1.617.231**	**12.063**	**12.832**	**40.511**	**78.984**	**5.269.128**

8.3.2 Exposures after Credit Risk Mitigation (it includes exposures covered by eligible credit protection)

The classification of exposures in the table below follows from Sections 8.1 and 8.2 above.

Credit Quality Step	Central gover-nments or central banks	Corpora-tes	Institu-tions	Intern-ational organis ations	Multila-teral develop-ments banks	Public sector entities	Regional govern-ments or local authori-ties	Total
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	3.540.158	-	1.467.719	12.063	12.832	40.511	20.448	**5.093.731**
2	-	-	84.919		-	-	-	**84.919**
3	39.636	-	37.728		-	-	-	**77.364**
4	-	-	12.953		-	-	-	**12.953**
5	-	1.482	504		-	-	-	**1.986**
6	-	-	1.888		-	-	-	**1.888**
Total	**3.579.794**	**1.482**	**1.605.711**	**12.063**	**12.832**	**40.511**	**20.448**	**5.272.841**

9. Exposures in Equities not included in the Trading Book

The Group holds certain legacy equity securities which are actively managed down to zero. The Group also had certain equity securities obtained from customers in satisfaction of debt, as well as certain venture capital investments.

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, which are 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. Further information on fair value measurement is disclosed in Note 22 of the Consolidated Financial Statements of year 2014.

Of the total equity securities held by the Group as at 31 December 2014, €14.081 thousand were classified as available for sale and €991 thousand were classified as at fair value through profit or loss.

The balance sheet value of the Group's equity securities not included in the trading book at 31 December 2014 was €15.072 thousand, analysed as follows:

	2014
	€000
Listed on the CSE	12.452
Listed on other stock exchanges	1.471
Other unlisted	1.149
Total	**15.072**

There is no difference between the fair value and the balance sheet value of equity securities.

The realised gain from disposals of available for sale equity securities during 2014 amounted to €48.907 thousand and was included in the Consolidated Income Statement. As at 31 December 2014 the available for sale revaluation reserve for equity securities of the Group amounted to €5.810 thousand, net of tax. In addition, the Group recorded an impairment charge of €7.237 thousand in the Consolidated Income Statement.

10. Exposure to Interest Rate Risk on positions not included in the Trading Book

10.1 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 and liabilities.

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. The difference between assets and liabilities repricing in each time band (GAP) is then calculated. The gaps are the starting point in calculating the impact on net interest income. A rate change is applied on the gap of each time band for the number of days from the middle of the time band to the year end in order to calculate the impact on net interest income.

The interest rate effect, on interest income is measured based on the following scenarios:

- 1% parallel shift of interest rates across the entire yield curve (with a floor of 0% in the case of a decrease in rates). For EUR balance sheet of Cyprus the Bank also runs parallel -0,25% change in ECB and Bank base rates and -0,1% change in the Euribor sensitive items of the balance sheet as well as +0,25% change for all items of the balance sheet.
- Expected rate changes (as implied by the forward curves) for each currency and each time band.
- 2% parallel shift of interest rates.

The main deposit categories offered by the Bank, as well as their current interest rate sensitivity treatment in the repricing GAP report is indicated below:

Type of account		**Treatment in GAP**
1.	Current accounts	Non Rate Sensitive (NRS)
2.	Instant access	Mixed sensitivity*
3.	Savings	Mixed sensitivity*
4.	Notice	Interest Rate Sensitive

* Mixed sensitivity means that some aspects of the specific accounts are interest rate sensitive and some are not. The extent of this sensitivity is periodically calibrated.

The first three deposit categories indicated above are considered inelastic on the basis that a change in the market interest rates will only partly affect the interest rate of the respective accounts.

In addition to the above, instant access, savings and notice accounts are treated as reacting quicker to increases in interest rates rather than to decreases in interest rates. This is considered necessary since the Bank is legally obliged to inform the customer (whenever he is adversely affected) with 1 or 2 month(s) notice, depending on the type of the account (2 months for instant access and savings and 1 month for notice accounts), for its intention to decrease the interest rate that these accounts carry.

Bank of Cyprus (Cyprus) and the Bank of Cyprus UK Ltd measure the interest rate risk on a daily basis whereas the other banking units of the Group on a monthly basis. The Group interest rate risk is measured on a monthly basis.

10.2 Impact of downward and upward rate shocks

ALCO sets limits on the maximum allowable interest rate risk in the banking book, for each banking unit. The exposure is described below.

10.2.1 On earnings

The maximum loss limits apply for each of the first three years. They are set as a percentage of the Group capital and as a percentage of Group net interest income (when positive) and are allocated to the various banking units of the Group based on their contribution to the Group net interest income. Small limits for open interest rate positions are approved for periods longer than three years.

The table below indicates how the net interest income of the Group, over a one-year period, will be affected given hypothetical changes in the market interest rates of the main currencies:

2014	**Euro**	**US Dollars**	**British Pounds**	**Other currencies**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Change in interest rates					
Scenario 1: +5% for RUB, +0,5% for all currencies	19.799	5.015	3.835	(5.857)	**16.947**
Scenario 2: -7% for RUB, -0,25% for GBP, CHF and USD, -0,1% for Yen and EUR and -0,5% for all other currencies	(3.879)	(2.508)	(1.917)	8.019	**(8.797)**

The total change in net interest income differs from the sum of the changes for each individual currency, as it has been calculated based on the actual correlation coefficients between the interest rates of the various foreign currencies, and perfect positive correlation between the interest rate of the foreign currencies and the Euro.

10.2.2 On economic value of equity

The impact on the economic value of equity is measured for Group positions, given a 200 basis points decrease in market interest rates. ALCO has set a maximum limit of 10% of Group regulatory capital for this change. The change in the economic value of the Group's equity as at the end of December 2014 amounted to €23,6 million (0,67% of Group Tier 1 capital, calculated in accordance with CBC rules).

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

2014	**Cyprus**	**Uniastrum Bank**	**United Kingdom**	**Romania**	**Channel Islands**	**Total**
Change in economic value (€000)	38.465	455	(9.914)	(5.369)	(35)	**23.602**
Change on CET1 (%)	-	0,48%	-8,17%	-	-0,05%	**0,67%**

Group Economic value change given a 200 basis points change in market interest rates-currency analysis

	Upto 1m	1 to 3m	3 to 6m	6 to 12m	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs	5 to 7 yrs	7 to 10yrs	10 to 15 yrs	15 to 20 yrs	>20 yrs	NRS	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
EUR gaps	3.502.572	744.891	592.652	354.519	609.854	167.634	(447.178)	(64.480)	105.783	75.652	(6.140)	-	729	(5.654.899)	**(18.411)**
Ec. Value change	2.732	2.533	4.386	5.318	18.174	8.281	(30.855)	(5.713)	11.403	12.543	(1.481)	-	308	-	**27.629**
USD gaps	758.283	222.786	127.525	(53.276)	10.677	6.362	12.839	4.316	1.390	141	195	-	-	(1.091.885)	**(647)**
Ec. Value change	591	757	944	(799)	318	314	886	382	150	23	49	-	-	-	**3.615**
GBP gaps	650.847	203.426	(146.131)	(224.346)	(149.491)	(41.943)	32	-	-	-	-	-	-	(293.270)	**(876)**
Ec. Value change	521	692	(1.081)	(3.320)	(4.425)	(2.057)	2	-	-	-	-	-	-	-	**(9.668)**
AUD gaps	35.899	(12.634)	(6.082)	(4.936)	-	-	-	-	-	-	-	-	-	(11.993)	**254**
Ec. Value change	29	(41)	(44)	(72)	-	-	-	-	-	-	-	-	-	-	**(128)**
Other gaps	(96.888)	(60.577)	64.511	(151.243)	30.541	15.639	16.109	5.019	5.307	1.300	679	454	47	186.835	**17.733**
Ec. Value change	(73)	(184)	440	(2.064)	784	638	877	336	504	138	90	70	8		**1.564**
CHF and JPY gaps	(139.313)	26.756	98.906	9.865	(9.135)	-	-	-	-	-	-	-	-	12.393	**(528)**
Ec. Value change	(109)	91	732	148	(272)	-	-	-	-	-	-	-	-	-	**590**
Total Ec. Value change															**23.602**

11. Remuneration Policy and Practices

The Group Remuneration Policy captures provisions from the CSE's Corporate Governance Code (Code) and relevant Directives of the CBC and 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.

11.1 Remuneration and Human Resources Committee (RHRC)

11.1.1 The role of the Remuneration and Human Resources Committee

The RHRC is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the BoD for ratification. In addition, the BoD, through the RHRC, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy.

The role of the RHRC is to consider and approve the remuneration arrangements of the non-executive and executive directors of the Company, other senior executives and other key employees, as well as the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices of 2010, the Directive for the Governance and Management Arrangements issued by the CBC and the Code. The RHRC sets the over-arching principles and parameters of remuneration policy across the Group and exercise oversight for remuneration issues.

Furthermore, the RHRC is committed to ensuring that the Group has the human capital (competencies and attitude) pertinent for the achievement of its strategic goals, the organisational capital (values, alignment, leadership) to be able to achieve continuous improvement and the information capital and the technology that facilitates process improvements that lead to a comparative advantage in the market.

The RHRC reviews remuneration packages and submits proposals to the BoD regarding the remuneration of:

- The Group CEO.
- The following executives, upon the recommendation of the CEO:
  - All divisional directors except the GCRO, director of Internal Audit and director of Compliance.
  - General managers of subsidiaries.
  - Other key personnel whose total remuneration (fixed and variable) exceeds €100.000.
- The following executives, having considered the views of the CEO and the Chairperson of the RHRC to which the Executives report:
  - GCRO.
  - Director of Internal Audit.
  - Director of Group Compliance.

11.1.2 Composition and meetings of the Remuneration and Human Resources Committee

The RHRC has a minimum of 3 and a maximum of 5 members. The RHRC must consist entirely of non-executive directors of whom the majority are independent directors including the Chairman of the RHRC who cannot chair any other Committee of the BoD. The BoD appoints the Chairman of the RHRC whose members are appointed annually.

The RHRC holds regular meetings and, additionally, ad hoc meetings whenever called by the Chairman of the RHRC. The quorum for a meeting is 2 members or 50% rounded up whichever is the highest. The RHRC keeps detailed minutes of its meetings. The RHRC has authority to obtain independent advice and information from external parties whenever this is considered necessary.

The RHRC held ten meetings during 2014. The RHRC reviewed the remuneration of non-executive directors as well as the policy on non-salaried benefits and allowance for BoD members. The RHRC approved the Policy as proposed by the Group Human Resource (HR) Division and submitted it to the BoD for ratification. Following the review of the remuneration of non-executive directors, the RHRC appointed external consultants to prepare a proposal for setting out the non-executive director fees. The RHRC also discussed the reimbursement of directors for trips abroad and reviewed the fees paid to directors for their membership on subsidiary Boards. It also reviewed the remuneration of the CEO of Uniastrum Bank and the compensation of the BOC UK acting Chairman.

The RHRC considered the CEO objectives and KPIs for measurement of the performance of the Group CEO and assigned the project to external consultants. It also approved the policy of non-salary benefits and allowances for staff and submitted it to the BoD for ratification.

11.1.3 Relevant stakeholders

The RHRC 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 Remuneration Policy.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the 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 regulatory restrictions pertinent to the banking sector currently.

11.2 Performance Related Pay

Due to current regulatory restrictions, the Bank does not currently offer any type of variable remuneration but only fixed remuneration, which comprises salary and any applicable allowances. Additional information on the Group’s remuneration policy is set out in the Annual Corporate Governance Report for year 2014.

11.3 Design and structure of Remuneration

11.3.1 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’ Annual General Meeting held on 20 November 2014 approved the same level of remuneration as the one approved in 2013.

11.3.2 Executive directors

Remuneration Policy

The BoD sets the remuneration of executive directors, following the recommendation of the RHRC. The employment contracts of executive directors are reviewed by the RHRC (unless they are members of the senior management team and their terms of employment are based on the provisions of the collective agreement), and are subsequently submitted to the BoD for approval.

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 is for a period of three years commencing on 1 November 2013. The contract does not include provisions for the award of bonuses.

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 Company shall have the right to pay the director, in lieu of notice for immediate termination.

The terms of employment of Dr. Patsalides are based on the provisions of the collective agreement in place, as with the rest of the employees, which provides for notice or compensation based on years of service.

Bonus

No bonus was recommended by the BoD for executive directors of year 2014.

Retirement Benefit Schemes

The CEO and the Finance Director participate in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 13 of the Consolidated Financial Statements of year 2014.

Share Options

No share options were granted to executive directors during 2014.

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 52 of the Consolidated Financial Statements of year 2014.

11.4 Fees and emoluments of members of the Board of Directors and other key management personnel

2014	**Executive Directors**	**Other key management personnel**
	€000	**€000**
Salaries and other short term benefits	859	2.231
Termination benefits	-	250
Employer's contributions	51	166
Retirement benefit plan costs	113	210
Total	**1.023**	**2.857**
Number of beneficiaries during the year	**2**	**15**

	2014
	€000
Non-executives	
Fees	**424**
Total	**424**

The fees of the non-executive directors include fees as members of the BoD of the Company 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.

The other key management personnel emoluments include the remuneration of the members of the EXCO since the date of their appointment to the committee and other directors who report directly to the CEO.

The termination benefits in 2014 relate to early retirement benefits paid to a member of key management personnel who left the Group in 2014.

Remuneration of year 2014 (excluding termination benefits) by business line

	Remuneration	**Number of employees**
	€000	
Corporate	132	1
Retail	164	1
IBUs	134	1
Private Banking	126	1
RRD	612	1
Insurance operations	300	2
Head office	2.162	10
Total	**3.630**	**17**

11.5 Additional Information

Every year, the RHRC proposes to the BoD, the Annual Remuneration Policy Report which forms part of the Annual Corporate Governance Report of the Company. The Remuneration Policy Report is submitted to the shareholders' Annual General Meeting for approval.

Additional information on Remuneration is disclosed in Note 52 of the Consolidated Financial Statements of year 2014.

12. Leverage

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

Institutions shall calculate the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter. The CBC has permitted the Bank to calculate the end-of-quarter leverage ratio rather than the arithmetic mean of the monthly leverage ratios over a quarter and as a result this is the current practice followed.

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 2014, the leverage ratio of the Group was equal to 11,51% using a fully phased-in definition of Tier 1 and 11,97% using a transitional definition of Tier1. This ratio is well above the 3% limit.

In order to manage the risk of excessive leverage, the Bank, through the Liquidity Policy, has adopted much stricter limits compared to the 3% that are monitored monthly. To monitor the internal leverage ratio which is defined as total assets over core equity, the following traffic light reporting is used:

Leverage x	Categories	Required actions
< 15	A	No change in plans or actions.
15-16	B	Demonstrate in the business plan lower levels in the coming 6 months.
> 16	C	Immediate action to return to category B levels within 3 months and category A within 9 months.

The regulatory leverage ratio of the Group has increased during 2014 mainly due to management's deleveraging efforts (e.g. disposal of BOC Ukraine, sale of Laiki Bank UK loans). Also, net loans decreased significantly due to increases in provisions. Moreover, the increase of Tier 1 capital in 2014, mainly due to the capital increase of €1 billion, improved the ratio further.

12.1 Summary reconciliation of accounting assets and leverage ratio exposures

	Application amounts
	€000
Total assets as per published financial statements	**26.789.402**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(756.960)
Adjustments for derivative financial instruments	(30.685)
Adjustments for securities financing transactions	114.670
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	869.525
Other adjustments	(317.444)
Leverage ratio exposure	**26.668.508**

12.2 Leverage ratio common disclosure

	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
	€000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	25.652.409
Total on-balance sheet exposures (excluding derivatives and SFTs)	25.652.409
Derivative exposures	
Replacement cost associated with derivatives transactions	20.672
Add-on amounts for PFE associated with derivatives transactions	11.232
Total derivative exposures	31.904
Securities financing transaction exposures	
SFT exposure according to Article 220 CRR	114.670
Total securities financing transaction exposures	114.670
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	3.095.526
Adjustments for conversion to credit equivalent amounts	(2.226.001)
Total off-balance sheet exposures	869.525
Capital and Total Exposures	
Tier 1 capital	3.190.955
Total Exposures	26.668.508
Leverage Ratios	
End of quarter leverage ratio	11,97%
Leverage ratio (average of the monthly leverage ratios over the quarter)	exemption

12.3 Split-up of on balance sheet exposures (excluding derivatives and SFTs)

	CRR leverage ratio exposures
	€000
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**25.652.409**
Trading book exposures	**5.025**
Banking book exposures, of which:	**25.647.384**
Exposures treated as sovereigns	3.644.544
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	14.825
Institutions	1.445.270
Secured by mortgages of immovable properties	3.952.180
Retail exposures	2.448.446
Corporates	6.833.134
Exposures in default	5.593.745
Other exposures (e.g. equity and other non-credit obligation assets)	1.715.240

13. 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 are listed below:

- Identifying the sectors of the economy the Bank is not willing to finance or may finance under strict conditions.
- Setting of sanctioning limits for all line Managers and Credit Committees.
- 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 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 collateral:

(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, unless another more liquid asset is offered. In the latter case, a valuation of both assets must be carried out by the same valuer. 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.

The ISDA/CSA agreement signed with almost all the counterparties with which the Bank performs derivative transactions, includes netting/set off agreement. The netting agreement allows the counterparties to aggregate the amounts owing by each of them under all the derivative transactions outstanding, and replace them with a single net amount payable by one counterparty to the other.

13.1 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 unless specific circumstances or regulatory restrictions dictate that the collaterals are specific at facility level. In case of currency or maturity mismatch for all types of collateral, the Loan to Value ratio threshold is adjusted accordingly.

13.1.1 Legal Pledge of Cash Deposit (Cash Collateral)

Pledged deposits (blocked funds) including any interest, are considered as the highest level of security.

13.1.2 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.

13.1.3 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.

13.1.4 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 too or where the country's legal system protects the value of a second mortgage. For buildings, a fire/earthquake insurance policy is also required and it should be assigned in favour of the Group.

13.1.5 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. The assignment of the sale of contract is also often accompanied by the corporate guarantee of the developer (seller).

13.1.6 Personal/Corporate Guarantees

Whilst these are 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. All guarantors must be evaluated through the credit scoring or other evaluation processes 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.

Additionally, based on the CBC Directive on new loan origination, a guarantor's responsibilities under their guarantee are considered to be the same as the borrower's, therefore they are assessed accordingly and the same information is requested from them as from the borrower.

Guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as supply various documents depending on the case. 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 reasons.

13.1.7 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.

13.1.8 Floating Charges on Company 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

13.1.9 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).

13.1.10 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.

13.1.11 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.

13.1.12 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 carefully evaluated. Where the pledge is justified, the market value should be closely monitored to adhere to the Group's Loan to Value ratios.

13.2 Collateral valuation/monitoring 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.

13.2.1 Mortgages (Legal Charge on Property)

Valuation Frequency/Monitoring

New Lending

New Lending Amount	No. of Valuations
Lending < €2 mln	1
Lending > €2 mln	2[17]

[17] If there is a discrepancy greater than 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 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 revalued at regular intervals to ensure that the value of the property is still adequate to cover the facilities given by the Group.

For the purpose of monitoring the property values, the Group uses the appropriate property price indices. Properties which are covered by the Index, but secure facilities of customers which are involved in investment property purposes, property development, building construction or buying and selling of real estate, must be revalued more frequently.

Restructuring Facilities

During restructuring applications, the frequency of the revaluations is as follows:

Facility Amount	**Frequency/Age of Valuation**
Under €1 million	2 years
Over €1 million	6 months

Recoveries facilities

For customers who have been transferred to RRD, the frequency of valuations is as follows:

Facility Amount	**Frequency/Age of Valuation**
At the time of transfer to RRD (irrespective of amount)	Immediately
Under €2 million	2 years
Over €2 million	1 year

13.2.2 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).

13.2.3 Fixed and Floating Charges

In order to calculate the value of the fixed or floating charge 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.

13.2.4 Personal/Corporate Guarantees

For the purpose of facility approval no monetary value is assigned to personal or corporate guarantees.

13.2.5 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 is differentiated depending on the risk rating of the country offering the guarantee.

13.2.6 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.

13.2.7 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.

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 value is calculated manually based on 50% of the net book value of the company based on recent audited accounts (not older than 18 months).

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 - immediate liquidation

13.2.8 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.

13.2.9 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.

13.3 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 46 of the Consolidated Financial Statements of year 2014.

14. Operational Risk

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk and the use of the Standardised Approach was approved by the CBC.

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.

15. Exposure to Market Risk

The total capital Requirements for MR consists of capital requirement of €400 thousand due to equities in the trading book and €2 thousand due to commodities.

There are no large exposures for institutions as at 31 December 2014 that exceed the relevant limits.

The minimum capital requirement for market risk is presented in Section 4.2.

APPENDIX I – Specific References to CRR

CRR ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar III disclosures.	Section 1.2
431 (2)	Disclosure of operational risk information.	Section 2.2.3
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
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.	Section 1.2
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 2.1 and 2.2
435 (1) (b)		Sections 2.1 and 2.2
435 (1) (c)		Sections 2.1 and 2.2
435 (1) (d)		Sections 2.1 and 2.2
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.1
435 (1) (f)	Concise risk statement approved by the BoD.	Section 2.1
435 (2)	Information, once a year at a minimum, on governance arrangements.	Annual Corporate Governance Report 2014
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2014
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2014
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 2.3.4
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.5 and Appendix III
Scope of application		
436 (a)	Name of institution.	Section 1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 1.3 and Appendix II
436 (b) (i)	Fully consolidated;	Section 1.3 and Appendix II
436 (b) (ii)	Proportionally consolidated;	Section 1.3 and Appendix II
436 (b) (iii)	Deducted from own funds;	Section 1.3 and Appendix II
436 (b) (iv)	Neither consolidated nor deducted.	Section 1.3 and Appendix II
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 2.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Refer to Note 51 of the Consolidated Financial Statements of year 2014
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity	Not applicable to the Bank

CRR ref.	High-level summary	Compliance reference
	requirements for individual subsidiaries / entities.	
Own funds		
437 (1)	Requirements regarding capital resources table.	Section 3
437 (1) (a)		Section 3
437 (1) (b)		Section 3
437 (1) (c)		Section 3
437 (1) (d) (i)		Section 3
437 (1) (d) (ii)		Section 3
437 (1) (d) (iii)		Section 3
437 (1) (e)		Not applicable to the Bank
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.
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 4
438 (b)	Result of ICAAP on demand from competent authority.	The Bank has not received this request from the CBC
438 (c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	Section 4.1
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 aaplicable 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 4.2
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 4.3
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 5.1
439 (b)	Discussion of policies for securing collateral and establishing reserves.	Section 5.2
439 (c)	Discussion of policies as regards wrong-way exposures.	Section 5.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 5.4
439 (e)	Derivation of net derivative credit exposure.	Section 5.5
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Section 5.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Section 5.7
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

Credit risk adjustments		
442 (a)	Definitions for accounting purposes of 'past due' and 'impaired'.	Section 6.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.1
442 (c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposures.	Section 6.2
442 (d)	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by significant geographic areas and material exposure classes.	Section 6.3
442 (e)		Section 6.3
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.4
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 6.5
442 (g) (i)		Section 6.5
442 (g) (ii)		Section 6.5
442 (g) (iii)		Section 6.5
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Section 6.6
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.9
442 (i) (i)		Section 6.9
442 (i) (ii)		Section 6.9
442 (i) (iii)		Section 6.9
442 (i) (iv)		Section 6.9
442 (i) (v)		Section 6.9
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	Not applicable to the Bank
Unencumbered assets		
443	Disclosures on unencumbered assets.	Section 7
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Section 8.1
444 (b)	Exposure classes associated with each ECAI.	Section 8.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	Section 8.2
444 (d)	Mapping of external rating to credit quality steps.	Section 8.1
444 (e)	Exposure values pre- and post-credit risk mitigation, by credit quality step.	Section 8.3
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 15
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 14

Exposure in equities not included in the trading book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 9
447 (b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	Section 9
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 9
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 9
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Not applicable to the Bank
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 10.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 10.2
Remuneration disclosures		
450	Remuneration policy.	Section 11
Leverage		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 12.1 and 12.2
451 (1) (b)		Sections 12.1 and 12.2
451 (1) (c)		Sections 12.1 and 12.2
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 12
451 (1) (e)		Section 12
451 (2)	EBA shall develop implementation standards for points above.	The Bank follows the implementation standards.
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- and off-balance sheet netting.	Section 13
453 (b)	Policies and processes for collateral valuation and management.	Section 13.2
453 (c)	Description of types of collateral used by the Bank.	Section 13.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 13
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 13.3
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure value covered by eligible collateral.	Section 6.8
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.8
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

APPENDIX II – Basis of Consolidation of Group entities for regulatory purposes

The main Group companies and branches, their country of incorporation, their activities, the percentage held by the Bank (directly or indirectly) and their consolidation method as at 31 December 2014 are:

Company	Country	Activities	Percentage holding (%)	Consolidation Method	
				Accounting purposes	Prudential purposes
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A	C	C
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100	C	C
General Insurance of Cyprus Ltd	Cyprus	General insurance	100	C	D
EuroLife Ltd	Cyprus	Life insurance	100	C	D
Kermia Ltd	Cyprus	Property trading and development	100	C	D
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100	C	D
Kermia Hotels Ltd	Cyprus	Hotel business	100	C	D
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53	C	D
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80	C	C
Finerose Properties Ltd	Cyprus	Financing services	100	C	C
Hydrobius Ltd	Cyprus	Special purpose entity	-	C	D
Laiki Capital Public Co Ltd	Cyprus	Holding company	67	C	C
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	67	C	C
CLR Investments Ltd	Cyprus	Investment banking, asset management and brokerage	20	C	D
Auction Yard Ltd	Cyprus	Auction company	100	C	C
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75	C	C

Company	Country	Activities	Percentage holding (%)	Consolidation Method	
				Accounting purposes	Prudential purposes
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A	C	C
Kyprou Leasing SA	Greece	Holding of real estate properties	100	C	C
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100	C	C
Kyprou Properties SA	Greece	Property management	100	C	D
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	N/A	C	D
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A	C	D
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100	C	C
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100	C	C
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100	C	C
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A	C	C
Cyprus Leasing Romania IFN SA	Romania	Leasing	100	C	C
CB Uniastrum Bank LLC	Russia	Commercial bank	80	C	C
Leasing Company Uniastrum Leasing	Russia	Leasing	80	C	C
MC Investment Assets Management LLC	Russia	Special purpose entity	-	C	C
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100	C	C

C: Fully consolidated
D: Deducted from Capital Base
PC: Proportionally consolidated
N: Neither consolidated nor deducted

In addition to the above companies, the Bank had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets primarily repossessed through debt satisfaction. They are all 'Fully Consolidated' for both accounting and prudential purposes.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Fairford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properies Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Elias Houry Estates Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Rimokin Properties Ltd, Tavoni Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd and Armozio Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL, Frozenport Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Melgred Properties SRL, Tantora Properties SRL and Zunimar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd and Zunimar Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

The Group also holds 100% of the following companies which are inactive:

Cyprus: Bank of Cyprus Mutual Funds Ltd, Diners Club (Cyprus) Ltd, Laiki Bank (Nominees) Ltd and Laiki EDAK Ltd.

UK: Misthosis Funding Plc and Misthosis Funding (Holding) Ltd.

In addition, the Company holds 75% of the following companies, which were acquired as part of the Aphrodite group, which owns and manages a tourist resort and owns, develops and manages real estate properties in Cyprus.

Malta: Aphrodite Holdings Ltd and Thalassa Holdings Ltd.

Cyprus: Aphrodite Hills (Lakkos tou Frangou) Ltd, Aphrodite Hills Resort Ltd, Aphrodite Hotels Ltd, Aphrodite Hills Property Management Ltd, The Aphrodite Tennis And Spa Ltd and Aphrodite Hills Services Ltd.

Disposal groups and subsidiaries classified as held for sale
As at 31 December 2014, the Russian operations of the Group, executed through the Russian subsidiaries of the Group, and the hotel businesses, Kermia Hotels Ltd and Aphrodite Group, were classified as held for sale.

Transfer of business of Laiki Factors Ltd to the Company
In 2014, the Group decided the transfer of the operations and the assets and liabilities of the Group subsidiary company Laiki Factors Ltd to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership, of the subsidiary. This process was completed on 31 May 2014.

De Facto control of subsidiary
During March 2014 a new Board of Directors was appointed in CLR Investment Fund Public Ltd, which is controlled by the Group. Therefore de facto control is exercised to the company.

Dissolution of subsidiaries
As at 31 December 2014 the following subsidiaries were in the process of dissolution:

Samarinda Navigation Co Ltd, Kyprou Securities S.A., BOC Ventures Ltd, Tefkros Investments Ltd, Tefkros Investments (CI) Ltd, Salecom Ltd, Longtail Properties Ltd, Turnmill Properties Ltd and Limestone Properties Ltd.

APPENDIX III Information flow on risk to management body

S/N	Report Name	Report Description	Covers Group OR Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Copied To	Frequency	Due Date(s)	Comments
1	Quarterly Operational Risk Report	Report of Major Operational Risk issues as these are derived from the Activities of Operational Risk Management department	Group	Operational Risk Management	EXCO, BRC, BoD		Quarterly	10 days after end of quarter	From Q1/2015
2	Quarterly Report of Appeals Restructuring Committee	Report on the Restructuring Appeals Process / Complaints	Cyprus	Secretary of Restructuring Appeals Committee	EXCO, BRC and Audit Committee		Quarterly	10 days after end of quarter	
3	Annual Risk Management Report	Annual report of Risk Management Division activities, strategy and results	Cyprus	GCRO , All Managers	EXCO, BRC, BoD, CBC		Yearly	30th February next year	
4	Annual Report on Information Security	Reports to CBC current risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	CBC, EXCO, BRC, BOC		Yearly	End of February	
5	Portfolio performance	In depth analysis of portfolio, restructurings performance, roll rates, etc	Cyprus	Credit Risk Reporting	EXCO, BRC		Monthly	15 calendar days after reporting month	
6	Risk report	Report of key risk indicators and events as well as data on selected credit appraisal statistics (encompasses the full spectrum of risks such as credit, market, operational, information security, international and subsidiaries)	Group	Risk Management	BRC, EXCO and BoD	CBC	Monthly	10 calendar days after reporting month	Data included in the Risk Report could also be reported under other reports presented in this table.
7	Quarterly information security report	Report of major information Security issues	Group	Information Security	EXCO, BRC, BoD		Quarterly	10 days after end of Quarter	From Q1/2015

S/N	Report Name	Report Description	Covers Group OR Cyprus	Owner of Report / Preparer	Recipient (Competent Authority)	Copied To	Frequency	Due Date(s)	Comments
8	Summary of Flows report	Customer and other flows	Cyprus	Market Risk	ALCO		Monthly	15 days after month end	
9	Country risk report	Monitoring of exposures per country	Group	Market Risk	ALCO		Quarterly	20 days after month end	
10	Impairment review	Impairment Review for Bonds and Equities	Group	Market Risk	ALCO		Quarterly	20 days after month end	
11	Review of policies		Cyprus	All Managers	ALCO, EXCO, BoD and BRC		Yearly	Within first quarter	
12	Daily inflows/outflows graphs	Customer and other flows	Cyprus	Market Risk	BoD		Weekly	Every Monday	
13	Liquidity cashflows of overseas units	Customer and other flows	Overseas units	Market Risk	CBC,CRO, FD and Group Treasurer		Daily	end of day	
14	Sensitivity analysis	Update the ALCO on the impact of possible market rate changes on the Bank's income statement and reserves as required by the Central Bank	Group	Market Risk	ALCO		Quarterly	20 days after month end	
15	Violations report	ALCO to ratify the violations up to 25%, and the Board RC the violations greater than 25%	Group	Market Risk	ALCO, RC and BoD		Quarterly	20 days after quarter end	
16	Daily flows - end of day	Customer and other flows	Cyprus	Market Risk	CBC		Daily	by 9.30am	
17	Fixed deposit renewals	Fixed deposit renewals	Cyprus	Market Risk	CBC, CRO and Group Treasurer		Daily	1 day after the EOD	

S/N	Report Name	Report Description	Covers Group OR Cyprus	Owner of Report / Preparer	Recipient (Competent Authority)	Copied To	Frequency	Due Date(s)	Comments
18	Reg (EU) No 575/2013 of the European Parliament and of the Council - Liquidity Coverage Ratio (LCR)	Submission of seven reports on a monthly basis (BOC Group, BOC LTD, BOC Cyprus in all currencies and in currencies other than EUR which are more than 5% of total BOC Group Liabilities)	Group	Market Risk	CBC		Monthly	15 days after month end	
19	Reg (EU) No 575/2013 of the European Parliament and of the Council - Net Stable Funding Ratio (NSFR)	Submission of seven reports on a quarterly basis (BOC Group, BOC LTD, BOC Cyprus in all currencies and in currencies other than EUR which are more than 5% of total BOC Group Liabilities).	Group	Market Risk	CBC		Quarterly	40 days after quarter end	Decision needed as to with which vendor to proceed -same as for LCR above.
20	Reg (EU) No 575/2013 of the European Parliament and of the Council - Leverage ratio		Group	Market Risk	CBC		Quarterly	40 days after quarter end	Semi-automated
21	ICAAP	Internal Capital Adequacy Assessment Process	Group	GCRO/Market Risk	ECB, ALCO, EXCO, BRC, BoD	SSM/CBC	Yearly	Mid May	Work in progress to set up the report
22	ILAA	Individual Liquidity Adequacy Assessment	Group	GCRO/Market Risk	ECB, ALCO, EXCO, BRC, BoD	SSM/CBC	Yearly	mid May	Work in progress to set up the report
23	Material Approvals >€50million	Presents summary of all material approvals (restructurings, large exposures, etc)	Group	Credit Risk Assessment	BRC and BoD		Quarterly		

GLOSSARY

A	
ATHEX	Athens Exchange
ADC	The Group's Acquisitions and Disposals Committee
ALCO	The Group's Asset and Liability Committee
AQR	Asset Quality Review
AFS	Available-for-Sale
AT1	Additional Tier 1
AS	Agency Services
AM	Asset Management
ABSs	Asset Backed Securities
B	
Bank	Bank of Cyprus Public Company Ltd
BoD	Board of Directors
BRC	The Board's Risk Committee
BIS	Bank for International Settlements
BCP	Business Continuity Plans
C	
Company	Bank of Cyprus Public Company Ltd
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive
CBC	Cyprus Central Bank
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Appraisal Department
CRRCD	Credit Risk Reporting and Control 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
CVA	Credit Valuation Adjustment
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
E	
EXCO	The Group's Executive Committee
ECB	European Central Bank
EBA	European Banking Authority
ELA	Emergency Liquidity Assistance
ERC	Expected Replacement Cost
ECAIs	External Credit Assessment Institutions
F	
FX	Foreign Exchange
G	
Group	Bank of Cyprus Group
GCRO	Group Chief Risk Officer
GORM	Group Operational Risk Management Department

H	
HFT	Held-for-Trading
HR	Human Resource
I	
IFRS	International Financial Reporting Standards
IT	Information technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAA	Internal Liquidity Adequacy Assessment
IMF	International Monetary Fund
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association
K	
KRIs	Key Risk Indicators
KPIs	Key Performance Indicators
L	
LCR	Liquidity Coverage Ratio
M	
MR	Market Risk
MM	Money Market
N	
NPEs	Non Performing Exposures
NPV	Net Present Value
NRS	Non Rate Sensitive
NSFR	Net Stable Funding Ratio
O	
OECD	Organisation for Economic Co-operation and Development
OCI	Other Comprehensive Income
ORM	Operational Risk Management
P	
PS	Payment and Settlement
PD	Probability of default
R	
Report	2014 Pillar III disclosures
RSG	Regulatory Steering Group
RSCO	Regulatory/Supervisory Coordination Office
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	*Risk Control Self-Assessment*
RBr	Retail Brokerage
RB	Retail Banking
RHRC	Remuneration and Human Resources Committee
S	
SREP	Supervisory Review Process
SSM	Single Supervisory Mechanism
SME	Small Medium Enterprises

SFTs	Securities Financing Transactions
T	
T2	Tier 2
TC	Total capital
TS	Trading and Sales
TCTRO	Targeted-long term refinancing operations