Pillar 3 Disclosures 2019

Contents		Page
1.	**Executive Summary**	4
2.	**Introduction**	8
2.1	Corporate Information	8
2.2	Pillar III Regulatory Framework	8
2.3	Governance Arrangements	13
2.4	Strategies and Processes to Manage Risks	17
3.	**Scope of Application**	38
4.	**Risk Management Objectives and Policies**	49
4.1	Credit Risk Management	49
4.2	Market Risk Management	58
4.3	Operational Risk Management (ORM)	72
5.	**Own Funds and Leverage disclosures**	79
5.1	CRD IV Regulatory Capital	79
5.2	Summary of the terms and conditions of Capital Resources	84
5.3	Full Terms and conditions of Capital Resources	84
5.4	Geographical distribution of credit exposures relevant for the calculation of the Counter Cyclical Capital Buffer	85
5.5	Minimum Required Own Funds for Credit, Market and Operational Risk	86
5.6	Leverage	90
5.7	Comparison of institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs	94
6.	**Pillar I Requirements**	96
6.1	Counterparty Credit Risk (CCR)	96
6.2	Group's Exposure to Credit Risk and Expected Credit Losses (ECL)	103
6.3	External Credit Assessment Institutions (ECAIs) used for calculating Risk-Weighted Assets under the Standardised Approach	147
6.4	Exposures in Equities in the Banking Book	155
6.5	Exposure to Interest Rate Risk on Positions in the Banking Book	156
6.6	Information on Credit Risk Mitigation Techniques	160
7.	**Remuneration Policy and Practices**	172
7.1	Human Resources and Remuneration Committee (HRRC)	172
7.2	Performance Related Pay	173
7.3	Design and Structure of Remuneration	175
7.4	Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel	177
7.5	Material Risk Takers (MRTs) of the Group	180
7.6	Additional Information	180

Contents		Page
8 Asset Encumbrance		181
8.1	Encumbered and Unencumbered Assets by Asset Type	181
8.2	Collateral Received by Product Type	182
8.3	Encumbered Assets/Collateral Received and Associated Liabilities	183
9 Securitisation positions		184
APPENDIX I	Basis of Consolidation of Group entities for regulatory purposes	186
APPENDIX II	Information flow on risk to management body	201
APPENDIX III	List of immaterial countries	204
APPENDIX IV	List of other countries with their % countercyclical buffer rate	205
APPENDIX V	Main features of Capital Resources	206
APPENDIX VI	Result of the materiality analysis of the legal entities as at 31 December 2019	209
APPENDIX VII	Specific References to CRR Articles	210
Specific References to EBA guidelines published on 14 December 2016-version 2 as amended on 4 August 2017		216
GLOSSARY		218
Definitions and explanations on Alternative Performance Measures Disclosures		221

1. Executive Summary

The executive summary discloses a high level summary of the risk profile of Bank of Cyprus Holdings Public Limited Company Group (the 'Group'), and its interaction with its risk appetite. Bank of Cyprus Holdings Public Limited Company (the 'Company') is the holding company of Bank of Cyprus Public Company Limited (the 'Bank' or 'BOC PCL'). The Group comprises the Company, its subsidiary BOC PCL and the subsidiaries of BOC PCL. Risk appetite describes the types and level of risk that the Group chooses to accept in pursuit of its strategy whilst at the same time fulfilling regulatory requirements.

The Group remains on track for implementing its strategic objectives aiming to become a stronger, safer and a more focused institution capable of supporting the recovery of the Cypriot economy and delivering appropriate shareholder returns in the medium term. While Cyprus has had a five year track record of strong economic recovery in 2015-2019, the COVID-19 pandemic is expected to lead to a deep recession in 2020 before recovery and take shape in 2021. More information on the operating environment in Cyprus is included in the Directors' Report of the Consolidated Financial Statements of the Company for the year 2019 in page 23.

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

The Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and insurance risk. The Group monitors, manages and mitigates these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 46 to 49 of the Consolidated Financial Statements of the Company for 2019 and in the Additional Risk and Capital Management Disclosures which form part of the 2019 Annual Financial Report.

The Group is also exposed to litigation risk, arising from claims, investigations, regulatory and other matters. Further information is disclosed in Note 40 of the Consolidated Financial Statements of the Company for 2019.

Additionally, the Group is exposed to the risk on changes in the fair value of property which is held either for own use or as stock of property or as investment property. Stock of property is predominately acquired in exchange of debt and is intended to be disposed of in line with the Group's strategy. Further information is disclosed in Notes 23, 26 and 28 of the Consolidated Financial Statements of the Company for 2019.

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. The ECB has announced a package of positive measures that should help to support the capital position of the Company in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis. For further information please refer to Note 56 of the Consolidated Financial Statements of the Company for 2019.

The key pillars of the Group's strategy are to:

- Arrest any asset quality deterioration resulting from the outbreak of Coronavirus Disease 2019 (COVID-19) and further reduce the level of delinquent loans upon normalisation of market and operational conditions.
- Achieve a lean operating model.
- Maintain an appropriate capital position by internally generating capital.
- Further optimise the funding structure.
- Focus on the core Cyprus market.
- Deliver value to shareholders and other stakeholders.

1. Executive Summary (continued)

KEY PILLARS	PLAN OF ACTION
1. Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions.	• Focus on realizing collateral via consensual and non-consensual foreclosures. • Real estate management via REMU. • Continue to explore alternative measures for accelerating NPE reduction, such as NPE sales, securitisations etc.
2. Achieve a lean operating model	• Implementation of Digital Transformation Programme underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time. • Management remains focused on further improvement in efficiency.
3. Maintain an appropriate capital position	• Internally generating capital.
4. Further optimise the funding structure	• Focus on shape and cost of deposit franchise. • Introduction of liquidity fees.
5. Focus on core Cyprus market	• Targeted lending in Cyprus into growing sectors to fund recovery. • New loan origination, while maintaining lending yields. • Revenue diversification via fee and commission income from international banking, wealth and insurance which provides stable, recurring income.
6. Deliver value	• Deliver appropriate medium-term risk-adjusted returns.

The Group has made progress on some key metrics and moved closer to its risk appetite but still continues to operate outside of its risk appetite, in asset quality, concentration limits and operational risk losses. Additional information on the RAF is disclosed in Section 2.4.6.

Summary Risk Profile

The following section presents a high-level summary of the Groups' risk profile. The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management. It carries out a robust assessment of these risks, including risks that might threaten the Group's business model, future performance, liquidity etc. The Group has developed an Integrated Risk Identification Framework which provides for the identification of risk and updates the Key Risk Matrix which is approved by the RC and the Board through the Internal Capital Adequacy Assessment Process (ICAAP) process. A consolidated risk report and risk appetite dashboard is regularly reviewed by the RC and BoD to ensure the risk profile is within the approved risk appetite.

1. Executive Summary (continued)

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

	31 December 2019	31 December 2018
Key Balance sheet ratios		
NPE ratio	**30%**	36%
NPE provisioning coverage ratio	**54%**	47%
Leverage ratio	**10.10%**	9.45%
Cost of risk	**1.12%**	1.0%
Liquidity Coverage Ratio	**208%**	231%
Capital ratios and Risk Weighted Assets		
Common Equity Tier 1 capital ratio (CET1) (transitional)	**14.8%**	12.1%
CET1 (fully loaded DTA in 2018)	**14.8%**	11.9%
CET1 (fully loaded IFRS9 and DTA in 2018)	**13.1%**	10.1%
Total Capital ratio (transitional)	**18.0%**	14.9%
Risk-Weighted Assets (RWAs) (€ million)	**12,890**	15,373
RWAs intensity	**61%**	70%

- The Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis stood at 14.8% at 31 December 2019, compared to 11.9% at 31 December 2018 (adjusted to take into account the deferred tax assets (DTAs) which were fully phased in as of 1 January 2019). During 2019 the CET1 ratio was positively affected mainly by the decrease in risk weighted assets (RWAs) and the completion of the disposal of the associate CNP Cyprus Insurance Holdings Ltd (CNP), and negatively affected mainly by the one-off cost of €81 million for the completion of the Voluntary Staff Exit Plan and the additional expected credit losses (ECL) within the context of IFRS 9 of €75 million to facilitate balance sheet de-risking through further NPE sales. At 1 January 2020, the Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis stood at 14.5%, resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

- The CET1 ratio on a fully loaded basis (including the full impact of IFRS 9) amounts to 13.1% as at 31 December 2019 compared to 10.1% at 31 December 2018 (and 13.5% pro forma for deferred tax credits (DTC) and the sale of a portfolio of loans (Project Helix-additional information on the Helix portfolio is disclosed in Section 6.2.9)). On a transitional basis and on a fully phased-in basis, after the five-year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

- As at 31 December 2019, the Total Capital (TC) ratio stood at 18.0% (31 December 2018: 14.9%). At 1 January 2020, the TC ratio stood at 17.7%, resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

- RWAs substantially decreased mainly from the completion of Project Helix, the disposal of equity holdings of CNP and to a lesser extent from the increased provisioning, curing and settlements/repayments in customer loans, all leading to a substantial decrease in the RWAs intensity from 70% in 2018 to 61% in 2019.

- Credit Risk is managed in accordance with the Risk Appetite set which sets targets for several key asset quality metrics described below.
    - The Group continues to be actively exploring alternative avenues to accelerate this reduction and move with its risk appetite target. Non-Performing Exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €1.073 million during 2019, accounting for 30% of gross loans, compared to 36% at 31 December 2018.

1. Executive Summary (continued)

- The provisioning coverage ratio of NPEs improved to 54% at 31 December 2019, compared to 47% at 31 December 2018.
- ECL (cost of risk) for 2019, accounted for 1.12% of gross loans, compared to a loan credit losses charge (cost of risk) of 1.0% for 2018 on the same basis, reflecting further de-risking and IFRS 9 model volatility.
- The Group has in place limits to manage concentration risk which can arise, among others, from sector, product, counterparty, currency, collateral and funding source concentration. Appropriate monitoring and reporting processes are in place and are frequently reviewed. There are restrictions on loan concentrations which are imposed by the Cyprus Banking Law, the relevant CBC Directives and the Capital Requirements Regulation (CRR). According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's Risk Appetite Statement (RAS) imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of the internal limits over time.

- At 31 December 2019 the Group Liquidity Coverage Ratio (LCR) stood at 208% (compared to 231% at 31 December 2018) and was in compliance with the minimum regulatory requirement of 100%. Resulting from the outbreak of COVID-19, the ECB has announced a positive package of measures including that the ECB will allow banks to temporarily operate below the LCR. For further information please refer to Note 56 of the Consolidated Financial Statements of the Company for 2019

- As at 31 December 2019, the leverage ratio of the Group was 10.10% (2018: 9.45%) on a transitional basis and 8.95% (2018: 7.97%) using a fully phased-in definition of Tier 1 (T1). This ratio is well above the 3% regulatory limit.

- The Standardised Approach has been applied to calculate the minimum capital requirement for Credit Risk and minimum capital requirements are calculated as 8% of the RWAs. The TC requirement for credit risk decreased in 2019 (€924,023 thousand) in comparison with 2018 (€1,105,772 thousand) with Project Helix Transaction being the main driver behind this decrease.

- The minimum capital requirement for operational risk is calculated in accordance with the CRR for operational risk with the Standardised Approach and amounts to €107,416 thousand (2018: €123,087 thousand). The capital requirement is calculated as a percentage of the average income over the past three years depending on the business line. More information on operational risk is provided in Section 5.5.3.

- There are no minimum capital requirements for market risk for 2019. The minimum capital requirement calculated under the Standardised Approach in accordance with the requirements for Market Risk of the CRR is exclusively related to equity risk. The Bank does not have any exposures in the trading book in "Interest rate risk", "Commodity Risk", "Options" or "Securitisation" positions. FX risk does not require any capital since the materiality threshold set by Article 351 of the CRR is not met.

Risk Statement
The Finance Director and the Group Chief Risk Officer (CRO) have attested in writing that, to the best of their knowledge, the 2019 Pillar 3 disclosures comply with Part Eight of the CRR and the EBA Guidelines related disclosure requirements and have been prepared in accordance with the internal control processes agreed upon at the Board level.

A statement by the Board regarding the internal controls is included within the Annual Corporate Governance Report of 2019 (Section 2). In addition, statements approved by the Board describing the Group's overall risk profile associated with the Group strategy and risk management are included within the Directors' Report (sections: Viability statement, Strategy and Outlook, Risk management). The 'concise statement' by the Board is disclosed in the 2019 Directors' report in section 'Statement of Directors' Responsibilities' (page 49), which forms part of the 2019 Annual Report of Bank of Cyprus Holdings Group.

2. Introduction

2.1 Corporate Information

The Company was incorporated in Ireland on 11 July 2016, as a public limited company under company number 585903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrance, Dublin 2, D02 T380, Ireland.

The Company is the holding company of BOC PCL. The Bank of Cyprus Holdings Group (the 'Group') comprises the Company, its subsidiary BOC PCL and the subsidiaries of BOC PCL.

The principal activities of BOC PCL and its subsidiary companies (the 'BOC Group'), involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt.

The Company is tax resident in Cyprus. The shares of the Company are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

2.2 Pillar III Regulatory Framework

Regulatory framework overview

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

The CRR and CRD IV establish the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of RWAs and the introduction of new measures relating to leverage, liquidity and funding. New guidelines on NPEs that apply from 31 December 2019 specify the common content and uniform disclosure formats for the information on NPEs, forborne exposures and foreclosed assets that credit institutions should disclose. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which was largely effective by 2019. In addition, the Regulation (EU) 2016/445 of the European Central Bank (ECB) on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The current regulatory framework comprises three pillars:

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

Future Regulatory Developments

The Group's 2019 year end disclosures comply with all relevant CRD IV, CRR and associated EBA and ECB guidelines and technical standards in force at 31 December 2019 including ECB Guidance to Banks on Non-Performing and Forborne exposures.

2.2 Pillar III Regulatory Framework (continued)

The Group continues to closely monitor EU and Cyprus regulatory developments, including among others the following:

- *NPE Addendum*
  On 14 of March 2018 ECB published an NPE addendum which supplements the NPL guidance by specifying what the ECB deems to be prudent levels of provisions for new NPEs. The ECB will in this context assess among other things, the length of time an exposure has been classified as NPE (vintage) as well as the collateral held. The ECB will link the supervisory expectations in this Addendum to new NPEs classified as such from 1 April 2018 onwards, irrespective of the reason of classification. On 22 August of 2019 the ECB has revised its supervisory expectations for prudential provisioning of new NPEs specified in the "NPE Addendum", after taking into account the adoption of the new EU regulation that outlines the Pillar 1 treatment for NPEs. Supervisory expectations for coverage of stock of NPEs remain unchanged. NPEs arising from loans originated after 26 April 2019 in principle are subject solely to Pillar 1treatment. Taking into account the specificities of the supervisory expectations, banks will thus be asked to inform the ECB of any differences between their practices and the prudential provisioning expectations, as part of the SREP supervisory dialogue, from early 2021 onwards.

- *Minimum Requirement for Own Funds and Eligible Liabilities (MREL)*
  The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain an MREL, subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD 2 came into effect and must be transposed into national law. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

  The Bank has received formal notification from the Single Resolution Board (SRB), of its draft decision for the binding MREL for the Bank, determined as the preferred resolution point of entry. The MREL requirement has been set at 28.36% of risk weighted assets as of 30 June 2019 and must be met by 31 December 2025. This MREL requirement would be equivalent to 18.54% of total liabilities and own funds (TLOF) as at 30 June 2019. The MREL requirement is in line with the Bank's expectations, and largely in line with its funding plans.

  The MREL requirements remain subject to final confirmation by the SRB. This decision is based on the current legislation; it is expected to be updated annually and could be subject to subsequent changes by the resolution authorities, especially considering the developments of the BRRD and its transposition into the local legislation.

  The MREL ratio of the Bank as at 31 December 2019, calculated according to SRB's eligibility criteria currently in effect, and based on the Bank's internal estimate stood at 18.54% of RWAs.

- *CRR II and CRD V*
  On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to MREL) but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of among others changes to qualifying criteria for CET1, AT1 and Tier 2 (T2) instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR). For further regulatory developments following the COVID-19 outbreak please refer to Note 56 of the Consolidated Financial Statements of the Company for 2019.

Capital requirements

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

2.2 Pillar III Regulatory Framework (continued)

Minimum Capital Requirements

	2020 Note 1	2019	2018
Pillar 1	**%**	**%**	**%**
CET1	4.50	4.50	4.50
Tier 1	6.00	6.00	6.00
Total Capital requirement-Pillar 1	**8.00**	**8.00**	**8.00**
Pillar 2			
CET1	1.69	3.00	3.00
AT1	0.56	-	-
Tier 1	0.75	-	-
Total Capital requirement-Pillar 2	**3.00**	**3.00**	**3.00**
Buffers			
Capital Conservation Buffer (CCB)-Note 2	2.50	2.50	1.88
Countercyclical Capital Buffer (CCyB)-Note 3	-	0.03	0.02
Other Systematically Important Institutions (O-SII)-Note 4	1.00	0.50	-
Total minimum requirements CET1	**9.69**	**10.53**	**9.40**
Overall Capital requirement	**14.50**	**14.03**	**12.90**

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

1. The ratios are in line with the final 2019 SREP decision received in December 2019 and then amended in March 2020. Further information is disclosed in Notes 4.1 and 56 of the Consolidated Financial Statements of the Company for 2019.

2. The Capital Conservation Buffer (CCB) was gradually phased-in at 0.625% in 2016, 1.25% in 2017, and 1.875% in 2018 and was fully implemented on 1 January 2019 at 2.50%.

3. In accordance with the provisions of the above law, the CBC determines, on a quarterly basis, the CCyB level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined for all the countries in the European Economic Area (EEA) by their local competent authorities ahead of the beginning of each quarter. The CBC has set the level of the CCyB for Cyprus at 0% for the years of 2019 and 2018 and the six months up to June 2020. The CCyB for the Group has been calculated at 0.03% for the year 2019 (2018: 0.02%) (Section 5.4) and eliminated to zero in March 2020 following the COVID-19 outbreak. Further information is disclosed in Note 56.1 of the Consolidated Financial Statements of the Company for 2019.

4. In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer is phased-in gradually, starting from 1 January 2019 at 0.5% and set to be increasing by 0.5% every year thereafter, until being fully implemented at 2.0% on 1 January 2022. In April 2020 the CBC announced that the phasing-in of the O-SII buffer of 1 January 2021 will delay by one year. The O-SII buffer will fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

2.2 Pillar III Regulatory Framework (continued)

The EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar 1, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, the new provisions are effective from 1 January 2020.

Following the Covid-19 outbreak, on 12 March 2020, the ECB and the EBA announced the following relaxation measures for the minimum capital requirements for banks:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance, the Capital Conservation Buffer and the Countercyclical Buffer. The Countercyclical Buffer is 0% for Cypriot Banks.
- Banks are allowed to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar 2 Requirements (P2R) and not only by CET 1; this brings forward a measure that was scheduled to come into effect in January 2021 with CRD V.

The ECB's capital easing measures for COVID-19 will increase the Group's CET1 buffer by 131 bps following the frontloading of the new rules on the Pillar II Requirement composition, initially scheduled to come into effect in January 2021. The Total SREP capital requirement remains unchanged.

In April 2020 the CBC announced that the phasing-in of the O-SII buffer of 1 January 2021 will delay by one year. The O-SII buffer will fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set. In April2020 the ECB has temporarily reduced banks capital requirements for market risk. This measure will be reviewed by the ECB after six months.

In April 2020, the Bank received a decision from the ECB amending the composition of the Pillar II additional own funds requirement, compared to the 2019 final SREP decision received in December 2019 which requested P2R to be met in full with CET1. This decision is effective as from 12 March 2020 and follows the announcements by the ECB on the capital relief measures as a result of Covid-19. As a result, the minimum phased-in CET1 requirement decreased to 9.7%, comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the CCB of 2.5% (fully phased in as of 1 January 2019) and the O-SII buffer of 1.0%. There is no change on the Total Capital requirement.

Further information is disclosed in Note 56.1 of the Consolidated Financial Statements of the Company for 2019.

The capital position of the Bank and the Group at 31 December 2019 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

The subsidiaries of the Group which are not included in the prudential consolidation and have capital requirements to comply with, are the following insurance subsidiaries:

- General Insurance of Cyprus Ltd (GIC) and
- EuroLife Ltd

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance and specifically the minimum solvency ratio as at 31 December 2019. Therefore there is no capital shortfall to report with respect to the insurance subsidiaries of the Group in accordance with CRR Article 436(d). The Solvency and Financial Condition Report of GIC and EuroLife Ltd is made public on a yearly basis beginning of April and is published on their websites, www.eurolife.com.cy and www.gic.com.cy (Solvency and Financial Condition Reports). Due to the outbreak of COVID-19 crisis, the European Insurance and Occupational Pensions Authority (EIOPA) considers that undertakings need to concentrate their efforts on monitoring and assessing the impact of the Coronavirus/COVID-19 situation as well as ensuring business continuity. Therefore, the authorities will accept an 8-week delay for the publication of the Solvency and Financial Condition Report (SFCR).

2.2 Pillar III Regulatory Framework (continued)

The regulated UCITS management company of the Group, BOC Asset Management Ltd complies with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) laws and regulations as at 31 December 2019. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO) meets the minimum total capital ratio hurdle of CySEC but lacks behind the minimum initial capital requirement and the additional capital conservation buffer as at 31 December 2019. As a result a business and capital plan was submitted to CySEC in December 2019. CISCO also submitted to CySEC its Internal Capital Adequacy Assessment Process (ICAAP) Report in September 2019. It is expected that CySEC will provide CISCO a reasonable timeframe, based on the capital/business plan submitted, to comply, as per its SREP.

Comparative information

Comparative information was restated as per the final capital regulatory submissions of year end 2018 which included a late refining adjustment of c.€1 million charge on capital base, recognised post 2018 publication of Pillar 3 Report.

Disclosure policy

The Group maintains a Pillar 3 Disclosure Policy to support compliance with Articles 431-455 of the CRR and associated EBA guidelines and technical standards. The following sets out the key elements of the disclosure policy including the basis of preparation, frequency, media and location verification. In regards to the risk profile disclosure and their overall appropriateness please refer to Section 2.4.7.

Basis and of preparation

The 2019 Pillar 3 Disclosures report (the 'Report') of the Group sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar 3 framework requirements (see Specific References to CRR Articles at the end of the Report). The Report includes, to a large extent, tables prepared in line with the EBA guidelines published on 14 December 2016 as amended on 4 August 2017 (see Specific References to EBA guidelines at the end of the Report), which are now in force for the purposes of this Report. A CRR mapping table has been included in Appendix VII which details how the Group has complied with each article under Part Eight.

A number of significant differences exist between accounting disclosures published in accordance with IFRS and Pillar 3 disclosures published in accordance with prudential requirements, which prevent direct comparison in a number of areas. Of particular note are the differences surrounding scope of consolidation and the definition of credit risk exposure.

Frequency, media and location

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

Copies of the Group's Annual Report 31 December 2019 along with the Group's Pillar III Disclosures can be obtained from Group's website http://www.bankofcyprus.com (Investor Relations).

Basis of credit risk exposures

To ensure compliance with both CRR and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within Pillar 3 Credit risk in Section 6.

2.2 Pillar III Regulatory Framework (continued)

Verification

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

Group Compliance Division had an oversight of the framework and assurance procedures and Group Internal Audit performed a review of the process followed by the Group for the preparation of Pillar 3 Disclosures for 2019.

The Pillar 3 report pre its submission to the Board is reviewed and approved by the Executive Committee (ExCo). The Board, through the Risk and Audit Committees scrutinises and approves the Pillar 3 report. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the disclosures. Further controls and processes about the preparation of periodic reporting are disclosed in the Directors' report of 2019 Annual Report (page 43).

The Report was approved by the Board through the Audit and RCs.

2.3 Governance Arrangements

2.3.1 Recruitment Policy

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

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

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

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

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

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

2.3.1 Recruitment Policy (continued)

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

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

Following the Board Performance Evaluation in 2019, the NCGC determined that the skills profile of the Board, either academically or through professional experience was appropriate and relevant to the business of the Group including inter alia, banking, insurance, audit and accounting, economics, risk management, dealing with competent authorities, strategy and business models, legal and consultancy services, Information Technology (IT) and cyber-security and human resource management.

As at 31 December 2019 the Board comprised of eleven Directors: the Group Chairman, who was independent on appointment, two executive directors and eight non-executive directors. According to the provisions of the CBC Assessment of Fitness and Probity of Directors and Managers Directive of 2014 ('CBC Fitness & Probity Directive') seven of the non-executive directors are independent. However, the Board has determined all of the non-executive directors, including the Chairman, to be independent non-executives in accordance with the provisions of both the UK and the CSE Code. The Board has initiated procedures to have Mr. Goldman determined independent as per the provisions of the CBC Fitness and Probity Directive, by the regulator as well. In light of the Chairman's stated intention to step down following the Annual General Meeting (AGM) of 14 May 2019, the NCGC supported by external consultants identified and short-listed certain candidates and after relevant assessments and interviews by members of the NCGC, Mr. Efstratios-Georgios (Takis) Arapoglou was recommended for appointment to the Board and was elected Chairman of the Board on 12 June 2019 following the consent of the ECB. Mr. Spanos resigned from the Board on 21 January 2019 while in March 2019 the CEO gave notice of resignation and again with the support of the same external consultants both internal and external candidates were shortlisted and interviewed. Following the recommendation of the NCGC the Board appointed Mr. Panicos Nicolaou, Director of the Corporate Banking Division of the Bank, as CEO and executive member of the Board on 1st September 2019 following ECB consent.

2.3.2 Other Directorships

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

The CBC Fitness and Probity Directive which incorporates the provisions of Article 91 of CRD IV 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, executive or non-executive directorships held within the same group shall count as a single directorship. Directorships in organisations which do not pursue predominantly commercial objectives do not count for the purposes of the above guidelines.

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

The CBC had granted permission on appointment to two of the current directors to hold one additional non-executive directorship to the above. At present none of those directors hold additional directorships. In 2019 the ECB which supervises the Bank following the European Union Regulation 468/2014 granted permission to the Chairman Mr. Arapoglou to hold one additional directorship given the very limited time commitment required for his external directorships.

Full biographies can be accessed online and in the Annual Corporate Governance Report 2019 which is included in the Annual Financial Report 2019 and is available at www.bankofcyprus.com (Who we are).

2.3.3 Diversity

The Board has a balanced and diverse range of skills, knowledge and experience, and has almost achieved its target for female representation. Following the approval of the Board Diversity Policy in May 2015 an action plan was prepared which set as target to achieve 40% female representation on the Board by 2020. At year-end 2019 four female directors were members of the Board (36.4%). Nationality, gender, age, specialised skills and other relevant qualities are all taken into consideration in order to maintain an appropriate range of balance of skills, experience and background on the Board.

Following review in 2019, the NCGC determined that the skills and experience of the Board were appropriate in areas relevant to the business of the Group such as banking & financial services, strategy & business models, risk management, business/industry experience, audit/accounting & economics, insurance, international experience, capital markets, legal governance, IT, cybersecurity, human resource management and dealing with regulators and governments.

Further information on the Group Board Nomination Policy and the Group Board Diversity Policy is contained in the Annual Corporate Governance Report for 2019 which is available at www.bankofcyprus.com (Who we are).

2.3.4 The Board

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

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

2.3.5 Board Risk Committee (RC)

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

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

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

The RC currently comprises 4 Non-executive directors, all of whom independent. During 2019 the RC held 13 meetings (2018: 17 meetings).

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

- Review pricing of products and where prices do not properly reflect risk, present a remedy plan to the BoD.
- Examine the adequacy and effectiveness of the contingency and insurance strategy of the Group and make appropriate recommendations to the Board.
- 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 CRO and the Information Security Officer and submit appraisals to the BoD.
- Approve sufficient resources and budget for the Bank's Risk Management Division (RMD) and the Information Security function.
- Review and approve the organisational structure of the RMD.
- Assess and monitor the independence, adequacy and effectiveness of the RMD and the Information Security Function.
- Advise the BoD on the adequacy and effectiveness of the risk management framework and the information security framework, drawing on the reports of the AC, the RMD and external auditors.
- Advise the BoD on the adequacy, effectiveness and robustness of information and communications systems.
- Advise the BoD on the adequacy of the provisions and effectiveness of strategies and policies with respect to maintaining adequate internal capital and own funds to cover the risks of the Bank.
- Ensure that stress tests and related procedure are carried out as appropriate on all major risks, at least on an annual basis and where necessary, challenge the appropriateness of limits and adequacy of capital and budgets.
- Review and recommend for approval to the Board the Group Recovery Plan and any revisions therein.
- Conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the BoD.

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

2.3.6 Board Audit Committee (AC)

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

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

The AC comprises of 4 independent Non-executive directors. During 2019 the AC held 13 meetings (2018: 13 meetings).

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

2.3.7 Human Resources & Remuneration Committee (HRRC)

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

Further information on the Group Board Committees, their composition, number of meetings, their activities and terms of reference are contained in the Annual Corporate Governance Report for 2019 which is included in the Annual Financial Report 2019.

2.3.8 Reporting and Control

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

2.4 Strategies and Processes to Manage Risks

2.4.1(a) Risk Management Framework

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

- Identify the Group's significant risks and ensure that appropriate mitigating strategies are in place.
- Define the Group's risk appetite and ensure that it is consistent with the overall business strategy, as well as the divisional strategies.
- Ensure that risk management is an integral part of the Group's process of strategic decision-making and capital planning.
- Support business decision-making by taking a balanced view on risk, while establishing strong and independent review and challenge structures.
- Assist business lines to improve the control and coordination of risk taking.

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

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

2.4.1(b) Effectiveness of the Risk Management Framework

The Group's management and BoD needs to be satisfied that the Risk Management Framework is appropriate given the risk profile of the Group and its Strategy. As such, the Group has in place a process whereby certain confirmations/representations and warranties as to the effectiveness of Risk policies, procedures and monitoring activities, as part of the Corporate Governance Code's (Code) obligations, are provided by all the business lines and subsidiary companies to the BoD through its AC on an annual basis. Furthermore, RMD, having received such quarterly confirmations/representations from the business lines and subsidiary companies, subsequently provides confirmations/representations and warranties as to the effectiveness of its policies, procedures and monitoring activities to the BoD through its AC. Board declaration on Risk Management is fulfilled within the Directors' Report of 2019 Annual Financial Report.

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

The RMD is independent of the day-to-day business. The Chief Risk Officer (CRO) reports to the Chair of the RC and for administrative purposes has a dotted line to the Chief Executive Officer (CEO). The CRO has unhindered access to the RC and to the Executive Management, and meets periodically with the Chair of the RC. The RC assesses and monitors the independence, adequacy and effectiveness of the RMD on an ongoing basis.

The RMD derives its authority from the BoD, via the RC. The RMD has full, free and unrestricted access to all Bank records, property and personnel, including where appropriate outsourced operations, within a reasonable period of making the request.

The Risk Management Framework has been developed based on the applicable governance requirements included in:
a) The CBC Directive on Governance and Management Arrangements in Credit Institutions, and
b) The EBA report on Internal Governance under Directive 2013/36/EU.

2.4.2 Risk Inventory

As part of its business activities, the Group faces a variety of risks, the most significant of which are described further in dedicated sections below as well as in the Directors' Report in the 2019 Annual Financial Report. For risks relating to financial instruments, information is also included in Notes 46-49 of the Consolidated Financial Statements of the Company for the year 2019 and in the Additional Risk and Capital Management Disclosures included in the 2019 Annual Financial Report.

The Group holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk (including litigation risk) as required by CRR/CRD IV, all of which are defined below.

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

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

2.4.2 Risk Inventory (continued)

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

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

Litigation risk and regulatory matters
The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential proceedings against the Group (Note 40 of the Consolidated Financial Statements of the Company for the year ended 31 December 2019) and in the event that legal issues are not properly dealt with by the Group, this may result in financial and/or reputational loss.

2.4.3 Risk Management Governance

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

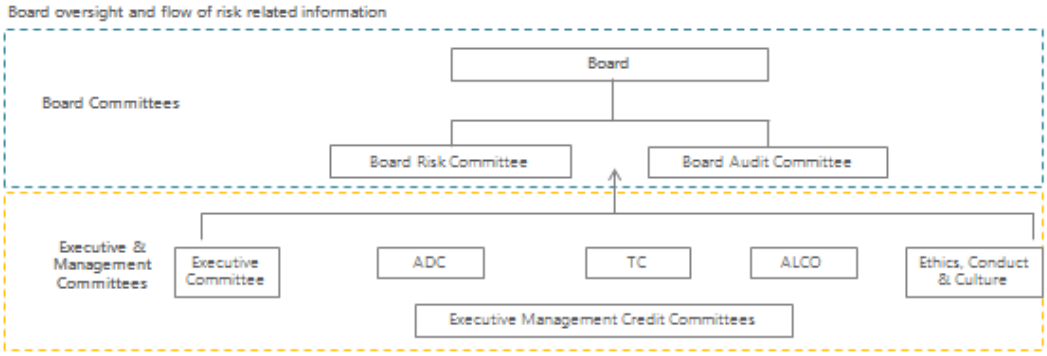
- The RC
- The AC

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

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

2.4.3 Risk Management Governance (continued)

Conduct & Culture Committee



The Board

One of the Board's responsibilities (or its delegates) is the approval and periodic review of the Group's Risk Appetite, which is the level of risk the Group chooses to take in pursuit of its business objectives. The Board (or its delegates) has the responsibility for approving and periodically reviewing the RMD strategy and Risk Policies, as well as setting appropriate limits and assigning approving authorities. It also receives regular reporting on the effectiveness of the Group's risk and control processes as well as on the most significant risks and performance trends which facilitate its annual review on Risk Management. The Board also assesses all of the Group's strategic plans which are accompanied by respective risk assessments.

In addition, the Board:

- Provides a statement regarding the internal controls which is included within the Annual Corporate Governance Report.
- Signs a liquidity and capital adequacy statements on an annual basis as part of the ILAAP and ICAAP.
- Ensures that the Risk Management function is properly positioned, staffed and resourced and carry out its responsibilities independently and effectively.

The Board Risk Committee (RC)

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

The Board Audit Committee (AC)

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

Executive and Management Committees

Risk related topics are regularly covered by the various Executive and Management Committees in the discharge of their duties. This contributes to the overall monitoring of Risk Management while the Chief Risk Officer's (CRO) participation in these committees ensures both that the topics are appropriately presented and that Risk Management's position is clearly articulated.

2.4.3 Risk Management Governance (continued)

Topics regularly covered include:

- Update on significant risks and performance trends;
- Risk perspective on the Group and divisional strategic plans;
- Risk appetite formulation;
- Stress test, ICAAP and ILAAP results and analysis;
- Product, sector and country limits;
- Risk policies review;
- Integrated risk monitoring;
- Asset disposal;
- On-boarding of risk;

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

Senior Management

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

Chief Executive Officer (CEO)

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

Chief Risk Officer (CRO)

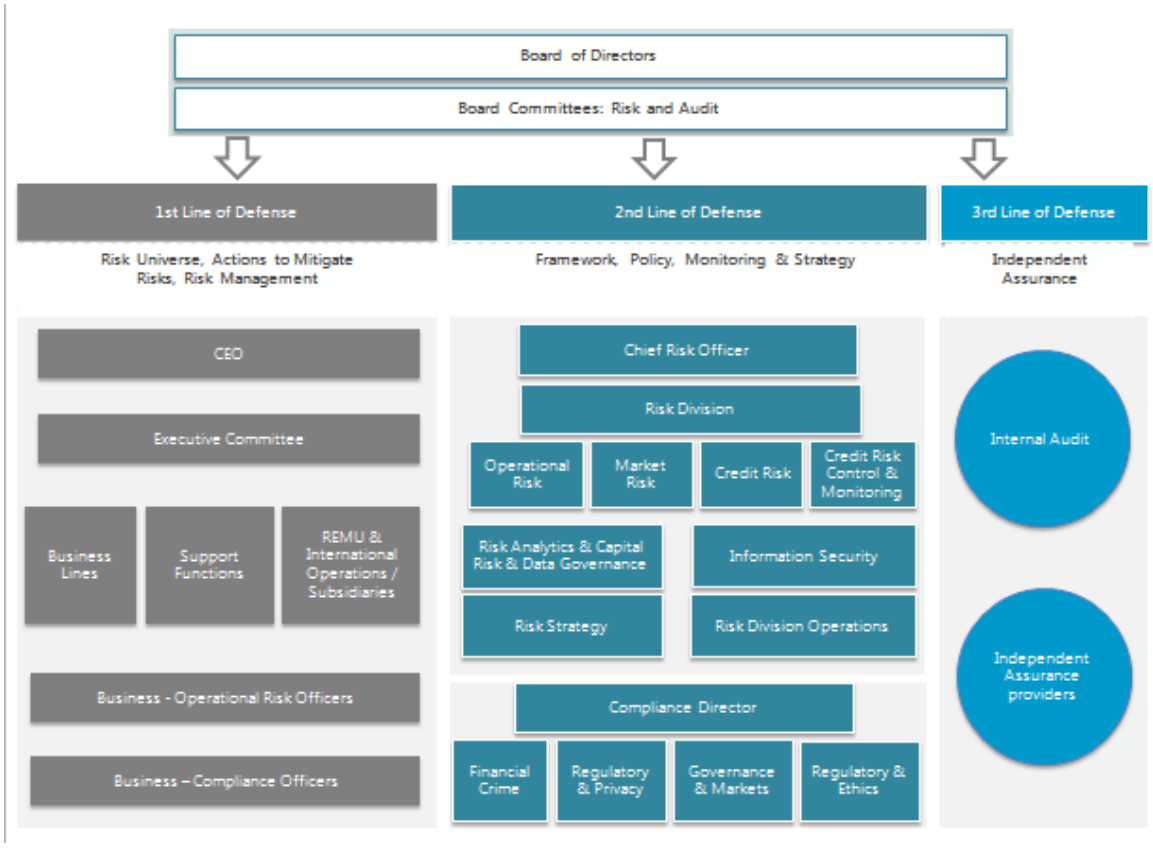
The CRO leads the Risk Division across the Group including its subsidiaries. He is responsible to clearly articulate the Risk Management objectives and to promote the development and implementation of a consistent Group wide risk management framework. The CRO is also expected to challenge business strategy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

Three Lines of Defence

The Bank follows the regulatory guidelines for Corporate Governance and has defined a set of rules and controls governing the Bank's organisational and operational structure including reporting processes and functions for risk management, compliance and internal audit.

The Bank has established the Three Lines of Defence model as a framework for effective risk management and control which depicts the relationship of RMD with other internal control functions as well as the front line. All employees are responsible for identifying and managing risk within the scope of their role as part of the Three Lines of Defence model.

2.4.3 Risk Management Governance (continued)



1st Line of Defense	2nd Line of Defense	3rd Line of Defense
Risk Owners	Review & Challenge	Independent Assurance
The first line of defence against risks lies with the front line which includes all units that on-board risk into the Bank such as those that enter into business transactions with clients as well as all associated support functions including Finance, Treasury, IT and Operations. They are responsible for the implementation, maintenance and enhancement of the risk management framework through: • Identification and effective management / mitigation of risks. • Operating within all limits applicable to their operations in line with the RAS. • Issues identification, recording, escalation and management.	Consist of the Risk Management Division and the Compliance Division of the Bank that provide independent oversight of the risk profile and of the risk management framework through: • Effective challenge to activities and decisions of the first line that materially affect the Bank's risk profile. • Assistance in developing, maintaining and enhancing the risk management framework taking into account new or evolving risks. • Independent reporting lines to appropriately escalate issues • Provide specialist advice and training to the Board, to the board committees and to the first line of defence on risk-related matters	Internal Audit comprises the third line of defence which provides independent assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks. Furthermore, as per the Central Bank of Cyprus Directive on Governance and Management Arrangements in Credit Institutions, the adequacy and effectiveness of the Bank's internal control framework is also assessed by an external independent auditor once every three years.

2.4.3 Risk Management Governance (continued)

RMD relation with control functions

Control functions meet at regular intervals in order to assess and propose areas for further enhancement of cooperation and communication amongst them, as well as for taking advantage of synergies and avoiding duplication of work.

In addition, Internal Audit is responsible for the independent review of risk management and the control environment.

2.4.4 Risk Management Division (RMD)

A restructuring of the Division was carried out in September with the appointment of a new CRO, the creation of two new Departments (Risk Strategy, Credit Risk Control & Monitoring) and the enhancement of both Credit Risk Management and Operational Risk.

The RMD division is structured to:

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

RMD's independence is ensured through:

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

The RMD is comprised of the following departments:

It is noted that the previous CRO has maintained an executive role (Executive Director, Global corporate Banking & Markets) within the Bank. There was no change in the heads of Internal Audit and Compliance divisions.

2.4.5 Risk Culture

A robust risk culture is a substantial determinant of whether the Bank will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Bank has been building is reflected in its policies and procedures and these are closely aligned to its risk appetite. Risk culture is manifested in the institutions norms, its day-to-day decisions that indicate how risk is identified, understood, discussed and acted upon. The Group, towards the end of 2019, has established a Board Committee (Ethics, Conduct and Culture Committee) with a role encompassing, among others, the following:

- To support the Board in promoting its collective vision of values, conduct and culture.
- To oversee management's efforts to foster a culture of ethics and appropriate conduct within the Group.
- To oversee the way the Group conducts business focusing on developing a customer-centric culture with an eye on profitability in all its operations.
- To oversee the Group's conduct in relation to its corporate and societal obligations, including setting the direction and policies for the Group's approach to customer and regulatory matters.
- To oversee the effectiveness of the Group's whistleblowing procedures.

The CRO is among the regular attendees of the committee.

A number of actions are currently in place which is focused on the implementation of a Bank-wide risk culture as follows:

1. Setting the correct tone from the top by communicating the need for a strong risk culture both from the BoD and its committees as well as from senior management.
2. Encouraging clear ownership and accountability risks.
3. Implementing formal risk education presentations and training across the Bank including front-line personnel.
4. Amending policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
5. Placing the Bank's reputation at the centre of all decision-making.

As the RMD continues its efforts to establish a strong risk culture across the Group, in line with industry on-going good market practices, the RMD undertakes a self-assessment exercise to understand where it stands in relation to establishing its risk values, identify deficiencies and gaps, and actively plans its next steps for further improving the maturity of the division and enhancing the prevalent risk culture.

2.4.6 Risk Appetite Framework (RAF)

Introduction

The RAF sets the holistic approach of the Group in setting, communicating and monitoring its risk appetite. It is comprised by the RAS, associated policies and limits where appropriate as well as the roles and responsibilities for the implementation and monitoring of the RAF.

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

2.4.6 Risk Appetite Framework (RAF) (continued)

The RAF through the RAS assigns quantitative and/or qualitative metrics to each risk. Measurement and reporting against these metrics aims to ensure that:

- Business activity is guided, controlled and aligned to this risk appetite statement.
- Key assumptions underpinning the risk appetite are continuously monitored and adjusted accordingly.
- Specific business actions necessary to mitigate risk are identified early and acted upon promptly.

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

2.4.6 Risk Appetite Framework (RAF) (continued)

Key Risks	*Mitigate Actions*
Capital Risk The risk that the Group does not have the optimal capital either in terms of quality or in terms of quantity. A worsening macroeconomic environment could lead to adverse financial performance, which could deplete capital resources and/or increase capital requirement due to deterioration of asset quality and creditworthiness of customers.	• Efficient and comprehensive capital management, setting of capital risk appetite levels and monitoring indicators. • Comprehensive internal stress testing analyses to evidence capital adequacy under stress situations. • Close monitoring of capital and leverage ratios to ensure compliance with the regulatory requirements and risk appetite.
Credit Risk The risk that arises when counterparty has failed to fulfil its financial obligations in a timely manner. This may be brought up as a result of negative changes in the economic environment leading to higher rates of non-payment by borrowers. Overall, the Group does not have a strategy of knowingly engaging in higher credit risks to achieve returns.	• Lending policy and related circulars, incorporating prudent lending criteria, aligned with the Bank's Risk Appetite Statement subject to regular review and approval by the Board Risk Committee. • Risk assessment and credit sanctioning procedures to ensure that lending is in line with the Bank's risk appetite. • Extensive credit processes and controls to ensure effective risk identification, management and oversight. • Credit performance monitoring and adherence to credit risk policies and guidelines.
Market Risk The risk that our capital or earnings are affected by adverse movement in market rates, in particular interest rates, credit spreads and property prices. The RAS sets limits on market risk losses and property exposures aiming to ensure that no major and material losses from market price related moves are suffered.	• No trading books. • Small equity holdings. • Conservative limits for bond investments. • Conservative FX position limits. • Near time monitoring of FX position limits. • Real time monitoring of counterparty and country limits. • Hedging of customer driven transactions. • Automated systems for liquidity and interest rate risk reporting. • Interest rate risk limits. • Monthly monitoring of property risk and comparison with KRIs. • Sensitivity analysis for impact of market rate changes on the bank's income and equity.
Funding & Liquidity Risk Funding risk is the risk that we do not have sufficiently stable sources of funding. Liquidity risk is the risk that we have insufficient financial resources to meet our commitments as they fall due. Deterioration in the bank's financial position, causing rating downgrades and/or depletion of capital, or a sudden and significant withdrawal of customer deposits, would adversely impact our funding and liquidity position.	• Liquidity buffer comprising mainly of balances with Central Banks instantly accessible (64% as at 31 December 2019). • Sizeable surpluses in all regulatory and internal liquidity ratios. • Loans to deposits ratio 65% as at 31 December 2019. • LCR > 208% (as at 31 December 2019)/regulatory limit: 100%. • NSFR 119% (as at 31 December 2019). • Close monitoring of daily flows. • Daily internal stress testing. • Updated Liquidity Contingency Plan (LCP), tested annually.
Concentration Risk A risk concentration is any single exposure or group of exposures with the potential to produce losses large enough (relative to capital, total assets, or overall risk level), to threaten a financial institution's health, reputation, or ability to maintain its core operations. Too much reliance on any single product, service, market, currency, or clientele, increases the potential for adverse consequences from "event risk". Every asset, liability, product, service, and third party provider presents a risk of loss to the Bank under varying conditions or events. This risk may materialise when a negative external event, such as a property market crash, could have a knock-on effect on the Bank's customers operating in the sector which could impact the institution itself.	• Concentration Risk Policy and related guidelines aligned with the Risk Appetite Statement (name, sector and collateral concentration). • Exposures are monitored on a monthly basis to prevent both an excessive concentration of risk and single name concentrations.

2.4.6 Risk Appetite Framework (RAF) (continued)

Key Risks	*Mitigate Actions*
Operational Risk The risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks can arise from all business lines and from all activities carried out by the Bank and are thus diverse in nature. The RAS sets limits on aggregate operational losses across the 8 Business Lines, but also sets limits across sub-categories of operational risk including, among others, fraud, conduct, legal, compliance (regulatory, financial crime, corporate governance, data privacy compliance), and reputational risk.	• A Risk and Control Self-Assessment (RCSA) process, which constitutes the bottom-up approach to identifying/assessing the risks generated by the Business Units (1st Line). • A Risk Assessment scoring methodology matrix based on Impact and Likelihood defined scales. • Rigorous monitoring of risk mitigation action implementation plans, ensuring their timely completion and thus the timely risk mitigation. • Loss/Incident recording and analysis, with emphasis on root-cause analysis to identify weaknesses, implement appropriate remediation actions and limit the possibility of recurrence. • Established Key Risk Indicators (KRIs) and Key Fraud Indicators (KFIs). • Adverse scenario analysis and Operational Risk stress testing. • Appropriate software systems. • Insurance mitigation and management. • Disaster Recovery.
Information Security & Cyber Risk The Bank's information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks. A significant portion of the Bank's operations rely heavily on the secure processing of confidential information. The Bank stores an extensive amount of information for its customers. The secure processing of confidential information and the security of the Group's systems are essential to its maintaining customer confidence and ensuring compliance with legislation/regulation. If the Group or any of its third-party suppliers fails to process customer information and payment details online securely, the Group may anticipate reputational and fraud risks. Thus, the Group has a very low appetite for threats and losses arising from cyber-attacks or internally malicious actions.	• Invests in enhanced cyber security controls to protect against external threats and to better detect breaches. • Worked and will continue working to increase its ability to combat data misuse/leakage. • Manages vendor assurance program
Legal Risk The Group is also exposed to Legal risk. This refers to the possibility of the operations and conditions of the Group to be disrupted or adversely affected due to 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. In view of the relevance of legal risks within the Group's operational risk profile, the Group focuses on the management and measurement of pending litigation and regulatory compliance matters, where the Group relies both on information from internal as well as external data sources to consider legal developments in matters that affect the Group. Reflecting the multi-year nature of legal proceedings, the measurement of these risks takes into account new evidence, the development of the legal action in court and the advice of the external legal counsel at various stages throughout the lifecycle of a legal action. The Legal Services Department (LSD) monitors pending litigation against the Group in close collaboration with the appointed external legal counsel. The LSD assesses the probability of loss for each legal action against the Group based on International Accounting Standards. Conceptually, the Group assesses and provides for legal risk in its financial statements. In addition, the Group annually addresses any regulatory or additional capital requirements that are above the amount reflected as provisions within the Group's financial statements.	• Procedures in place to ensure effective and prompt management of Legal risk. • Ongoing review and assessment of the Legal framework and regulatory developments. • Review of new products/advertisements/internal policies, circulars and manuals, engagement letters with external counterparties, agreements, etc. by the LSD. • Participation of the Chief Legal Officer in the Group's Committees and various steering committees, thus ensuring that the Group is kept informed and updated on the Group's exposure to this respect. • Frequent reporting on pending litigations and latest developments in a number of Board and management committees.

2.4.6 Risk Appetite Framework (RAF) (continued)

Risk Appetite and Capital Plan Interaction

The RAS is subject to an annual review process during the period which the Group's financial plan as well as the divisional strategic plans are being devised. The interplay between these processes provides for an iterative cycle of feedback during which RAS indicators, with minimum regulatory requirements, act as backstop to the financial plan while for other indicators the financial plan provides input for risk tolerance setting.

It is further noted that Risk Management carries out its own assessment on the Group's financial plan through:

- Analysis of the financial plan from the early stages of its development including the running of various scenarios as challengers to the plan.
- Analysis of front-line business strategies through direct communication and interaction with the business lines.
- CRO's participation in strategy discussion sessions at Executive Management level.

This process, which results in the identification of risks and associated mitigating actions (see further analysis in Section 2.4.7), interacts in both the financial plan and RAS review process. The risk assessment is submitted to ExCo, RC and BoD to supplement the discussion on the Group's financial plans.

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

Reporting, Monitoring and Escalation

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

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

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

Position as at December 2019

During 2019 the Bank intensified further its efforts to move closer to its risk appetite but continues to operate outside of its risk appetite mainly due to legacy issues stemming from 2013:

- Asset quality with significant legacy issues continues to persist as the level of NPEs is not yet within the required limits set by the Group's risk appetite. However, since the peak in 2014 (c.€15 billion) the stock of NPEs has been reduced significantly (c.€4 billion).
- Name concentration limits due to legacy positions that are currently being worked down. Legacy sector concentrations also remain but were within the set RAS limits.

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

2.4.7 Business Lines and Risk Profile

The Bank consists of 6 key business lines in Cyprus:
(i) Consumer and Small Medium Enterprise (SME) Banking,
(ii) Corporate Banking,
(iii) International Banking,
(iv) Global Corporate Banking and Wealth Management,
(v) Restructuring and Recoveries Division (RRD), and
(vi) REMU.

The Group continues its efforts for further deleveraging and disposal of non-essential assets and operations. The remaining non-core overseas net exposures are disclosed in the Directors' report of 2019 of Annual Financial Report (page 19).

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

- Consumer/Retail – all personal customers and small businesses with facilities from the Bank of up to €260 thousand, excluding professional property loans.
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Bank in the range of €260 thousand to €6 million and a maximum annual turnover of €10 million.
- Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Bank in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.
- International banking services specialises in the offering of banking services to the international corporate and non-resident individuals, particularly international companies whose ownership and business activities lie outside Cyprus.
- Wealth management oversees the provision of institutional wealth private banking, global markets, brokerage, asset management corporate finance advisory services and custodian services.
- As from October 2019 and following the reorganisation of BOC PCL, a new operating segment was formed, namely Global Corporate. Certain identified areas and business products have been classified out of the previously existing reporting lines Corporate and Wealth management and included under the umbrella of the newly established Global Corporate, targeting to further diversify the loan portfolio and to pursue revenue streams both locally and abroad.
- Restructuring and recoveries is the specialised unit which was set up to tackle the Group's loan portfolio quality and manages exposures to borrowers in distress and arrears situation through innovative solutions.
- REMU manages properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, and executives exit strategies in order to monetise these assets.

The RRD unit was set up in 2014, in an effort of the Bank to address the high level of delinquent loans. As a result, customers from Consumer and SME Banking and Corporate Banking have been transferred to RRD. RRD works closely with both Consumer and SME Banking and Corporate Banking, to monitor SME and corporate customer groups for potential transfers from the relevant banking division to RRD, or from RRD back to the relevant banking division. In 2017, an internal reorganisation of RRD was implemented to introduce a 'cradle to grave' approach by which RRD employees must collect, restructure or recover debt using all available tools, as well as to increase the allocation of resources to the retail and SME delinquent loan portfolios. An incremental servicing engine was also created in partnership with Pepper Cyprus Limited, with the purpose of accelerating the resolution of these portfolios.

The Credit Risk Management Department (CRMD) sets the Group's credit disbursement policies and monitors compliance with Credit Risk Policy (CRP) applicable to each business line and the quality of the Group's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

2.4.7 Business Lines and Risk Profile (continued)

CRMD safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that the credit sanctioning function is being properly managed. The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate. The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The CRMD determines the prohibited/high credit risk sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs.

CRMD determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

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

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

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

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

The Market Risk Department (MR) assesses and monitors a number of risks as indicated below and submits its recommendations for limits to be set for banks and countries to the ALCO for approval:

- Interest rate risk
- Currency risk
- Liquidity risk and funding
- Credit risk with correspondent banks
- Country risk
- Securities price risk (bonds and equities)
- Property risk
- Commodities risk (currently n/a)

2.4.7 Business Lines and Risk Profile (continued)

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

More information on legal risk is provided in Section 4.3.2.

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

Commitments	Risks	Risk Guidance
Sustainable new lending	• New lending defaults • Impact on provisions	• Maintain prudent underwriting and client on-boarding standards • Maintain strict adherence to policies and procedures including reporting and escalation
NPE & Non-Core assets reduction	• Non-viable solutions to customers leading to re-defaults and escalating costs • Conduct risk • Unsuccessful property disposals • Impact on provisions	• Targets have been set and monitoring process in place • Tighter monitoring of early arrears and significant customers • Use successful past experience • Property active monitoring and targeted sales (Reduce property related risk)
NIM evolution	• Macro environment deterioration (low interest rates persist, deposit mis-pricing) • Fintech completion	• Appropriate hedging • Close monitoring of digitalisation projects
Operational resilience	• Digitalisation and the use of third party providers for significant business services makes the Bank more vulnerable to cyber crime and operational IT deficiencies, e.g. through system outages that clients face.	• There is an Information Security strategy in place to mitigate cyber risks. • Digitalisation plans and resource allocation are closely monitored and managed. • Thresholds for maximum level of disruption have been set for all systems as defined through the Business Impact Analysis.

2.4.8 Risk Management Process and Policies

Further information on business overview is disclosed in the Directors' report (page 22) in 2019 Annual Financial Report.

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

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

2.4.9 Recovery Plan

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

The Group's RP:

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

The Bank prepared and submitted to the ECB the annual update of its RP in September 2018. Following ECB's request, the Bank proceeded with an ad-hoc update of the 2018 RP in June 2019.

2.4.10 Stress Testing

2.4.10.1 Development of stress tests

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

The approach to stress testing requires the following steps:

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

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

2.4.10.1 Development of stress tests (continued)

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

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

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

2.4.10.2 Stress Testing Coverage

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

2.4.10.3 Severity

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

2.4.10.4 Regulatory Considerations

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

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

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

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

2.4.10.5 Purpose

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

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

2.4.10.6 Evaluating and documenting mitigating actions

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

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

2.4.10.7 Responsibility

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

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

2.4.10.8 ECB 2020 Stress Test

Due to the outbreak of COVID-19 the ECB, supporting the decision of the EBA, has decided to postpone the stress test exercise to 2021, in order to provide operational relief and allow banks to better focus on the continuity of their core operations, including support to their customers.

Other business and risk type specific stress tests

The MR performs additional stress tests beyond, which include the following:

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

2.4.11 ICAAP, Pillar II and SREP

2.4.11.1 ICAAP

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

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

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

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

The Group prepares the ICAAP report annually. The report for 2019 is in progress and will be submitted to the ECB in end of April 2020 once approved by the Board of Directors.

The Group also undertakes a quarterly review of its ICAAP results (as at the end of June and as at the end of September) considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration. The ICAAP process demonstrates that the Group has sufficient capital under both the base case and stress scenarios under the normative internal perspective. Under the Economic internal perspective there are shortfalls in the adverse scenario, which however can be largely neutralised by the available mitigants.

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

2.4.11.2 Pillar II and SREP

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

The minimum Pillar I TC requirement is 8.0% and may be met, in addition to the 4.5% CET1 requirement, with up to 1.5% by Additional Tier 1 (AT1) capital and with up to 2.0% by T2 capital.

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

2.4.11.2 Pillar II and SREP (continued)

The Group's minimum phased-in CET1 capital ratio for 2019 was 10.5%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The Group's minimum phased-in CET1 capital ratio for 2018 was 9.375%, comprising of a 4.5% Pillar I requirement, a 3.0% Pillar II requirement and the CCB of 1.875%. The ECB had also provided non-public guidance for an additional Pillar II CET1 buffer.

The Group's minimum phased-in TC ratio requirement for 2019 was 14.0%, comprising a 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% in the form of T2 capital), a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The minimum phased-in TC ratio requirement for 2018 was 12.875% comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% in the form of T2 capital), a 3.0% Pillar II requirement (in the form of CET1) and the CCB of 1.875%, applicable for 2018.

Following the annual SREP performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, the Group's minimum phased-in CET1 capital ratio and TC ratio remain unchanged, when ignoring the phasing-in of the Other Systemically Important Institution Buffer. The Group's phased-in CET1 capital ratio will be 11.0%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (fully phased-in as of 1 January 2019) and the Other Systemically Important Institution Buffer of 1.0%. The Group's TC requirement will be 14.5%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The final 2019 SREP decision is effective from January 2020.

In March 2020, as part of the measures announced by the ECB in order to mitigate the Covid-19 impact, banks are allowed allow banks to operate temporarily below the capital level defined by the Pillar II Guidance and the Capital Conservation Buffer. In addition, the ECB frontloaded the rules on the composition of Pillar II Requirements (P2R), originally scheduled to come into force in January 2021 with CRD V, which allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet the P2R.

In April 2020, the Bank received a decision from the ECB amending the composition of the Pillar II additional own funds requirement, compared to the 2019 final SREP decision received in December 2019 which requested P2R to be met in full with CET1. This decision is effective as from 12 March 2020 and follows the announcements by the ECB on the capital relief measures as a result of Covid-19. As a result, the minimum phased-in CET1 requirement decreased to 9.7%, comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the CCB of 2.5% (fully phased in as of 1 January 2019) and the O-SII buffer of 1.0%. There is no change on the Total Capital requirement.

Following the 2019 SREP decision, the Company and BOC PCL are still under equity dividend distribution prohibition. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as CET1 capital.

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

Following the final 2019 and 2018 SREP decisions the variable pay is capped at 10% of consolidated net revenues.

2.4.12 COVID 19- Risk and Uncertainties

As the coronavirus outbreak unfolds, the Group is following the local government guidelines in its response to the virus. Furthermore, in accordance with its Business Continuity Plans (BCP), the Pandemic Incident Management Plan of the Group has been invoked and the Group has adopted a set of measures to ensure minimum disruption to its operations and to protect its customers and employees.

Nevertheless, several risks are arising from the spread of the virus and its associated impact on the economy as social distancing measures have been imposed to many countries across the globe. These risks are constantly assessed in order to identify the appropriate mitigating actions that are described below. However, given the inherent uncertainties of this evolving crisis, the Group cannot accurately and reliably estimate the qualitative and quantitative impact on business activities and associated risks.

- Credit Risk - Industry Sectors Impact: The Group's credit portfolio has been analyzed and the sectors affected imminently have been identified. A financial analysis of clients active in these sectors is prepared frequently in order to monitor their performance and identify any deterioration signs. The Group is further monitoring all regulatory guidance and requirements (both from CBC and ECB) in response to the crisis and is taking all appropriate measures, including the introduction of specific lending products, to assist customers.
- Operational Risk: A number of potentially elevated risks have been identified that include IT/system disruption, cyber security, fraud, workplace health and safety, people unavailability and compliance. For these risks, the Group has taken proactive measures as per the Pandemic Plan.
- Market Risk: All major markets have been affected, indicating increased volatility and drop in prices. The Group maintains a constant monitoring of market developments and will take appropriate actions when required. Following the COVID-19 outbreak and the resultant volatile market and economic environment, the Fair Value Reserve of the Fair Value through Other Comprehensive Income (FVOCI) debt security portfolio of the Group held as at 31 December 2019 has decreased by €39 million on 24 April 2020. This change is recognised directly in equity i.e. through Other Comprehensive Income (OCI). Furthermore, on 24 April 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €772 million, compared to €477 million on 31 December 2019, of which €350 million is held at FVOCI portfolio and €422 million is held at amortised cost. The increase since the year end is mainly due to the Group's participation on the issuance of 52-week treasury bills of the Cyprus Government in April 2020. For further information please refer to Note 56 of the Consolidated Financial Statements of 2019 for the Company.

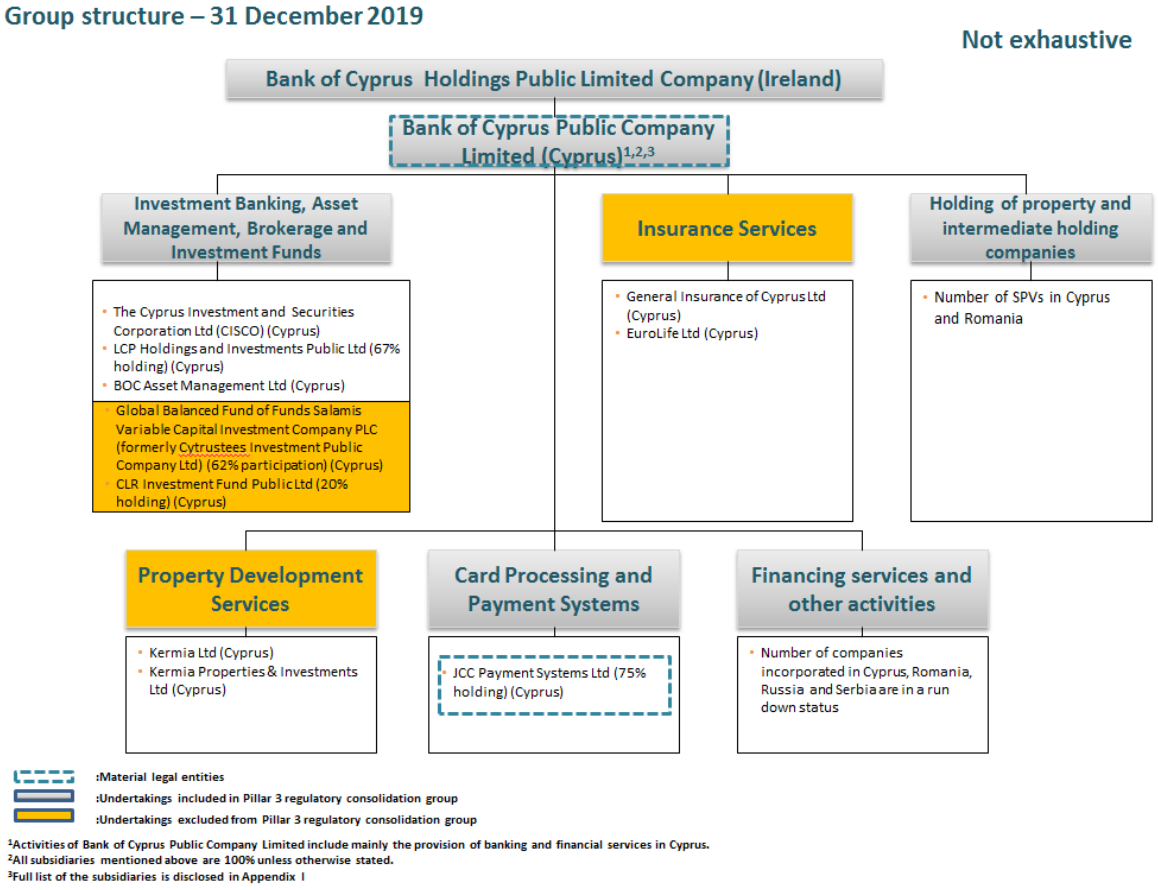
3. Scope of Application

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

The data included in this Report may be different than the respective data of the Consolidated Financial Statements of the Company for 2019, which are prepared in line with IFRS, as adopted by the EU, mainly due to differences between the prudential consolidation basis and the accounting consolidation basis and/or differences in the definitions used. The reconciliation between the balance sheet presented in the Consolidated Financial Statements of the Company for 2019 and the balance sheet prepared for prudential purposes is disclosed in this section.

The accounting consolidation basis of the Group is prepared in accordance with IFRS and is described in Note 2.1 of the Consolidated Financial Statements of the Company for 2019. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of regulatory capital requirements.

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



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

3. Scope of Application (continued)

Material legal entities

The analysis is intended to show which legal entities within the Group contribute significantly to the asset, financial and earnings situation, or to provide or support critical functions and/or essential business activities.

A group company is classified as material in the following cases:

- if at least one of the following quantitative criteria is met or
- in the case that at least one of the following qualitative and one quantitative criterion are also met.

Quantitative criteria:

- Contribution to the RWAs of the Group greater than 5%
- Contribution to Group revenues greater than 5%
- Contribution to the Total Assets of the Group greater than 5%

Qualitative criteria:

- Provision of a critical function or core business line
- Provide a service or support function to maintain a critical function or material business activity

Based on EBA Technical advice on critical functions and core business lines (EBA/Op/2015/05) "Function" indicates a structured set of activities, services or operations that are delivered by an institution or group to third parties. Critical functions means activities, services or operations the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity and cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations.

The results of the materiality analysis of the legal entities for 31 December 2019 are presented in Appendix VI. The fulfilled criteria are highlighted in each case for the legal entities identified as material. Based on the materiality, the Bank and EuroLife Ltd have been identified as material entities as at 31 December 2019.

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

The following table provides a reconciliation between the Balance Sheet presented in the Consolidated Financial Statements of the Company for 2019 and 2018 with the Balance Sheet prepared for prudential purposes.

	Ref[1]	2019	2018
		€000	€000
Total equity per Consolidated Financial Statements of the Company	**a**	**2,288,627**	**2,367,328**
Regulatory deductions:			
Deconsolidation of insurance and other entities	**b**	(187,197)	(202,340)
Minority interest adjustment to comply with regulatory requirements		(28,661)	(25,998)
Intangible assets	**c**	(51,204)	(43,364)
Additional Valuation Adjustment (AVA)[2]		(1,359)	(1,293)
Deferred Tax Asset deduction (DTA) deduction, direct and indirect holdings of financial sector entities and prudential charge relating to specific credits and other		(123,863)	(286,400)
Equity instruments transferred to AT1		(220,000)	(220,000)
IFRS 9 transitional arrangements		262,456	304,793
Reserves arising from revaluation of properties and other non CET1 eligible reserves		(29,750)	(29,987)
Total Common Equity Tier 1 (CET1)		**1,909,049**	**1,862,739**
Additional Tier 1 capital		**220,000**	**220,000**
Total Tier 1 capital		**2,129,049**	**2,082,739**
Tier 2			
Property revaluation reserve and other unrealised gains		**-**	-
Regulatory deductions		**-**	-
Tier 2 instruments			
Tier 2 instruments as per Consolidated Financial Statements of the Company		*272,170*	*270,930*
Less: Accrued interest, issue cost and other		*(22,170)*	*(20,930)*
Less: Amount allocated to qualifying own funds deduction (minority interest) – transitional		*(60,045)*	*(38,022)*
Tier 2 recognised in own funds		***189,955***	***211,978***
Total Tier 2 capital		**189,955**	**211,978**
Total own funds		**2,319,004**	**2,294,717**

No restrictions apply on the items listed above for the purpose of the calculation of own funds in accordance with the CRR. It should be noted that on the basis of Article 26(i) of the CRR and the EBA guidelines on prudent valuations, a part of the fixed assets revaluation reserve (2019: €29,750 thousand, 2018: €29,987 thousand) is not allowed to be included in CET1 capital and it has therefore been included in T2 capital. The amount of fixed assets property revaluation reserve which is included in T2 capital was subject to transitional provisions and it was fully phased-out in 2018.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of DTA into DTC for regulatory capital purposes, under the CRR. Further information is disclosed in Note 18 of the Consolidated Financial Statements of the Company for 2019.

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

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

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

	Ref[3]	Group Balance Sheet per financial statements	Deconsolidation of insurance/ other entities	Balance sheet per regulatory scope of consolidation
2019		**€000**	**€000**	**€000**
Assets				
Cash and balances with central banks		5,060,042	(4)	5,060,038
Loans and advances to banks		320,881	(9,718)	311,163
Derivative financial assets		23,060	-	23,060
Investments		1,682,869	(161,516)	1,521,353
Investments pledged as collateral		222,961	-	222,961
Loans and advances to customers		10,721,841	8	10,721,849
Life insurance business assets attributable to policyholders		458,852	(458,852)	-
Prepayments, accrued income and other assets		243,930	(64,831)	179,099
Stock of property		1,377,453	(3,193)	1,374,260
Investment properties		136,197	(19,474)	116,723
Property and equipment		288,054	(31,862)	256,192
Intangible assets	c	178,946	(127,742)	51,204
Investments in associates and joint ventures		2,393	(2,391)	2
Deferred tax assets		379,126	-	379,126
Non-current assets held for sale		26,217	-	26,217
Investments in Group undertakings		-	43,623	43,623
Total assets		**21,122,822**	**(835,952)**	**20,286,870**
Liabilities				
Deposits by banks		533,404	(829)	532,575
Funding from central banks		-	-	-
Repurchase agreements		168,129	-	168,129
Derivative financial liabilities		50,593	-	50,593
Customer deposits		16,691,531	43,664	16,735,195
Insurance liabilities		640,013	(640,013)	-
Pending litigation, claims, regulatory and other matters		108,094	(186)	107,908
Accruals, deferred income and other liabilities		324,246	(29,121)	295,125
Subordinated loan stock		272,170	-	272,170
Deferred tax liabilities		46,015	(20,251)	25,764
Non-current liabilities and disposal group held for sale		-	-	-
Total liabilities		**18,834,195**	**(646,736)**	**18,187,459**
Equity				
Share capital		44,620	-	44,620
Share premium		1,294,358	-	1,294,358
Revaluation and other reserves		210,701	(103,726)	106,975
Retained earnings		490,286	(83,471)	406,815
Equity attributable to the owners of the Company		**2,039,965**	**(187,197)**	**1,852,768**
Other equity instruments		220,000	-	220,000
Total equity excluding non-controlling interests	b	**2,259,965**	**(187,197)**	**2,072,768**
Non-controlling interests		**28,662**	**(2,019)**	**26,643**
Total equity	a	**2,288,627**	**(189,216)**	**2,099,411**
Total liabilities and equity		**21,122,822**	**(835,952)**	**20,286,870**

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

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

	Ref[4]	Group Balance Sheet per financial statements	Deconsolidation of insurance/ other entities	Balance sheet per regulatory scope of consolidation
2018		**€000**	**€000**	**€000**
Assets				
Cash and balances with central banks		4,610,491	(9)	4,610,482
Loans and advances to banks		472,532	(11,291)	461,241
Derivative financial assets		24,754	-	24,754
Investments		777,104	(150,494)	626,610
Investments pledged as collateral		737,587	-	737,587
Loans and advances to customers		10,921,786	1,986	10,923,772
Life insurance business assets attributable to policyholders		402,565	(402,565)	-
Prepayments, accrued income and other assets		256,002	(67,242)	188,760
Stock of property		1,426,857	(3,375)	1,423,482
Investment properties		128,006	(19,099)	108,907
Property and equipment		260,723	(29,910)	230,813
Intangible assets	c	170,411	(127,047)	43,364
Investments in associates and joint ventures		114,637	(114,635)	2
Deferred tax assets		301,778	-	301,778
Non-current assets held for sale		1,470,038	-	1,470,038
Investments in Group undertakings		-	136,500	136,500
Total assets		**22,075,271**	**(787,181)**	**21,288,090**
Liabilities				
Deposits by banks		431,942	(730)	431,212
Funding from central banks		830,000	-	830,000
Repurchase agreements		248,945	-	248,945
Derivative financial liabilities		38,983	-	38,983
Customer deposits		16,843,558	53,050	16,896,608
Insurance liabilities		591,057	(591,057)	-
Pending litigation, claims, regulatory and other matters		116,951	(3,109)	113,842
Accruals, deferred income and other liabilities		285,483	(20,162)	265,321
Subordinated loan stock		270,930	-	270,930
Deferred tax liabilities		44,282	(20,102)	24,180
Non-current liabilities and disposal group held for sale		5,812	-	5,812
Total liabilities		**19,707,943**	**(582,110)**	**19,125,833**
Equity				
Share capital		44,620	-	44,620
Share premium		1,294,358	-	1,294,358
Revaluation and other reserves		190,411	(98,333)	92,078
Retained earnings		591,941	(104,007)	487,934
Equity attributable to the owners of the Company		**2,121,330**	**(202,340)**	**1,918,990**
Other equity instruments		220,000	-	220,000
Total equity excluding non-controlling interests	b	**2,341,330**	**(202,340)**	**2,138,990**
Non-controlling interests		**25,998**	**(2,731)**	**23,267**
Total equity	a	**2,367,328**	**(205,071)**	**2,162,257**
Total liabilities and equity		**22,075,271**	**(787,181)**	**21,288,090**

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

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

2019	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	5,060,042	5,060,038	5,060,038	-	-	-	-
Loans and advances to banks	320,881	311,163	311,163	-	-	-	-
Derivative financial assets	23,060	23,060	-	23,060	-	-	-
Investments	1,682,869	1,521,353	1,481,519	-	39,834	-	-
Investments pledged as collateral	222,961	222,961	222,961	185,163	-	-	-
Loans and advances to customers	10,721,841	10,721,849	10,721,849	-	-	-	-
Life insurance business assets attributable to policyholders	458,852	-	-	-	-	-	-
Prepayments, accrued income and other assets	243,930	179,099	179,099	-	-	-	-
Stock of property	1,377,453	1,374,260	1,374,260	-	-	-	-
Investment properties	136,197	116,723	116,723	-	-	-	-
Property and equipment	288,054	256,192	237,768	-	-	-	18,424
Intangible assets	178,946	51,204	-	-	-	-	51,204
Investments in Group undertakings, associates and joint ventures	2,393	43,625	43,255	-	-	-	370
Deferred tax assets	379,126	379,126	379,126	-	-	-	-
Non-current assets and disposal group held for sale	26,217	26,217	26,217	-	-	-	-
Total assets	**21,122,822**	**20,286,870**	**20,153,978**	**208,223**	**39,834**	**-**	**69,998**

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

2019	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Deposits by banks	533,404	532,575	-	-	-	-	532,575
Repurchase agreements	168,129	168,129	-	168,129	-	-	-
Derivative financial liabilities	50,593	50,593	-	50,593	-	-	-
Customer deposits	16,691,531	16,735,195	-	-	-	-	16,735,195
Insurance liabilities	640,013	-	-	-	-	-	-
Accruals, deferred income and other liabilities	324,246	295,125	18,892	-	-	-	276,233
Deferred tax liabilities	46,015	25,764	-	-	-	-	25,764
Pending litigation, claims, regulatory and other matters	108,094	107,908	-	-	-	-	107,908
Subordinated loan stock	272,170	272,170	-	-	-	-	272,170
Total liabilities	**18,834,195**	**18,187,459**	**18,892**	**218,722**	**-**	**-**	**17,949,845**

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

2018	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	4,610,491	4,610,482	4,610,482	-	-	-	-
Loans and advances to banks	472,532	461,241	461,241	-	-	-	-
Derivative financial assets	24,754	24,754	-	24,754	-	-	-
Investments	777,104	626,610	625,813	-	-	797	-
Investments pledged as collateral	737,587	737,587	737,587	269,317	-	-	-
Loans and advances to customers	10,921,786	10,923,772	10,923,772	-	-	-	-
Life insurance business assets attributable to policyholders	402,565	-	-	-	-	-	-
Prepayments, accrued income and other assets	256,002	188,760	188,760	-	-	-	-
Stock of property	1,426,857	1,423,482	1,423,482	-	-	-	-
Investment properties	128,006	108,907	108,907	-	-	-	-
Property and equipment	260,723	230,813	230,813	-	-	-	-
Intangible assets	170,411	43,364	-	-	-	-	43,364
Investments in Group undertakings, associates and joint ventures	114,637	136,502	107,986	-	-	-	28,516
Deferred tax assets	301,778	301,778	133,103	-	-	-	168,675
Non-current assets held for sale	1,470,038	1,470,038	1,470,038	-	-	-	-
Total assets	**22,075,271**	**21,288,090**	**21,021,984**	**294,071**	**-**	**797**	**240,555**

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

2018	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Deposits by banks	431,942	431,212	-	-	-	-	431,212
Funding from central banks	830,000	830,000	-	-	-	-	830,000
Repurchase agreements	248,945	248,945	-	248,945	-	-	-
Derivative financial liabilities	38,983	38,983	-	38,983	-	-	-
Customer deposits	16,843,558	16,896,608	-	-	-	-	16,896,608
Insurance liabilities	591,057	-	-	-	-	-	-
Accruals, deferred income and other liabilities	285,483	265,321	25,310	-	-	-	240,011
Deferred tax liabilities	44,282	24,180	-	-	-	-	24,180
Pending litigation, claims, regulatory and other matters	116,951	113,842	-	-	-	-	113,842
Subordinated loan stock	270,930	270,930	-	-	-	-	270,930
Non-current liabilities and disposal group held for sale	5,812	5,812	-	-	-	-	5,812
Total liabilities	**19,707,943**	**19,125,833**	**25,310**	**287,928**	**-**	**-**	**18,812,595**

The difference between the carrying values reported in the Consolidated Financial Statements of the Company for 2019 and the carrying values under the scope of regulatory consolidation is due to the different basis of consolidation for prudential purposes. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of the regulatory capital requirements. A summary of the Groups structure on the basis of consolidation for the prudential purposes and the basis for consolidated accounting is presented in Section 3 'Differences on the basis of consolidation for financial reporting and prudential purposes'. Also, reconciliation between the Balance Sheet presented in Consolidated Financial Statements of the Company for 2019 and the Balance Sheet for regulatory purposes is presented in Section 3.2.1.

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

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

2019	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
	€000	€000	€000	€000	€000
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**20,286,870**	**20,153,978**	**208,223**	**39,834**	**-**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(18,187,459)	(18,892)	(218,722)	-	-
Total net amount under the regulatory scope of consolidation	**2,099,411**	**20,135,086**	**(10,499)**	**39,834**	**-**
Off-balance sheet amounts	2,650,687	518,349	-	-	-
Differences due to different netting rules, other than those already included in row 'Liabilities carrying value amount under the regulatory scope of consolidation'	37,241	-	37,241	-	-
Differences due to consideration of provisions	142,525	142,525	-	-	-
Items not subject to capital requirements or subject to deduction from capital	(69,998)	-	-	-	-
Items subject to capital requirements for more than one risk framework	185,163	-	-	-	-
Liabilities not under RWAs scope	17,949,845	-	-	-	-
Exposure amounts considered for regulatory purposes	**22,994,874**	**20,795,960**	**26,742**	**39,834**	**-**

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

2018	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
	€000	€000	€000	€000	€000
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**21,288,090**	**21,021,984**	**294,071**	**-**	**797**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(19,125,833)	(25,310)	(287,928)	-	-
Total net amount under the regulatory scope of consolidation	**2,162,257**	**20,996,674**	**6,143**	**-**	**797**
Off-balance sheet amounts	2,867,090	569,546	-	-	-
Differences due to different netting rules, other than those already included in row 'Liabilities carrying value amount under the regulatory scope of consolidation'	46,721	-	46,721	-	-
Differences due to consideration of provisions	184,537	184,537	-	-	-
Items not subject to capital requirements or subject to deduction from capital	(240,555)	-	-	-	-
Items subject to capital requirements for more than one risk framework	269,317	-	-	-	-
Liabilities not under RWAs scope	18,812,595	-	-	-	-
Exposure amounts considered for regulatory purposes	**24,101,962**	**21,750,757**	**52,864**	**-**	**797**

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

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

"Differences due to consideration of provisions" disclose the difference between the specific credit risk adjustments deducted in accordance with the applicable accounting framework and the specific credit risk adjustments deducted under the CRR framework for RWAs purposes. These amounts relate to the difference between the IFRS 9 transitional arrangement under article 473(a) of the CRR (€262,456 thousand on transition as at 31 December 2019, most of it allocated on on-/balance sheet exposures) which decreases the specific credit risk adjustments deducted for RWAs purposes and the Prudential charge relating to specific credits (€119,931 thousand as at 31 December 2019, allocated exclusively on on-balance sheet exposures) which increases the specific credit risk adjustments deducted for RWAs purposes. The Institution does not have any general credit risk adjustments.

"Items subject to capital requirements for more than one risk framework" relate to investments pledged as collateral which are subject to both the credit risk and to the CCR framework as part of the SFT exposures. The "items not subject to capital requirements or subject to deduction from capital" comprise mainly of intangible assets deductible from CET1 capital as per Article 36(i) (b) of the CRR and DTA and Financial Sector Entity (FSE) up to 10% of CET1 capital that are risk-weighted at 250% (more details are presented in Section 5.1). The yearly movement is mainly driven by the yearly change of the Balance Sheet amounts for these items and the transitional provisions applicable for the DTA and FSE.

4. Risk Management Objectives and Policies

4.1 Credit Risk Management

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

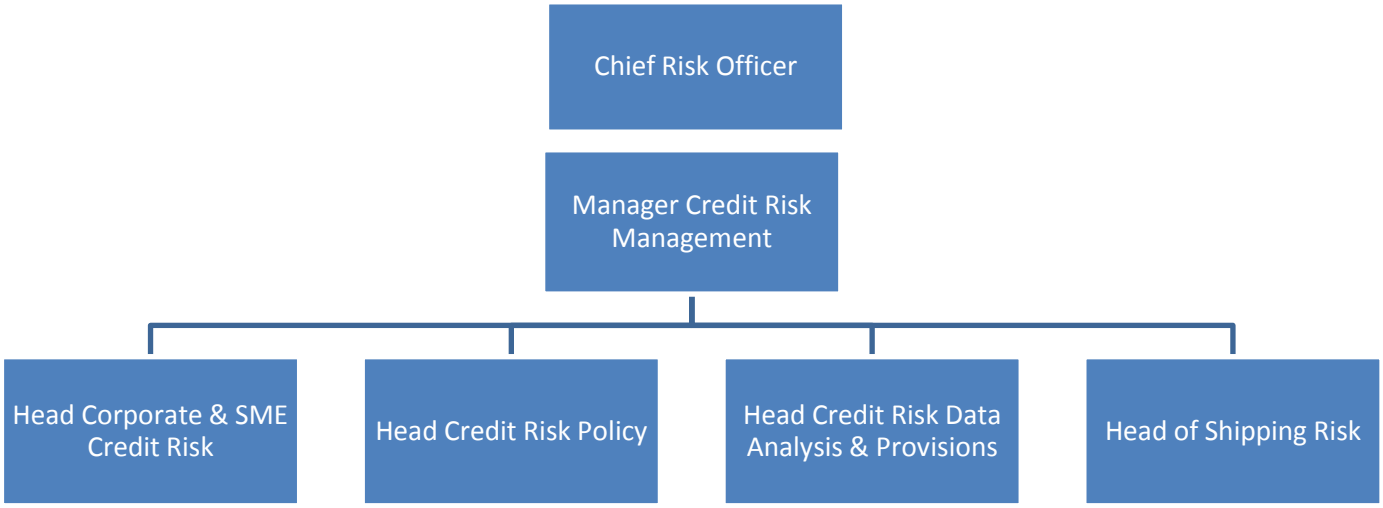
The Credit Risk Management function covers a wide range of activities, which commences at the stage of the assessment of credit risk, continues at the stage of credit risk identification and measurement through reporting and provisions respectively, and ending up at the workout and collection stage.

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

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

- The CRP department develops the relevant policies, guidelines and approval limits necessary to address the credit risk in the Bank. These documents are reviewed and updated at least annually or earlier if deemed necessary to reflect any changes in the Group's risk appetite and strategy and the market environment/economy.
- The Data Analysis and Provisions unit is responsible for monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics.

The structure of Credit Risk Management function is as indicated in the diagram below:



4.1.1 Measurement and Assessment - Systems

The effective management of the Group's credit risk is achieved through a combination of training and specialisation as well as appropriate credit risk assessment systems. The Group aims to continuously upgrade its systems and models used in assessing the creditworthiness of Group customers.

Credit Scoring Systems

Retail-SAS Credit Scoring for Banking
The Bank maintains credit scoring systems for new customers and the behavioural scoring systems for existing customers in the Retail Banking (RB) area.

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

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

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

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

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

Shipping exposures
During 2018 the Bank has developed a scorecard for rating shipping exposures. The score that is produced is based on assessment of both the customer and the underlying object (ship). Some of the drivers of the assessment are current fleet gearing, projected interest coverage, management experience, diversification outside of shipping for the customer and current brake even coverage, projected brake even coverage, geographic diversification, quality of security vessel for the project, etc.

Special Purpose Vehicle exposures
During 2019 the Bank has developed a scorecard for rating special purpose vehicles. The scorecard is based on an expert judgement approach with the main drivers being financial ratios that indicate borrower's ability to repay, asset/transaction characteristics, strength of sponsor and security package such as the nature of lien etc.

Project Finance exposures
During 2019 the Bank also developed a project finance scorecard, also based on an expert judgment approach. The main drivers of the scorecard are the financial ratios that indicate borrower's ability to repay, asset/transaction characteristics and security package such as assignment of contracts and accounts, lender's control over cash flow etc.

4.1.2 Credit Risk Policy

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

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

4.1.2 Credit Risk Policy (continued)

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

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

4.1.3 Credit Approval Limits and Process

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

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

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

Corporate & SME Credit Risk (CSCR) is responsible for the well-functioning of the credit approval process and its Manager or his delegates, is delegated to act on behalf of the CRO with the power to Veto decisions in the lower credit committees (CC1 and CC2) where the CRO is not present.

CSCR manages the well-functioning of the three main Credit Committees and guide them in their role to normalise, expand and enhance the Group's Credit portfolio. It appraises all applications from an independent credit risk perspective and prepares recommendations to CC with suggestions to improve credit proposals and mitigate credit risks.

The Shipping Finance Risk Desk appraises applications submitted from the Shipping Centre from an independent credit risk perspective and prepares recommendations to the CC including suggestions to improve credit proposals and mitigate credit risks.

Efficient management, monitoring and control of customer advances

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

4.1.3 Credit Approval Limits and Process (continued)

- *Portfolio Quality Indicators/KPIs*: Monitoring closely the quality/performance of the Group's client portfolio is of great importance. Sound credit monitoring practices can help the Group detect early signs of credit deterioration and thus take promptly remedial action to minimise losses. Monitoring is done both on a single loan/customer level and on an overall portfolio level.
- *Customer Reviews*: Frequent reviews of customer facilities depending on the risk level and customer exposure. The Bank has also introduced an automated process for the review of both physical and legal entities, based on specific criteria and thresholds set by CRM.

4.1.4 Risk Identification, Measurement, Control and Reporting

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

Monitoring of credit quality
The Group dedicates considerable resources to assess credit risk and to correctly reflect the value of the assets in its balance sheet in accordance with regulatory and accounting guidelines. This process can be summarised in the following stages:

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

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

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
- NPEs – monitored daily
- Restructuring activity – monitored daily
- Monitoring of valuations of mortgages
- Monitoring of non-mortgage collaterals (Bonds, shares, floating charges)
- Monitoring of Deviations, Covenants and Milestones
- Restructuring performance
- Sectoral analysis
- Adequacy of provisions

Senior management is informed on the quality of Group's assets on a continuous basis and takes appropriate actions, where deemed necessary.

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

The Credit Risk Control & Monitoring and Data Analysis & Provisions are responsible for the monitoring and reporting of credit quality. Their main roles and activities are:

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

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

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

- Risk report which is prepared on a monthly basis and includes KPIs on a Group and business line level, such as gross advances, provisions, NPEs, 90+DPD, restructurings etc.
- Daily report of the NPEs inflow/outflow and restructurings.

4.1.5 Credit Risk with Correspondent Banks and Countries

The MR is responsible for the credit risk, with correspondent banks and countries. CCR is discussed in Section 6.1 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 its operation in other countries and also via investments in other countries (Money Market (MM) placements, bonds, shares, derivatives, etc.). In addition, the Group is indirectly affected by credit facilities provided to customers for their international operations or due to collateral in other countries.

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

Risk Reporting and measurement system for Country Risk:

On a quarterly basis, country exposures are obtained from the system that calculates the Capital of the Bank. The country exposures which arise from the below transactions are aggregated, compared to country limits and reported to ALCO. The BoD, through its RC is also informed on a semi-annual basis, on any limit violations.

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

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

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

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

4.1.5 Credit Risk with Correspondent Banks and Countries (continued)

The Internal score is between 0.15 and 1 (capped), and is based on the assessment of seven key indicators:

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

It also assesses the below political related parameters:

- *corruption index*: captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption.
- *political stability*: measures perceptions of the likelihood that the government of a Country will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.
- the country's Moody's Investors Service rating outlook.

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

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

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

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

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

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

4.1.6 Policies for Credit Risk Mitigation

Credit Risk Mitigation (CRM) is implemented through a number of policies, procedures, guidelines circulars and limits, such as:

Sanctioning limits: Relevant circulars and guidelines are in place that provide limits and parameters for the approval of credit applications and related credit limits as well as parameters. The Group currently has three credit committees (CC1, CC2 and CC3), for the approval of customer applications submitted through Corporate and SME Credit Risk. All credit committee members are staff from various Group divisions outside Risk Management, to ensure independence of opinion.

Applications falling outside the approval limits of these credit committees are submitted to the RC or the BoD, depending on the total exposure of the customer group. In addition, approval limits have been granted to lower authority levels (unit managers and Credit Sanctioning Retail & SME which examines applications below the credit committees' approval level).

4.1.6 Policies for Credit Risk Mitigation (continued)

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

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

- Customer types – covers the natural/legal entity types to which the Group may extend credit.
- Facility types – analysis of the credit facilities offered by the Group.
- Structure of the lending function – covers the segregation of duties and independence in the roles throughout the lending function.
- Lending authorities and limits of approval.
- Application structure that is submitted for approval to the relevant sanctioning authority.
- Credit Granting Criteria – includes:
  - Customer information
  - Purpose of credit facility
  - Credit facility amount
  - Customer contribution/Loan to Value (LTV) ratio
  - Credit facility duration
  - Repayment ability
  - Collaterals
- Pricing/Efficiency, Corporate lending process, syndicated loans, specialised ending.
- Internal risk rating systems.
- The Group's deviations/exceptions policy.
- Conditions for credit facility disbursement.
- Rules and guidelines for the review of existing facilities.
- Restructuring and forbearance policy.
- Specialised Lending policy.
- Leveraged Transactions policy.
- Monitoring of existing facilities.

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

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

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

4.1.6 Policies for Credit Risk Mitigation (continued)

Leveraged Transactions: This covers the requirements related to the corresponding ECB Guidance. A Leveraged Transaction is any transaction that meets at least one of the conditions below:

1. All types of loan or credit exposure, where the borrower's post-financing level of leverage exceeds a Total Debt to EBITDA ratio of 4.0 times;
2. All types of loan or credit exposures where the borrower is owned by one or more financial sponsors.

Deviations: The Deviations/Exceptions Policy is a key component of the Lending Policy. Credit facilities that do not align/comply with the general provisions of the Lending Policy, can only be approved for exceptional cases by the Bank's higher approving authorities only to the extent that they are prudent and have received explicit and justified approval.

Asset acquisition and disposal policy: This policy sets out the authorities, scope and procedures for the acquisition and disposal of the Bank's owned assets.

Write-off policy: This policy sets out the procedures, authorities, required documentation and governance for the write-offs (contractual) and accounting set-offs (non-contractual) that are carried out by the Bank.

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

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

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

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

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

- Desirable sectors
- High Risk sectors
- Prohibitive

The updated methodology for sector concentration limit leverages on the existing one, enhancing it with historical data and country benchmarks. Specifically, after the sector attractiveness categorisation is carried out, each NACE subsector is assigned a grade based on how desirable they are considered to be.

An assessment of the current NACE distribution is carried out to assess the on-going concentration for the Bank's portfolio.

At this point, a mean is introduced that maps the grade of each NACE to an utilisation factor that is used to assess the new bound for each sector.

4.1.6 Policies for Credit Risk Mitigation (continued)

Once the new limits are derived, an optimization exercise is carried out based on the expected new lending and the risk bearing capacity Bank. In order to compute the expected losses the observed 12-month loss rate per NACE is utilized. Given these parameters an optimal allocation of the new lending is calculated such that all constraints are satisfied i.e.:

- Concentration limits are not exceeded,
- Calculated losses are subject to Bank's risk bearing capacity,
- Amount of new lending is subject to strategy as outlined in RAS.

The final limit is set taking into account the Bank strategy for specific sector financing.

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

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

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

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

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

4.2 Market Risk Management

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

The MR reports to CRO and is responsible for measuring and monitoring the following risks:

- Interest Rate Risk (Section 4.2.1)
- Currency Risk (Section 4.2.2)
- Liquidity Risk and Funding (Section 4.2.3)
- Credit Risk with Correspondent Banks (Section 4.1.5)
- Country Risk (Section 4.1.5)
- Securities Price Risk (bonds and equities) (Section 4.2.4)
- Property Risk (Section 4.2.5)
- Commodities Risk[5]

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

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

The Manager of MR is the Secretary of the ALCO. CRO and Market Risk Manager participate to the ALCO meetings with voting rights. Papers submitted are either approved by ALCO or recommended for approval to the RC or to the BoD as necessary.

4.2.1 Interest Rate Risk

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

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

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

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

Risk Reporting and measurement system for Interest Rate Risk:

The upgraded ALM system is used for the measurement and monitoring of Interest rate risk on a monthly basis. A repricing gap report is produced which is then used to estimate the impact from rate changes (under many scenarios) on the Bank's NII and Economic Value (EV). In order to control the interest rate risk, there is a Year 1 Interest Rate Exposure (IRE) limit on the maximum reduction of NII under the various rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the Group NII (when positive). In the case of Cyprus, there are also different limits for Euro and USD.

The EV of the Group from a 2% change in interest rates has to be within the 20% limit, as per the CBC guidelines. ALCO has set a maximum internal limit for this change equal to 15% of Group CET1 capital compared to the 20% regulatory maximum ratio.

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

4.2.1 Interest Rate Risk (continued)

The EV under the internal rate shock scenarios are also compared to the 10% internal limit. An early warning signal of 15% for the decline in internal EV of the Group arising from the six predefined Basel scenarios also exists.

As at 31 December 2019, the total EV effect for a 200 bps increase/decrease in the yield curves in all currencies was minus €83.8 million/€50.9 million (-4.2% and +2.6% of CET1 capital respectively) (2018: minus €144.6 million (-7.7% of CET1 capital) for 200 bps increase in rates).

The 2% change in interest rates on the EV of the Group is within the ALCO approved limit of 15%[6] and the regulatory limit of 20% (limit applies to decline in the EV).

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

Interest rate risk is managed centrally at Group level in conjunction with local Treasuries. Corrective actions include:
(a) On balance sheet solutions, including among others purchase of fixed rate assets, introduction of new customer accounts or loans with the desired characteristics, and
(b) The use of derivatives e.g. Interest Rate Swaps (IRS).

Group Treasury and Market Risk, with the approval of Group ALCO will determine:
(a) The percentage/amount of the core deposits to be hedged, if any.
(b) The type of instruments to be used for the hedging of core deposits.

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

The Group elected, as a policy choice permitted by IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. For cash flow hedges and fair value hedges that have been designated for hedge accounting in accordance with IAS 39, effectiveness is established both prospectively and retrospectively as per the requirements of IAS 39.

4.2.2 Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in FX rates.

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

2019	**Intraday**	**Overnight**
	€ million	**€ million**
Cyprus	**20**	**20 (10 per currency)**
Total	**20**	**20 (10 per currency)**
2018		
Cyprus	20	20 (10 per currency)
Total	20	20 (10 per currency)

[6] The 15% liimit (previous limit was 10%) has been approved by ALCO in December 2018 and by the Board in January 2019.

4.2.2 **Currency Risk** (continued)

Risk Reporting and measurement system for Currency Risk:
MR is responsible for monitoring both their intraday and overnight FX position limits. Any violations are reported daily. The MR conducts near real time and end of day checks of open FX positions (through a designated specialised system) to monitor adherence to FX position limits. Group ALCO is informed on a monthly basis on the Group's FX open position.

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

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

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

The currency risk for the Bank arises mainly from:
- Customer driven transactions.
- The net assets of the foreign subsidiaries and branches of the Group.
- Provisions of the foreign currency loan book.

All customer driven transactions are immediately hedged by Institutional Wealth Management (IWM) by entering into FX deals with other banks. The currency risk arising from the net assets of the foreign subsidiaries and branches of the Group is also hedged on a monthly basis unless:
- ALCO considers that the cost of hedging is not acceptable (compared to the underlying risk), or
- There is no liquidity in the market for the specific currency pair.

Currency Risk Management
The table below sets out the Group's currency risk resulting from its FX open positions as at 31 December 2019 and 2018 (including the impact on equity from the revaluation of the net assets of the foreign operations and the relevant hedging instruments), assuming reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations:

4.2.2 Currency Risk (continued)

2019	**Change in foreign exchange rate**	**Impact on profit/(loss) after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**+10**	**89**	**-**
Russian Rouble	**+10**	**-**	**(160)**
Romanian Lei	**+10**	**-**	**(10)**
Swiss Franc	**+10**	**(2)**	**-**
British Pound	**+10**	**2**	**(13)**
Japanese Yen	**+10**	**-**	**-**
Other currencies	**+10**	**7**	**-**
US Dollar	**-10**	**(73)**	**-**
Russian Rouble	**-10**	**-**	**131**
Romanian Lei	**-10**	**-**	**9**
Swiss Franc	**-10**	**1**	**-**
British Pound	**-10**	**(2)**	**11**
Japanese Yen	**-10**	**-**	**-**
Other currencies	**-10**	**(6)**	**-**
2018			
US Dollar	+10	159	-
Russian Rouble	+20	(18)	(724)
Romanian Lei	+10	-	42
Swiss Franc	+10	(3)	-
British Pound	+20	4	11
Japanese Yen	+10	-	-
Other currencies	+10	(60)	-
US Dollar	-10	(130)	-
Russian Rouble	-20	12	483
Romanian Lei	-10	-	(34)
Swiss Franc	-10	3	-
British Pound	-20	(3)	(7)
Japanese Yen	-10	-	-
Other currencies	-10	49	-

4.2.3 Liquidity Risk and Funding

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

Governance and Oversight
Every year, with the completion and approval of ILAAP, the BoD signs the Liquidity Adequacy Statement (LAS) which is sent to the ECB as part of ILAAP. Last year's LAS states among others that 'The Bank has a sound Liquidity Risk Management Framework with a Risk Appetite and Liquidity Policy. Processes, systems and controls are in place which enable the bank to identify, measure, manage and monitor liquidity risk. This ensures that the bank maintains liquidity resources which are adequate to ensure its ability to meet obligations as they fall due under ordinary and stressed conditions'.

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

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

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group.

Group Treasury is responsible for liquidity management, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by MR, which is an independent department responsible to monitor compliance, with both internal policies and limits, and with the limits set by the regulatory authorities. Market Risk reports to ALCO and RC the regulatory liquidity position, at least monthly. It also provides the results of various stress tests to ALCO and Board RC on a quarterly basis.

Liquidity is monitored and managed on an ongoing basis through:

(i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.
(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.
(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags when the ratios deteriorate.
(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.
(v) Liquidity Contingency Plan: maintenance of a LCP which is designed to provide a framework where a liquidity stress could be effectively managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
(vi) Recovery Plan: the Group has developed a Recovery Plan (RP). The key objectives of the RP are to set the key Recovery and Early Warning indicators, so as to monitor these consistently and to set in advance a range or recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's position.

4.2.3 Liquidity Risk and Funding (continued)

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted/continuous operations of the Group's activities. MR prepares a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Since May 2016, MR also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable BOC PCL to survive the stress period under all stress scenarios taking into account the capacity to raise funding. The liquidity risk is mitigated through the daily calculation of the stress scenarios. The total outflows are compared to available liquidity buffer as well as the capacity to raise liquidity in order to ensure that the bank's liquidity risk is kept at minimum.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, MM placements up to the stress horizon, available ECB credit line and market value net of haircut of eligible unencumbered/available bonds. Bond Holdings are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible.

The designing of the stress tests followed the best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the PRA and EBA SREP and the Bank's risk inventory. The stress tests assumptions are included in the Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the RC. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives and repos.

MR prepares reports monitoring compliance with internal and regulatory liquidity ratios, for the Group and submits them to the ALCO, the ExCo and the RC. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates, the deposits by tenor report and the liquidity mismatch report are also presented to the ALCO.

MR reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

The results of the stress test scenarios prepared daily are reported to ALCO and the RC on a quarterly basis. Moreover, MR reports the SSM Liquidity Exercise biweekly and the NSFR quarterly, to the CBC/ECB.

The Group prepares on an annual basis its report on ILAAP. In 2019, the 2018 ILAAP took place, which was submitted to the SSM in April 2019. The ILAAP for 2019 will be submitted to the SSM in end of April 2020 following BoD approval.

As part of the Group's procedures for monitoring and managing liquidity risk, there is an LCP for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this Committee and a series of possible actions that can be taken. This LCP, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated Liquidity Policy with its recommendations to the Board through the RC for approval. The approved Liquidity Policy is notified to the SSM.

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

- CEO
- Finance Director
- CRO
- Group Treasurer

4.2.3 Liquidity Risk and Funding (continued)

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

Group Internal Audit is 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 Bank, as part of its liquidity management strategy, has put in place management information systems capable of measuring and reporting liquidity risk so that the monitoring of compliance is done effectively and efficiently. The Bank has an automated, daily reporting process for liquidity in place. Raw data regarding Advances, Deposits, Treasury and other Products is received from Data Warehouse in the early morning hours. The Bank uses Prognosys FRCS system which produces European Regulatory ratios and reporting, locally required reporting, Financial Reporting on Liquidity and liquidity stress testing. All the data is reconciled to either the General Ledger or other reports. This liquidity risk management system is reviewed every year in ILAAP which is recommended by ALCO and approved by the BoD through its RC.

Risk Reporting and measurement system for Liquidity and Funding Risk
The Bank has an automated daily/monthly/quarterly reporting process for liquidity and funding in place. The system utilised covers for (a) internal reporting and stress testing and (b) regulatory reporting. The system is constantly enhanced to cover the increasingly demanding needs stemming from both internal and external requirements. This tool enables the bank to increase efficiency and effectiveness of liquidity monitoring.

Minimum Regulatory Liquidity Requirements
EU limit requirement
The Group LCR is calculated monthly by MR and sent to CBC/ECB 15 days after the month end. Following Emergency Liquidity Assistance (ELA) repayment in January 2017, BOC PCL has been concentrating its efforts in increasing liquid assets and thus complying with LCR limit of 80% in March 2017. In May 2017 the LCR exceeded the 100% ultimate limit. On 1st January 2018, the limit reached 100%.

During 2019, considerable increase in liquid assets was observed in June due to the completion of Helix Project causing the increase of LCR. In September, the ECB funding was repaid causing a respective LCR decrease. An overall small decrease in LCR was observed at the end of year following the above events and the overall small decrease in customer deposits.

The Group LCR was as follows as at 31 December 2019 and 2018:

Group LCR	**2019 %**	2018 %
31 December	**208**	231
Average ratio[7]	**221**	213
Highest ratio	**253**	231
Lowest ratio	**200**	197

The LCR of the Bank amounted to 208% as at 31 December 2019 (31 December 2018: 231%).

The LCR is designed to promote short-term resilience of a Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. Since enactment of Regulation (EU) 2015/61 in September 2016, the LCR is calculated under this Regulation on a monthly basis.

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

4.2.3 Liquidity Risk and Funding (continued)

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

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

(a) Credit deterioration of the bank's credit quality.
During the actual acute stress period experienced in 2013, additional independent amounts had to be placed by the Bank (reflecting the increased credit risk of the bank as perceived by counterparties). The potential outflow takes into account the percentage increase of independent amounts experienced in 2013 as well as the current outstanding derivatives in terms of notional, the type of derivative and the currency pair in the case of FX swaps.

(b) Adverse market movements affecting the mark to market.
The potential negative impact on the mark to market of derivatives and the underlying collateral of repos is calculated in the case of adverse market movements. The methodology followed is based on historical VAR analysis performed on historical data (FX rates and bond prices) as well as the current outstanding derivatives and repos. The resulting expected loss is the increased expected outflow.

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

The Group also monitors its position against the Basel Quantitative Impact Study (QIS) NSFR. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities. The NSFR ratio was not introduced on 1 January 2018, as per expectations. It will become a regulatory indicator when Capital Requirements Regulation 2 (CRR2) is enforced with the limit set at 100%. At 31 December 2019 the Group's NSFR, on the basis of the Basel III standards, stood at 122% (compared to 119% at 31 December 2018).

4.2.3 Liquidity Risk and Funding (continued)

Scope of consolidation: **Consolidated** **€ million**		**Total unweighted value (average)**				**Total weighted value (average)**			
Quarter ending on:		**March 19**	**June 19**	**Sep 19**	**Dec 19**	**March 19**	**June 19**	**Sep 19**	**Dec 19**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					4,777	5,080	5,386	5,552
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	5,993	5,890	5,677	5,836	437	417	385	389
3	Stable deposits	4,242	4,382	4,459	4,615	212	219	223	231
4	Less stable deposits	1,751	1,508	1,218	1,222	225	198	162	158
5	Unsecured wholesale funding	3,970	3,887	3,860	3,931	2,066	2,038	2,036	2,102
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3,970	3,887	3,860	3,931	2,066	2,038	2,036	2,102
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	486	465	424	361	152	149	148	129
11	Outflows related to derivative exposures and other collateral requirements	112	110	112	100	112	109	111	99
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	374	355	312	262	40	39	36	30
14	Other contractual funding obligations	34	58	78	105	34	58	78	105
15	Other contingent funding obligations	2,585	2,548	2,505	2,494	258	250	235	226
16	TOTAL CASH OUTFLOWS					2,947	2,911	2,882	2,952
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	558	422	329	296	487	360	273	234
19	Other cash inflows	1,085	1,070	1,056	1,037	222	219	217	210
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	1,643	1,493	1,385	1,332	709	579	490	444
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	1,643	1,493	1,385	1,332	709	579	490	444
21	LIQUIDITY BUFFER					4,777	5,080	5,386	5,552
22	TOTAL NET CASH OUTFLOWS					2,238	2,332	2,391	2,507
23	LCR (%)					213%	218%	225%	221%

4.2.3 Liquidity Risk and Funding (continued)

Scope of consolidation: **Consolidated**		**Total unweighted value (average)**				**Total weighted value (average)**			
€ million									
Quarter ending on*:		**March 18**	**June 18**	**Sep 18**	**Dec 18**	**March 18**	**June 18**	**Sep 18**	**Dec 18**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					2,924	3,394	3,916	4,430
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	5,323	5,670	6,053	6,030	415	434	461	449
3	Stable deposits	3,527	3,694	3,919	4,077	176	185	196	204
4	Less stable deposits	1,788	1,976	2,134	1,953	230	249	265	246
5	Unsecured wholesale funding	4,031	4,052	4,065	4,030	2,091	2,088	2,090	2,072
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	4,031	4,052	4,065	4,030	2,091	2,088	2,090	2,072
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	631	602	551	503	256	217	176	155
11	Outflows related to derivative exposures and other collateral requirements	205	167	130	112	204	167	129	112
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	426	435	422	391	52	50	47	43
14	Other contractual funding obligations	10	11	10	16	10	11	10	16
15	Other contingent funding obligations	2,595	2,621	2,650	2,623	259	262	265	262
16	TOTAL CASH OUTFLOWS					3,032	3,011	3,002	2,954
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	937	978	917	740	856	894	827	658
19	Other cash inflows	1,146	1,126	1,116	1,109	231	227	225	227
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	2,083	2,104	2,033	1,849	1,088	1,121	1,052	885
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	2,083	2,104	2,033	1,849	1,088	1,121	1,052	885
21	LIQUIDITY BUFFER					2,924	3,394	3,916	4,430
22	TOTAL NET CASH OUTFLOWS					1,944	1,890	1,950	2,069
23	LCR (%)					150%	180%	201%	214%

*2018 amounts have been restated-the values used in each quarter have been calculated as the average over the preceding 12 months instead of 3 months.

4.2.3 Liquidity Risk and Funding (continued)

As at 31 December 2019, the Group is in compliance with its regulatory liquidity requirement with respect to the LCR.

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

- The Bank has a very limited appetite for liquidity risk and maintains strict limits relating to its high quality liquid asset holdings and its cash flow maturity profiles. Further, the Bank has zero tolerance for any limit breaches and aims to comply with regulatory and internal limits in the medium term.
- The Bank aims to ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. In the medium term, the Bank should ensure that it has enough liquids to survive a liquidity stress test, under the combined scenario.
- The Bank should not rely on emergency funding from regulators but it should have contingency plans in place to be able to do that.
- The Bank's liquid asset holdings must be comprised mostly of assets classified as liquid under the LCR definitions. In the medium term the Bank aims to:
  - Maintain an LCR of at least 140%.
  - Maintain an NSFR above 110%.
  - Comply with other regulatory requirements and ratios as set from time to time.
  - In keeping with best practice, the Bank needs to monitor and manage its liquidity position on a daily basis.
- 75% of bond investments to be of high liquidity and low capital usage for regulatory purposes.

The Group has been in compliance with all RAS limits all throughout the year.

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

- Loan to deposits ratio: The Bank should not operate with a net loan to deposits ratio higher than 90%.The reliance on confidence-sensitive deposits from non-residents needs be closely monitored. This is measured as the ratio of Internal Business Unit (IBU) deposits / total Cyprus deposits which should not be increasing over time. If this ratio does increase for temporary or other idiosyncratic reasons, then this will need to be taken into account during the ILAAP process. It is expected that the increased volatility associated with such liquidity to be adequately addressed, analysed and highlighted during this process. Asset encumbrance as a percentage of the balance sheet should not exceed 25% of its balance sheet. Strong and diversified funding sources by establishing :(i) an active Euro Medium Term Note (EMTN) programme, (ii) securitisation and covered bond issuance capabilities, and (iii) all of the above categories must also be diversified by tenor.
- Customer Deposits over Total Funding Ratio should be within the range of 75% to 90%.
- All material subsidiaries to be self-funded. Any Group assistance should be of temporary nature or for specific business activities with a clear repayment source.

The Group has been in compliance with all funding limits throughout the year despite the fact that the funding sources diversification remains low, mainly due to limited market access. Market access has improved over the last year, as indicated by the issuance of T2 debt in 2017 and AT1 at the end of 2018. Market Access is regularly tested by Group Treasury.

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

Regarding the Group's liquidity and funding strategy:

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

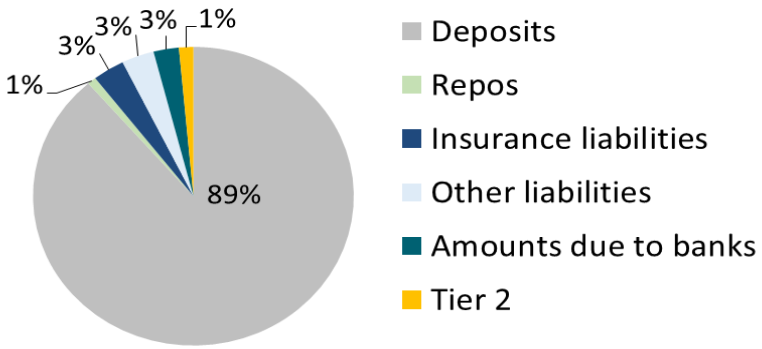
4.2.3 Liquidity Risk and Funding (continued)

Current State of Funding and Funding sources

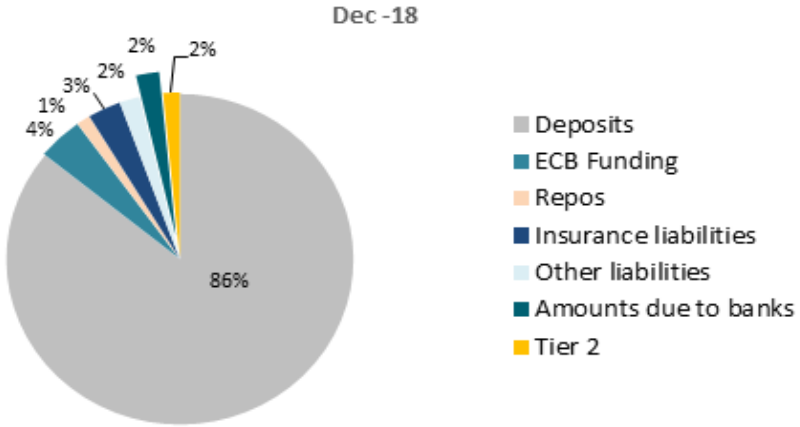
As at 31 December 2019, the Group had available liquids[8] of €7.40 billion compared to €5.80 billion at the end of 2018. The increase is primarily due to the cash received following the completion of Helix Project of around €1.2 billion. In September 2019, the ECB funding of €830 million was fully repaid without having an impact on the available liquids since the decrease in cash was fully offset by the increase in ECB Available Credit Line.

As presented in the chart below, as at 31 December 2019 the Group's liabilities were mainly composed of customer deposits amounting to 89% (2018: 86%). The central bank funding of €0.83 billion was fully repaid in September 2019.

Dec 2019



Dec 2018



[8] Available liquids comprise cash, balances at CBC (overnight and available on demand), interbank balances (overnight and available on demand), other CBC and interbank balances with maturity up to 3 months, market value net of haircut of unencumbered high quality bonds and ECB Available Credit Line.

4.2.3 Liquidity Risk and Funding (continued)

The credit ratings of the Republic of Cyprus by S&P and Fitch have remained at investment grade level during 2019 and thus the Cyprus Government Bonds have remained eligible collateral for Eurosystem monetary operations.

The ECB pools currently contain Additional Credit Claims (ACCs) and the retained issue of the Bank's covered bond.

Impediments for the prompt transfer of funds between the parent entity and its subsidiaries
The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. Any new funding and capital injection to subsidiaries require approval of the ECB. Currently there are no material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. No such impediments are expected in the future.

Following the deleveraging of the bank and the disposal of all its foreign units, the Group is mainly the BOC banking unit. The rest of the other local units (the insurance companies, JCC and CISCO) are immaterial in size and they manage their liquidity independently.

4.2.4 Securities Price Risk

Equity securities Price Risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

The Group has an outstanding equity including preference shares and funds portfolio classified for accounting purposes as either financial assets at fair value through other comprehensive Income (FVOCI) or financial assets at fair value through profit or loss (FVPL).

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

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

Changes in the prices of equity securities that are classified as investments at FVPL affect the profit or loss of the Group, whereas changes in the value of equity securities classified as investments at FVOCI affect the equity of the Group.

4.2.4 Securities Price Risk (continued)

The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on loss before tax	Impact on equity
2019	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+15**	**248**	**305**
Athens Exchange	**+20**	**94**	**-**
Other stock exchanges and unlisted	**+15**	**884**	**2,023**
Cyprus Stock Exchange	**-15**	**(248)**	**(305)**
Athens Exchange	**-20**	**(94)**	**-**
Other stock exchanges and unlisted	**-15**	**(884)**	**(2,023)**

2018			
Cyprus Stock Exchange	+25	574	997
Athens Exchange	+25	95	-
Other stock exchanges and unlisted	+20	1,007	1,695
Cyprus Stock Exchange	-25	(574)	(997)
Athens Exchange	-25	(95)	-
Other stock exchanges and unlisted	-20	(1,007)	(1,695)

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 in highly rated securities. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2019 was A2 (2018: A1). The average rating excluding the Cyprus Government bonds and non-rated transactions as at 31 December 2019 was Aa2 (2018: Aa1).

Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as FVOCI affect directly the equity of the Group.

Other non-equity instruments price risk
The table below shows the impact on the profit/loss before tax and on equity of the Group from a change in the price of other non-equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on loss before tax	Impact on equity
2019	**%**	**€000**	**€000**
Other (non-equity instruments)	**+15**	**3,539**	**-**
Other (non-equity instruments)	**-15**	**(3,539)**	**-**
2018			
Other (non-equity instruments)	+25	3,388	-
Other (non-equity instruments)	-25	(3,388)	-

4.2.4 Securities Price Risk (continued)

The table below indicates how the profit/loss before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years and the remaining tenor of the bonds.

	Impact on loss before tax	**Impact on equity**
Change in market prices	**€000**	**€000**
2019		
+1.1% for Aa3 and above rated bonds	**915**	**4,891**
+3.2% for A3 and above rated bonds	**1,108**	**894**
+4.7% for Baa3 and above rated bonds	**-**	**509**
+7.6% for Cyprus Government bonds	**-**	**30,011**
-1.1% for Aa3 and above rated bonds	**(915)**	**(4,891)**
-3.2% for A3 and above rated bonds	**(1,108)**	**(894)**
-4.7% for Baa3 and above rated bonds	**-**	**(509)**
-7.6% for Cyprus Government bonds	**-**	**(30,011)**
2018		
+1.5% for Aa3 and above rated bonds	1,476	7,320
+3.5% for A3 and above rated bonds	774	167
+5.5% for Baa3 and above rated bonds	-	51
+7.8% for Cyprus Government bonds	42	24,808
-1.5% for Aa3 and above rated bonds	(1,476)	(7,320)
-3.5% for A3 and above rated bonds	(774)	(167)
-5.5% for Baa3 and above rated bonds	-	(51)
-7.8% for Cyprus Government bonds	(42)	(24,808)

4.2.5 Property Risk

The Bank's KRIs on properties (excluding own properties) was set at €2 billion. The projected property levels in the approved Financial and Capital plan 2019-2022 (F&CP) are significantly less than the €2 billion level. Therefore, an adverse deviation of more than 25% from the planned reduction in the F&CP will be regarded as an in breach indicator.

The Group is exposed to the risk on changes in the fair value of property which is held either for own use or, as stock of property or as investment property. Stock of property is predominately acquired in exchange of debt and is intended to be disposed of in line with the Group's strategy. Such property exposures, due to their long-term nature, are difficult to hedge. Any decision to hedge will be taken on a case by case basis by the ALCO committee of the Bank following recommendation from Group Treasury and Group Finance.

The carrying value and analysis by type and by geographical breakdown is disclosed in the Consolidated Financial Statements of the Company for 2019 (Notes 23, 26 and 28).

4.3 Operational Risk Management (ORM)

4.3.1 Definition and Objectives

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

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

4.3.1 Definition and Objectives (continued)

Conduct risk: It is defined as the risk of unexpected or undesirable behaviour by management, staff or other person identified with the bank, which results in an adverse impact for the customer and is focused on how the bank is managed and structured to ensure that it treats its customers fairly by having robust systems and controls, adequate skill, care and judgement.

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

- Legal risk: It is defined as the possibility of the operations and conditions of the Group to be disrupted or adversely affected due to lawsuits, adverse judgements or unenforceable contracts.
- Compliance/Regulatory risk: It is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities. Over and above compliance to the regulatory framework, regulatory risk comprises the risk not to comply with Regulators requirements for a) implementation of regulatory review recommendations and findings; b) implementation of regulatory decisions/approvals; and c) other requests for information all of which may result in breach of the regulatory expectations.
- Information security and IT risk: Information Security risk is defined as the risk arising from the loss of confidentiality, integrity and availability of information.
- Business Continuity risks refer to risks impacting the capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident.
- Model risk: It is defined as the risk of loss resulting from using models to make decisions, in cases where financial models used to measure risks or value transactions do not perform the tasks or capture the risks they were designed to.
- Data compromise risk (including adherence to General Data Protection Regulation (GDPR)): Data compromise risk refers to compromise of sensitive data, mainly due to system weaknesses, inadequate configuration or systems integration.

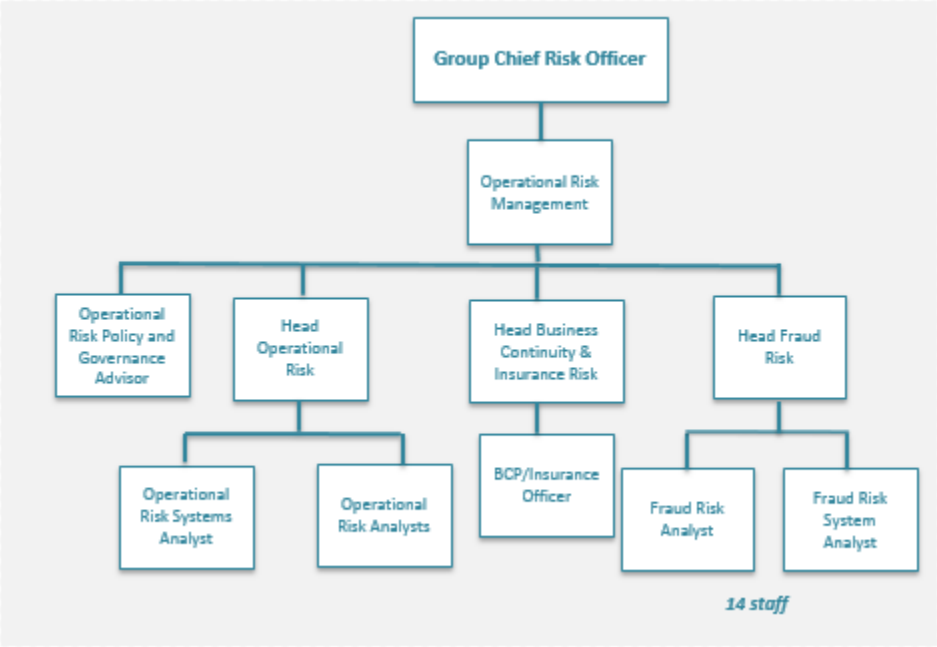
Operational regulatory risk policies and procedures contribute to the management of these risks, some of which are also directly managed by specialised departments, i.e. Information Security Department, Group Compliance and Legal Services. The ORM Department is responsible to embed explicit and robust ORM practices into all areas of the business process from the initial design of the Bank's business strategy to the sale of services and products to its customers. This is achieved by implementing a sound, coherent and comprehensive framework for the identification, assessment, monitoring and control of operational risk within the Bank that improves the service provided to customers, the Bank's productivity and cost effectiveness and which ultimately protects shareholder value. ORM also ensures that the level of operational risk faced by the Bank is consistent with the BoD's overall risk appetite and corporate objectives.

The ORM framework strives to achieve the following specific objectives:

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

4.3.1 Definition and Objectives (continued)

ORMD Structure



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

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

The data collected is categorised and analysed to facilitate the management of operational risks and, where possible, to prevent future losses by implementing relevant mitigating actions. Emphasis is constantly placed on carrying out root-cause analysis of both operational risk incidents with a significant impact and repeated operational risk incidents which present worrying trends. This enables the identification of weaknesses or vulnerabilities and potential threats, which in turn supports the specification of actions to minimise the risk of similar incidents occurring in the future. In 2019, 548 loss events with gross loss equal to or over €1,000 were recorded including incidents of prior years (mostly legal cases) for which losses materialised in 2019, compared to 247 loss events in 2018.

Risk Appetite
The Bank has a defined Operational RAS, which forms part of the Group's RAS. Thresholds are applied across all eight (8) Business Lines, while thresholds also apply for conduct/and other operational risk related losses.

Risk quantification and reporting
Important operational risks identified and assessed through the various tools/methodologies of the ORM framework are regularly reported to top management, as part of overall risk reporting. More specifically, the CRO reports on risk to the EXCO and the RC on a monthly, quarterly and semi-annual basis, while annual risk reports are submitted to the Regulators. Ad-hoc reports are also submitted to top management as needed. Dashboards with metrics against the Bank's defined risk appetite are also submitted on a quarterly basis to EXCO and the BRC through the CRO.

4.3.1 Definition and Objectives (continued)

Regulatory and economic capital requirements for operational risk are calculated using the Standardised Approach (see details under Section 5.5.3). Additional Pillar II Regulatory capital is calculated for operational risk on a scenario-based approach. Scenarios are built after taking into consideration the Key Risk Drivers, which are identified using a combination of methods and sources, through top-down and bottom-up approaches. Both approaches are complementary and are simultaneously used in order to identify all key risks the organization is faced with. The Key Risk identification process is reviewed every quarter as part of the ICAAP process and new risks identified are added, while others that become obsolete are removed. Risk scores are updated depending on changes to circumstances (e.g. added controls, changes in the regulatory environment, etc.). The Bank, following the EBA's methodology guidelines on stress-testing for Conduct and other operational risks, projects the P&L impact of losses arising from non-material conduct risks and other operational risks using its internally built scenarios (quantitative method) and in the case of material conduct risk, available qualitative information and feedback from the Subject Matter Experts. In order to determine which operations/actions and events may lead to material conduct risks the Bank analyses all material conduct risk events which took place in the preceding 5 years but also takes into account the prevailing environment in which it operates, as well as the strategy it has formulated for the following 3 years. Such analysis/assessment results in the identification of potential material conduct risks that may materialise within a 3-year horizon in an adverse environment.

Risk Control Self-Assessment (RCSA)

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

4.3.2 Management and Control of Operational Risk

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

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

With primary input from the process of RCSA completion, ORMD maintains a detailed risk register for each Unit, which forms an important component of the ORM analysis and reporting. Updating/enriching the risk register in terms of existing and potential new risks identified and their mitigation is an on-going process, sourced from RCSAs as mentioned above, but also other risk assessments performed, e.g. by the Information Security Department, or through Outsourcing risk assessments, New Product/Services Risk Assessments, Data Protection Impact Assessments etc.

As mentioned above for all these assessments, an Operational Risk Assessment Scoring methodology is in place, based on which the risk level is calculated depending on the likelihood of a risk event occurring, both before and after taking into consideration available mitigants and the impact on business objectives in case it occurs. The impact is assessed by taking into consideration quantitative parameters (i.e. financial impact) and the qualitative parameters (e.g. Potential Legal or Regulatory impact, Impact on Process or Service continuity, Effect on Management Decisions and strategic objectives, etc.). The resulting score (Likelihood X Impact) is calculated and categorized into Critical, High, Medium, Low, based on a predefined matrix.

4.3.2 Management and Control of Operational Risk (continued)

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

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

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

Fraud Risk Management
The Bank has reinforced its fraud Risk Management Framework, through (i) the implementation of the Fraud Risk Management system, the formation of a new Web banking Fraud Alerts Investigation team to manage the daily alerts and (ii) additional actions involving the formalisation of the overall specific areas Fraud Incident Response Plans (FIRPs) for the Bank as well as the promotion of fraud awareness to all employees.

Implementation of the Card Fraud module (detection mode) is planned by year-end 2020 and is expected to add another layer of fraud prevention to the existing Card's fraud detection controls.

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

Network of ORM liaisons
Operational risk liaisons act as the point of contact with the aim to enable the effective implementation of the various operational risk methodologies across the Bank, by liaising with their departmental and unit management.

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

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

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

4.3.2 Management and Control of Operational Risk (continued)

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

Management of Litigation risk

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

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

IT systems are in place both for the filing of legal advice requests from all Divisions, as well as for the monitoring of litigation against the Bank. The structure of the LSD in teams of lawyers enables the timely allocation and completion of work. External Legal counsel is engaged for the representation of the Group before legal forums, as well as, for obtaining legal advice on issues/areas of Law which are not within LSD's specialisation/expertise.

A framework for the engagement, monitoring and assessment of the performance of external legal counsel has also been put in place in order to ensure that the best possible service is received.

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

Pending litigation, claims, regulatory and other matters

The Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of BOC PCL in 2013 as a result of the bail-in Decrees, BOC PCL is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the bail-in Decrees.

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

Apart from what is disclosed in Note 40 of the Consolidated Financial Statements of the Company for 2019 the Group considers that none of these matters is material, either individually or in aggregate. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses.

4.3.2 Management and Control of Operational Risk (continued)

Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2019 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

Despite the novelty of many of the claims such as the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of BOC PCL, based on the information available at present and on the basis of the law as it currently stands, management does not expect these to have a material adverse impact on the financial position and capital adequacy of the Group.

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

	31 December 2019	31 December 2018
	€000	€000
Pending litigation or claims	**70,075**	74,372
Regulatory matters	**13,691**	29,569
Other matters	**24,328**	13,010
	108,094	116,951

For additional information on pending litigation, claims, regulatory and other matters as well as the judgement exercised in concluding on the impact of these matters refer to Notes 5.4 and 40 of the Consolidated Financial Statements of the Company for 2019.

Major developments relating to ORM during 2019

During 2019, Financial Ombudsman activities were transferred elsewhere in the Bank, while 2 new roles were defined (Risk Policy and Governance Advisor and Operational Risk Systems Analyst). An IT specialist role was also approved in 2019, with the position staffed at the beginning of February 2020.

During the year, enhancements were implemented on the ORM system (Risk Compliance Management System (RCMS), which involved – inter alia – (i) integration with Legal System (LSD), eliminating duplication of work for legal cases recording, (ii) introduction of additional alerts per monitoring unit, (iii) introduction of functionality to record mitigation actions for incidents, (iv) further report automation/enhancements.

The Fraud Risk Management system is real-time monitoring more than 200 thousand Web and Mobile transactions daily on a 24X7 basis, using dynamic rules, models and behavioural profile analytics per customer. Any abnormal behavioural trigger Alerts are being daily assessed and investigated by a dedicated team. During 2019, the fraud system managed to prevent 11 perpetrators' attempts to gain access to Web Banking accounts.

Annual review of RCSAs within 2019 was completed for 120 Units. By the end of the year, 9 RCSAs were pending but on track for completion within agreed deadlines. Plan for 2020 annual RCSA reviews already initiated. RCSAs are completed with line management assuming full responsibility of their respective RCSA monitoring/updating in RCMS system (module supporting the RCSA process) and divisional Directors providing their sign-off upon the finalisation of the RCSA reports and the risks accepted.

In 2019, 8 training sessions were held promoting awareness on basic principles of ORM and the updated ORM Methodology, but mainly focussing on technical aspects and functionality/enhancements of RCMS system. Wide-reach training to staff through e-learning was offered on the basic concepts of ORM. Additional training through e-learning to all staff is planned for 2020 on Anti-Fraud awareness, as well as, Reputation/Reputational Risk management. The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk (see details under Section 5.5.3).

4.3.3 Reporting

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

5. Own Funds and Leverage disclosures

5.1 CRD IV Regulatory Capital

The tables below disclose the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2019 and 2018.

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**
	2019	**2019**	**2019**
	€000	**€000**	**€000**
Capital instruments and the related share premium	1,338,978	-	1,338,978
Retained earnings	406,816	-	406,816
Accumulated other comprehensive income (OCI) and other reserves	106,975	-	106,975
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,852,769**	**-**	**1,852,769**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(51,204)	-	(51,204)
Regulatory adjustments relating mainly to prudential charge relating to specific credits and other	(123,863)	-	(123,863)
Additional Valuation Adjustment (AVA)	(1,359)	-	(1,359)
CET1 eligible reserves, transferred to Tier 2 (T2)	(29,750)	-	(29,750)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	-	-	-
Direct and indirect holdings of financial sector entities where the institution has a significant investment (amount above 10% threshold)	-	-	-
Amount exceeding the 17.65% threshold	-	-	-
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	-	-	-
Of which: Deferred tax assets arising from temporary differences	-	-	-
IFRS 9 transitional arrangements	262,456	(262,456)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**56,280**	**(262,456)**	**(206,176)**
Common Equity Tier 1 (CET1) capital	**1,909,049**	**(262,456)**	**1,646,593**
Additional Tier 1 (AT1) capital	**220,000**	**-**	**220,000**
Tier 1 capital (T1=CET1+AT1)	**2,129,049**	**(262,456)**	**1,866,593**
Tier 2 (T2) capital			
Tier 2 instruments	189,955	18,869	208,824
Tier 2 (T2) capital	**189,955**	**18,869**	**208,824**
Total Capital (TC=T1+T2)	**2,319,004**	**(243,587)**	**2,075,417**
Risk weighted assets			
Credit risk	11,547,303	(282,736)	11,264,567
Market risk	-	-	-
Operational risk	1,342,700	-	1,342,700
Total Risk Weighted Assets	**12,890,003**	**(282,736)**	**12,607,267**
Capital ratios			
Common Equity Tier 1 (CET1)	**14.8%**	**(1.7%)**	**13.1%**
Tier 1	**16.5%**	**(1.7%)**	**14.8%**
Total Capital	**18.0%**	**(1.5%)**	**16.5%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold) subject to 250% risk weight	31,020	-	31,020
Deferred tax assets (amount below 10% threshold) subject to 250% risk weight	-	-	-
Capital Ratios			
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the Combined Buffer Requirement)	**7.53%**	**1.50%**	**9.03%**
Of which:			
Capital Conservation Buffer (CCB)	*2.50%*	*-*	*2.50%*
Other Systematically Important Institution (O-SII) buffer	*0.50%*	*1.50%*	*2.00%*
Countercyclical buffer	*0.03%*	*-*	*0.03%*
Systemic risk buffer	*0%*	*-*	*0%*
Common Equity Tier 1 available to meet buffers	***7.27%***	***(3.2%)***	***4.07%***

5.1 CRD IV Regulatory Capital (continued)

	Group		
	Transitional position	**Transitional impact**	**Fully loaded**
	2018	**2018**	**2018**
	€000	**€000**	**€000**
Capital instruments and the related share premium	1,338,978	-	1,338,978
Retained earnings	487,934	-	487,934
Accumulated other comprehensive income (OCI) and other reserves	92,078	-	92,078
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,918,990**	**-**	**1,918,990**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(43,364)	-	(43,364)
Regulatory adjustments relating mainly to prudential charge relating to specific credits and other	(123,155)	-	(123,155)
Additional Valuation Adjustment (AVA)	(1,293)	-	(1,293)
CET1 eligible reserves, transferred to Tier 2 (T2)	(29,987)	-	(29,987)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(103,722)	(25,931)	(129,653)
Direct and indirect holdings of financial sector entities where the institution has a significant investment (amount above 10% threshold)	-	-	-
Amount exceeding the 17.65% threshold	(59,523)	(7,833)	(67,356)
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	*(28,192)*	-	*(28,192)*
Of which: Deferred tax assets arising from temporary differences	*(31,331)*	*(7,833)*	*(39,164)*
IFRS 9 transitional arrangements	304,793	(304,793)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(56,251)**	**(338,557)**	**(394,808)**
Common Equity Tier 1 (CET1) capital	**1,862,739**	**(338,557)**	**1,524,182**
Additional Tier 1 (AT1) capital	**220,000**	**-**	**220,000**
Tier 1 capital (T1=CET1+AT1)	**2,082,739**	**(338,557)**	**1,744,182**
Tier 2 (T2) capital			
Tier 2 instruments	211,978	30,534	242,512
Tier 2 (T2) capital	**211,978**	**30,534**	**242,512**
Total Capital (TC=T1+T2)	**2,294,717**	**(308,023)**	**1,986,694**
Risk Weighted Assets			
Credit risk	13,831,008	(336,653)	13,494,355
Market risk	2,182	-	2,182
Operational risk	1,538,588	-	1,538,588
Total Risk Weighted Assets	**15,371,778**	**(336,653)**	**15,035,125**
Capital ratios			
Common Equity Tier 1 (CET1)	**12.1%**	**(2.0%)**	**10.1%**
Tier 1	**13.5%**	**(1.9%)**	**11.6%**
Total Capital	**14.9%**	**(1.7%)**	**13.2%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold) subject to 250% risk weight	123,897	-	123,897
Deferred tax assets (amount below 10% threshold) subject to 250% risk weight	172,119	-	172,119
Capital Ratios			
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the Combined Buffer Requirement)	**6.40%**	**2.625%**	**9.020%**
Of which:			
Capital Conservation Buffer (CCB)	*1.88%*	*0.62%*	*2.50%*
Other Systematically Important Institution (O-SII) buffer	*0%*	*2.00%*	*2.00%*
Countercyclical buffer	*0.02%*	*0%*	*0.02%*
Systemic risk buffer	*0%*	*0%*	*0%*
Common Equity Tier 1 available to meet buffers	***5.72%***	***(4.60%)***	***1.12%***

During the year ended 31 December 2019, the CET1 was positively affected primarily from the legislative amendments allowing for the conversion of deferred tax assets into tax credits for regulatory purposes (Note 18 of the Consolidated Financial Statements of the Company for 2019) and negatively affected mainly by the phasing-in of transitional adjustments (mainly the IFRS 9), the cost of voluntary staff exit plan, property impairments and ECL charges.

5.1 CRD IV Regulatory Capital (continued)

The RWAs were positively affected mainly by the sale of loans in 2019 (Projects Helix and Velocity 1), the disposal of the associate CNP Cyprus Insurance Holdings Ltd, which was completed in October 2019 and the Group's ongoing efforts for risk weighted assets optimization.

As a result of the above, the CET1 ratio increased by 270 bps during the year.

Prudential filters and deductions

Prudential filters

The Group capital, in accordance with the CRR Article 34 is subject to the prudential filter of additional value adjustments for assets measured at fair value. These adjustments are deductible from CET1 capital. As such, Additional Valuation Adjustments (AVA) relating to assets measured at fair value are deducted from CET1 capital in accordance with the Commission Delegated Regulation (EU) 2016/101. Under the Commission Delegated Regulation (EU) 2016/101, the Group satisfies the conditions for using the simplified approach. The AVA deduction for 2019 and 2018 is reported within the AVA line in the tables above.

For regulatory capital purposes, the Group has been also subject to a prudential filter for unrealised gains and losses measured at fair value, in accordance with the CRR Article 35 and Articles 14 and 15 of the EU Regulation 2016/445. The relevant provisions of the EU Regulation 2016/445 were fully phased-in in 2018.

The unrealised gains/ (losses) relate mainly to investments in debt and equity securities.

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

Deductions from own funds

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

- Losses for the year 2019 of €51,509 thousand, in line with the prudential consolidation, were deducted from CET1 capital.
- Intangible assets, which include mainly computer software, were deducted from CET1 capital. The amount deducted in 2019 and 2018 is reported within the 'Intangible assets' line in the tables above.
- In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess DTA of 10% of CET1 is deducted from CET1 capital and the amount of less than 10% is risk-weighted at 250%. Following the application of the provisions of the EU Regulation 2016/445, the phase-in period in respect of the deductible amount of DTA is 5 years. On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of DTA into DTC for regulatory purposes, under the CRR (For more details refer to Note 18 of the Consolidated Financial Statements of the Company for 2019).
- The Group's Insurance business is deconsolidated for regulatory capital purposes and replaced by the amount of the Group's investment in insurance entities. In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess of 10% of CET1 is deducted from the capital (shown as 'Direct and indirect holdings of financial sector entities where the institution has a significant investment' in the tables above) and the amount of less than 10% is risk-weighted at 250%.
- In addition and in line with Article 48 of the CRR, DTA and direct and indirect holdings of financial sector entities where the institution has a significant investment are subject to a combined threshold of 17.65% of CET1 capital.

In addition to the above the Group is also subject to the following supervisory coverage expectations for NPEs:

- ECB's Pillar 2 approach to NPE coverage
  - ECB Guidance to banks on NPLs published in March 2017.
  - The Addendum to the ECB Guidance to banks on NPEs published in March 2018.
  - Supervisory expectations for provisioning of NPE stock (i.e. exposures classified as NPE on 31 March 2018), communicated in a press release issued by the ECB on 11 July 2018.
- ECB's Pillar 1 approach to NPE coverage
  - Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019.

There were no deductions from CET1 deriving from the above guidelines and regulations in 2019 and 2018.

5.1 CRD IV Regulatory Capital (continued)

In addition, during 2019 and 2018, the Group deducted from CET1 a prudential charge relating to specific credits. The deduction amounted to c.€120 million as at 31 December 2019 and 2018.

There are no deductions from the T2 capital under Article 66 of the CRR. However, the T2 capital instruments are subject to qualifying own funds deductions (non-controlling interests) in accordance with Article 88 of the CRR.

There are no deductions from the AT1 capital under Article 56 of the CRR.

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

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

IFRS 9 Financial Instruments
The Group applied the IFRS 9 on 1 January 2018. The new accounting standard allows the impact on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement. The Group's IFRS 9 impact on transition resulted in a decrease of shareholders' equity of €308 million and was primarily driven by credit impairment provision.

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

Additional disclosures on IFRS 9 impact on capital ratios are shown in Section 5.7.

Issued share capital
The issued share capital consists of 446,200 thousand (2018: 446,200 thousand) number of shares at nominal value of €0.10 each. The movement of the share capital for the years 2019 and 2018 is shown on the table below:

	2019		2018	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued				
1 January and 31 December	**446,200**	**44,620**	446,200	44,620

All issued ordinary shares carry the same rights.

Further details in relation to the share capital of the Company are presented in Note 36 of the Consolidated Financial Statements of the Company for 2019.

5.1 CRD IV Regulatory Capital (continued)

Treasury shares of the Company
Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. Following the restructuring of the Group and the introduction of the Company as the new holding company of the Group, the shares held by the life insurance subsidiary were cancelled and New Shares of the company were issued.

The life insurance subsidiary of the Group, as at 31 December 2019, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (2018: 142 thousand ordinary shares of a nominal value of €0.10 each), as part of its financial assets which are invested for the benefit of insurance policyholders (Note 25 of the Consolidated Financial Statements of the Company for 2019). The cost of acquisition of these shares was €21,463 thousand (2018: €21,463 thousand).

The treasury shares represent 0.03% of the total issued share capital of the Company (2018: 0.03%).

The Company did not provide financial assistance permitted by Section 82 of the Companies Act 2014 for the purchase of its shares.

Share premium reserve

2019
There were no changes to the share premium reserve during the year ended 31 December 2019.

2018
The AGM of the shareholders of the Company, held in August 2018, approved a reduction of up to €1.5 billion of the Company's share premium to eliminate the Company's accumulated losses and create distributable reserves (retained earnings). This was approved by the Irish High Court pursuant to section 85(1) of the Companies Act on 13 December 2018.

Share-based payments - share options
Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of the Company. The Share Option Plan is identical to the Long Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

No share options were granted since the date of replacement of the Long-Term Incentive Plan by the Share Option Plan at the level of the Company and the Share Option Plan remains frozen. Any shares related to the Share Option Plan carry rights with regards to control of the company that are only exercisable directly by the employee.

Other equity instruments
In December 2018 the Company issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. During the year ended 31 December 2019 two coupon payments to AT1 holders were made of a total amount of €27,199 thousand and have been recognised in retained earnings. The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. AT1 is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and each subsequent fifth anniversary subject to the prior approval of the regulator. AT1 is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

During the year ended 31 December 2018, the transaction costs, directly attributable to the issuance, amounted to €2,458 thousand and have been recognised in retained earnings.

5.2 Summary of the terms and conditions of Capital Resources

The capital base of the Group for regulatory purposes consists of ordinary shares (CET1 instruments) and AT1 and T2 instruments.

Group CET1 instruments consist only of ordinary shares (Sections 5.1 and 5.3).

In December 2018, the Company issued €220 million AT1 Capital Securities. AT1 is unsecured and subordinated to the share capital (CET1). Additional information of the AT1 Capital Securities is disclosed in Section 5.1. The full terms and conditions of the AT1 Capital Securities are presented in Section 5.3.

For financial reporting purposes AT1 is classified as other equity instrument within equity and the coupon payments are recognised in retained earnings.

In January 2017, BOC PCL issued a €250 million unsecured and subordinated T2 Capital Note (the Note) under BOC PCL's EMTN Programme. The Note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. BOC PCL has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The Note is listed on the Luxembourg Stock Exchange's Euro MTF market. The full terms and conditions of the Note are presented in Section 5.3.

For financial reporting purposes the Note is treated as Subordinated loan stock. The subordinated loan stock is initially measured at the fair value of the consideration received, net of any issue costs. It is subsequently measured at amortised cost using the effective interest method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the subordinated loan stock. Interest on subordinated loan stock is included in 'Interest expense' in the consolidated income statement.

5.3 Full terms and conditions of Capital Resources

The main features of the Group CET1 instruments (ordinary shares), AT1 and T2 instruments are presented in Appendix V. No restrictions apply on these instruments for the purpose of the calculation of the own funds in accordance with the CRR.

AT1 instruments

In December 2018 the Company issued €220 million AT1 Capital Securities.

The main features of the AT1 are presented in Appendix V.

The listing particulars and detailed information on the terms and conditions of the AT1 are published on the Group's website www.bankofcyprus.com (https://www.bankofcyprus.com/globalassets/investor-relations/debt-securities/at1/eng/20181224-boch-plc---at1-capital-securities---listing-particulars.pdf).

Tier 2 instruments

In January 2017, BOC PCL issued a €250 million unsecured and subordinated T2 Capital Note (Note) under BOC PCL's EMTN Programme.

The main features of the Note are presented in Appendix V.

The pricing supplement and detailed information on the terms and conditions of the T2 is published on the Group's website www.bankofcyprus.com (https://www.bankofcyprus.com/globalassets/investor-relations/debt-securities/emtn/emtn-eng/20170117-tier-ii-final-terms-pricing-supplement-2017-01-17.pdf).

5.4 Geographical distribution of credit exposures relevant for the calculation of the Countercyclical Capital Buffer

The table below presents the exposures that give rise to CCyB requirement.

In accordance with the provisions of the above law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined for all the countries in the EEA by their local competent authorities ahead of the beginning of each quarter. The applicable CCyB rate for Cyprus for years 2018 and 2019 is set by CBC at 0%.

The material decreases in the exposures that give rise to the CCyB capital requirement relate to Cyprus which carries a 0% CCyB rate hence the minor CCyB capital requirement remains stable. The decrease in Cyprus exposures was mainly driven by the Project Helix transaction, increased provisioning and loan settlements.

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

31 December 2019	General credit exposure	Trading book exposures	Own fund requirements			Own funds requirements weights	Countercyclical buffer rate
			of which: General credit exposures	of which: Trading book exposures	Total		
Breakdown by country:	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**
Cyprus	11,655,285	-	787,016	-	787,016	90.03	-
United Kingdom	250,088	-	18,481	-	18,481	2.11	1.00
Greece	305,605	-	24,260	-	24,260	2.78	-
Other countries[9]	581,272	-	37,909	-	37,909	4.34	-
Other countries[9]	15,047	-	1,230	-	1,230	0.14	0.25
Other countries[9]	3,129	-	229	-	229	0.03	0.50
Other countries[9]	52,847	-	4,587	-	4,587	0.52	1.00
Other countries[9]	212	-	8	-	8	0.00	1.50
Other countries[9]	108	-	9	-	9	0.00	1.75
Other countries[9]	45,175	-	429	-	429	0.05	2.50
Total	**12,908,768**	-	**874,158**	-	**874,158**	**100.00**	

31 December 2018							
Breakdown by country:							
Cyprus	13,635,149	503	995,428	80	995,508	93.57	0.00
United Kingdom	277,967	-	18,990	-	18,990	1.78	1.00
Greece	203,446	-	16,395	-	16,395	1.54	0.00
Other countries[9]	516,192	-	32,520	94	32,614	3.07	0.00
Other countries[9]	40	-	2	-	2	0.00	0.50
Other countries[9]	34	-	1	-	1	0.00	1.00
Other countries[9]	249	-	13	-	13	0.00	1.25
Other countries[9]	38,445	-	408	-	408	0.04	2.00
Total	**14,671,522**	**503**	**1,063,757**	**174**	**1,063,931**	**100.00**	

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

5.4 Geographical distribution of credit exposures relevant for the calculation of the Countercyclical Capital Buffer (continued)

Amount of specific Countercyclical Capital Buffer

	2019	2018 (restated)
Total risk exposure €000	**12,890,003**	15,371,778
Institution specific CCyB rate %	**0.03%**	0.02%
Institution specific CCyB requirement €000	**3,867**	3,074

Since March 2020 the CCyB is eliminated to zero. For further information please refer to Note 56.1 of the Consolidated Financial Statements of the Company for 2019.

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

Group's app roach to assessing the adequacy of its internal capital

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

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

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

The key pillars of the Group's strategy are to:

- Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital
- Further optimise the funding structure
- Focus on the core Cyprus market
- Deliver value to shareholders and other stakeholders

The RWAs that form the denominator of the risk-based capital ratio are presented below. Minimum capital requirements are calculated as 8% of the RWAs. All rows that are not relevant to the institution's activities are not included.

As of 1 January 2018 the RWAs are reported on an IFRS 9 transitional basis under article 473(a) of the CRR by which provisions amounts are decreased by an appropriate ratio hence creating higher exposures compared to the actual balance sheet values and as a result comparatively higher RWAs and capital requirements. The IFRS 9 transitional basis effect will be phased out by 1 January 2023.

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

EU OV1 Overview of RWAs

		RWAs		Minimum capital requirements
		Dec 19	**Sept 19**	**Dec 19**
		€000	**€000**	**€000**
1	Credit risk (excluding CCR)	11,411,497	11,837,610	912,920
2	*Of which the Standardised Approach*	*11,411,497*	*11,837,610*	*912,920*
6	CCR	12,618	16,583	1,009
7	*Of which mark to market*	*9,568*	*11,795*	*765*
12	*Of which CVA*	*3,050*	*4,788*	*244*
14	*Securitisation exposures in the banking book (after the cap)*	45,638	49,700	3,651
18	*Of which Standardised approach*	*45,638*	*49,700*	*3,651*
23	Operational risk	1,342,700	1,538,588	107,416
25	*Of which Standardised Approach*	*1,342,700*	*1,538,588*	*107,416*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	77,550	315,220	6,204
29	**Total**	**12,890,003**	**13,757,701**	**1,031,200**

The main drivers behind the decrease in RWAs in the RWAs for the quarter relate to (a) the disposal of the associate CNP Cyprus Insurance Holdings Ltd; (b) increased provisioning, settlements/repayments and curing in NPEs and regulatory high risk exposure classes in customer loans; (c) reduction in balance sheet values of other assets; and (d) reduction in operational operating income. The impact of the disposal of the associate is reflected in line 27, whilst the decrease in the operational income in line 23 and drivers (b) & (c) in line 2.

The main drivers behind the decrease in the RWAs for the different types or risk for the year are analysed in the tables below.

There were no large exposures for institutions that exceeded the relevant limits.

EU OV1 Overview of RWAs

		RWAs		Minimum capital requirements
		Dec 18 (restated)	**Sept 18**	**Dec 18** (restated)
		€000	**€000**	**€000**
1	Credit risk (excluding CCR)	13,236,498	13,390,619	1,058,920
2	*Of which the Standardised Approach*	*13,236,498*	*13,390,619*	*1,058,920*
6	CCR	22,859	37,244	1,829
7	*Of which mark to market*	*13,996*	*22,781*	*1,120*
12	*Of which CVA*	*8,863*	*14,463*	*709*
19	Market risk	2,182	2,195	175
20	*Of which the Standardised Approach*	*2,182*	*2,195*	*175*
23	Operational risk	1,538,588	1,722,063	123,087
25	*Of which Standardised Approach*	*1,538,588*	*1,722,063*	*123,087*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	571,651	560,518	45,732
29	**Total**	**15,371,778**	**15,712,639**	**1,229,743**

5.5.1 Credit Risk

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

As of 1 January 2018 the RWAs are reported on an IFRS 9 transitional basis under article 473(a) of the CRR by which provisions amounts are decreased by an appropriate ratio hence creating comparatively higher exposures compared to the actual balance sheet values and as a result higher RWAs and capital requirements. The IFRS 9 transitional basis effect will be phased out by 1 January 2023.

Exposure Portfolio	**2019**	2018 (restated)
	€000	€000
Central governments or central banks	**30,607**	26,630
Regional governments or local authorities	**43**	56
Public sector entities	**1**	1
Institutions	**15,081**	15,328
Corporates	**268,319**	241,352
Retail	**76,832**	78,985
Secured by mortgages on immovable property	**94,432**	86,172
Exposures in default	**164,290**	295,647
Items associated with particularly high risk	**112,388**	162,587
Covered bonds	**1,307**	1,132
Collective Investments Undertakings (CIU)	**16**	14
Items representing securitisation positions	**3,651**	-
Equity	**6,422**	20,328
Other items	**150,151**	177,540
Total Capital Requirement for Credit Risk	**923,540**	1,105,772

The Project Helix Transaction is the main driver behind the decrease in the TC requirements for credit risk, impacting exposure classes "Exposures in default", "Items associated with particularly high risk" and "Other items" and creating capital requirements in exposure class "Items representing securitisation positions" from the Bank's holding in the Project Helix Transaction. The other major drivers that contributed to the decrease in the TC requirements are the disposal of CNP equity holdings, reflected in exposure class "Equity", and the decrease in the capital requirements from customer loans driven increased provisioning, curing, settlements/repayments and other deleveraging actions. The traditional exposure classes that reflect the movements in customer advances are "Corporates", "Retail", "Secured by mortgages on immovable property", "Exposures in default" and "Items associated with particularly high risk". The sale consideration of Project Helix Transaction and the equity holding disposals increased the exposures in "Central governments and central banks" exposure class at a 0% RW. The law amendment of the Cyprus Parliament legislative on 1 March 2019, allowing for the conversion of DTA into DTC for regulatory capital purposes carrying a RW of 100% which were previously risk weighted at 250% or deducted from capital, created the increase in the capital requirements observed in "Central governments or central banks". All other capital requirements movements follow movements in the book value of balance sheet assets.

5.5.2 Market Risk

All rows that are not relevant to the institution's activities are not included in the table below.

There are no minimum capital requirements for market risk for 2019. The minimum capital requirement calculated under the Standardised Approach in accordance with Title IV: Own funds requirements for Market Risk of the CRR are exclusively related to equity risk. The Bank does not have any exposures in the trading book in "Interest rate risk", "Commodity Risk", "Options" or "Securitisation" positions.

5.5.2 Market Risk (continued)

FX risk does not require any capital since the materiality threshold set by Article 351 of the CRR is not met.

Due to the small trading book, Article 94 of the CRR was applied in 2019 allowing the RWAs for trading book positions to be calculated in accordance with Article 92 paragraph 3(a) of the CRR; hence the RWAs and capital requirements are included in the Credit Risk tables.

EU MR1 Market Risk under Standardised Approach

2018		**RWAs**	**Capital requirements**
	Outright products		
2	Equity risk (general and specific)	1,006	80
3	Foreign exchange risk	-	-
9	**Total Capital Requirement for Market Risk**	**1,006**	**80**

The table above for the year 2018 does not include the minimum capital requirement for Market Risk arising from Collective Investment Undertakings (CIUs) of €94 thousand and RWAs of €1,176 thousand.

5.5.3 Operational Risk

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

The Group uses the Standardised Approach for the operational risk capital calculation.

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

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach amounts to €107,416 thousand (2018: €123,087 thousand).

2019	**Standardised Approach**
	€000
Corporate Finance (CF)	98
Trading and Sales (TS)	7,488
Retail Brokerage (RBr)	109
Commercial Banking (CB)	63,258
Retail Banking (RB)	23,736
Payment and Settlement (PS)	12,324
Agency Services (AS)	357
Asset Management (AM)	46
Total Capital Requirement for Operational Risk	**107,416**

5.5.3 Operational Risk (continued)

2018	Standardised Approach
	€000
Corporate Finance (CF)	119
Trading and Sales (TS)	7,963
Retail Brokerage (RBr)	91
Commercial Banking (CB)	80,506
Retail Banking (RB)	21,239
Payment and Settlement (PS)	12,761
Agency Services (AS)	338
Asset Management (AM)	70
Total Capital Requirement for Operational Risk	**123,087**

5.5.4 Credit Valuation Adjustment (CVA) Risk

CVA captures the credit risk of derivative counterparties not already included in CCR. It calculates the potential loss on derivatives due to increase in the credit spread of the counterparty.

The Standardised Approach has been used to calculate the CVA charge for regulatory purposes in accordance with the requirements of the CRR (Standardised Approach: Articles 381, 382 and 384).

	2019	2018
	€000	€000
Credit Valuation Adjustment (CVA) Capital Requirement	**244**	709

The decrease in the capital requirements relates to a decrease in derivative exposure values.

5.5.5 EU INS1 Non - deducted participations in insurance undertakings

	Carrying amount	Carrying amount
	2019	2018
	€000	€000
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	**24,994**	91,050
Total RWAs	**62,485**	227,626

5.6 Leverage

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

The leverage ratio of the Group is calculated using two capital measures:
(a) T1 capital: fully phased-in definition.
(b) T1 capital: transitional definition.

As a result, two leverage ratios are calculated.

5.6 Leverage (continued)

As at 31 December 2019, the leverage ratio of the Group was 10.10% (2018: 9.45%) on a transitional basis and 8.95% (2018: 7.97%) using a fully phased-in definition of T1. This ratio is well above the 3% limit.

Table LRQua: Free format text boxes for disclosure on qualitative items

<table>
<tr><td>Description of the processes used to manage the risk of excessive leverage</td><td>This internal leverage ratio is very conservative compared to the required minimum ratio set at 3% and comes into effect on 28 June 2021 and it is monitored at least quarterly by ExCo and by RC. Under the current CRR there is no pre-set minimum leverage ratio. The following risk levels will be used for exposures reporting and monitoring based on the fact that the risk appetite is to have low leverage levels.
<table>
<tr><th>Leverage Ratio</th><th>Level</th><th>Required Actions</th></tr>
<tr><td>>9%</td><td>Green Light</td><td>No change in plans or actions.</td></tr>
<tr><td>6%-9%</td><td>Yellow Light</td><td>Demonstrate in the business plan lower levels in the coming 6m.</td></tr>
<tr><td><6%</td><td>Red Light</td><td>Immediate action to return to yellow levels within 3m and green within 9m.</td></tr>
</table></td></tr>
<tr><td>Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers</td><td>The overall leverage ratio has increased despite the decrease in “Tier 1 capital” (see Section 5.1) due to the comparatively higher reduction in “Total Exposures”. The movement on the “Total Exposures” is explained in Section 5.6.1 below.

The leverage ratio results are analysed below.</td></tr>
</table>

5.6.1 Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

Rows that are not applicable to the Bank or do not contribute to the applicable amounts have not been included.

		Applicable amounts	
		2019	2018 (restated)
		€000	€000
1	**Total assets as per published financial statements**	**21,122,822**	**22,074,174**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation (1)	(835,952)	(787,181)
	Total assets as per regulatory consolidation	**20,286,870**	**21,286,993**
4	Adjustments for derivative financial instruments	(22,327)	(22,270)
5	Adjustments for Securities Financing Transactions (SFTs)	17,082	20,372
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	700,896	763,959
7	Other adjustments	92,990	1,983
8	**Leverage ratio total exposure measure**	**21,075,511**	**22,051,037**

The decrease in the overall net balance sheet assets was the major driver behind the decrease in the Leverage ratio exposure.

5.6.2 Leverage Ratio Common Disclosure

Rows that are not applicable to the Bank or do not contribute to the applicable amounts have not been included.

		CRR leverage ratio exposures	
		2019	2018 (restated)
	On-balance sheet exposures (excluding derivatives and SFTs)	**€000**	€000
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**20,403,116**	21,444,401
2	Asset amounts deducted in determining Tier 1 capital	**(46,316)**	(180,179)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	**20,356,800**	21,264,222
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**-**	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**733**	2,484
11	Total derivative exposures (sum of lines 4 to 10)	**733**	2,484
	SFT exposures		
14	Counterparty Credit Risk exposure for SFT assets	**17,082**	20,372
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	**17,082**	20,372
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**2,653,906**	2,869,465
18	Adjustments for conversion to credit equivalent amounts	**(1,953,010)**	(2,105,506)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	**700,896**	763,959
	Capital and Total Exposures		
20	Tier 1 capital	**2,129,049**	2,082,739
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	**21,075,511**	22,051,037
	Leverage Ratios		
22	Leverage ratio	**10.10%**	9.45%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	**Transitional**

The overall leverage ratio has increased despite the decrease in "Tier 1 capital – transitional definition" (see Section 5.1) due to the comparatively higher reduction in "Total Exposures". The movement on the "Total Exposures" is explained in Section 5.6.1 above.

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

Rows that are not applicable to the Bank or do not contribute to the applicable amounts have not been included.

		CRR Leverage ratio exposures	
		2019	2018 (restated)
		€000	€000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs exempted exposures), of which:**	**20,356,800**	**21,264,222**
EU-2	**Trading Book exposures**	**-**	**797**
EU-3	**Banking Book exposures, of which:**	**20,356,800**	**21,263,425**
EU-4	Covered bonds	163,331	141,529
EU-5	Exposures treated as sovereigns	6,592,624	5,791,605
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	20,784	20,604
EU-7	Institutions	579,074	565,992
EU-8	Secured by mortgages of immovable properties	3,201,195	2,928,916
EU-9	Retail exposures	1,524,032	1,566,836
EU-10	Corporates	3,305,840	2,942,116
EU-11	Exposures in default	1,896,844	3,298,955
EU-12	Other exposures (e.g. equity, securitisation and other non-credit obligation assets)	3,073,076	4,006,872

For detailed analyses on the movements on banking book exposures, refer to Section 5.5.1 above which provides extensive information on movements between the various exposure classes. The elimination of the Trading book exposures in 2019 is explained in section 5.5.2.

5.7 Comparison of institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs

Template IFRS 9 – FL

		31/12/2019	30/09/2019	30/06/2019	31/03/2019	31/12/2018 (restated)
		€000	€000	€000	€000	€000
1	Common Equity Tier 1 (CET1) capital	1,909,049	1,974,153	1,969,129	1,970,129	1,862,739
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,646,593	1,711,698	1,706,673	1,707,673	1,557,946
3	Tier 1 capital	2,129,049	2,194,153	2,189,129	2,190,129	2,082,739
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,866,593	1,931,698	1,926,673	1,927,673	1,777,946
5	Total Capital	2,319,004	2,391,436	2,389,755	2,410,870	2,294,717
6	Total Capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,075,418	2,148,107	2,146,888	2,148,414	1,989,924
	Risk-weighted assets					
7	Total risk-weighted assets	12,890,003	13,757,700	13,962,068	15,390,159	15,371,777
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12,607,267	13,471,035	13,676,337	15,091,977	15,035,125
	Capital ratios					
9	CET1 (as a percentage of risk exposure amount)	14.8%	14.3%	14.1%	12.8%	12.1%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.1%	12.7%	12.5%	11.3%	10.4%
11	Tier 1 (as a percentage of risk exposure amount)	16.5%	15.9%	15.7%	14.2%	13.5%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.8%	14.3%	14.1%	12.8%	11.8%
13	Total Capital (as a percentage of risk exposure amount)	18.0%	17.4%	17.1%	15.7%	14.9%
14	Total Capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.5%	15.9%	15.7%	14.2%	13.2%
	Leverage ratio					
15	Leverage ratio total exposure measure	21,075,511	21,088,020	21,873,669	21,731,587	22,051,037
16	Leverage ratio	10.1%	10.4%	10.0%	10.1%	9.5%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.9%	9.3%	8.9%	9.0%	8.0%

5.7 Comparison of institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs (continued)

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually over a five year period. The Group has notified its regulator about its election to adopt the transitional arrangements. The amount added back over the transitional period decreases based on a weighting factor of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. The impact of IFRS 9 is fully absorbed after the five year transitional period.

In accordance with the EU Regulation 2017/2395, a bank can choose either a 'Static' or a 'Static and Dynamic' approach. These are defined as follows:

1. A 'Static' approach: calculating the transitional adjustment just once, at the effective date of the transition to ECL accounting.
2. A 'Static-dynamic' approach: allows for recalculation of the transitional adjustment periodically on Stage 1 and Stage 2 so as to reflect the increase of the ECL provisions within the transition period. The stage 3 ECL remains static over the transition period as per the impact upon initial recognition.

The Group has elected the Static-Dynamic approach and it therefore applies paragraph 4 of Article 473(a) of the CRR.

The RWAs decreased during the year due to Project Helix Transaction (30/06/2019), the), the disposal of the associate CNP Cyprus Insurance Holdings Ltd (31/12/2019) and the increased provisioning, curing and repayments/settlements in customer loans (31/12/2019).

The overall leverage ratio which is well above the minimum ratio set by Basel II has increased despite the decrease in "Tier 1 capital" due to the comparatively higher reduction in "Leverage ratio total exposure measure". The leverage ratio exposure measure follows the movements in the Bank's balance sheet assets.

The leverage ratio is analysed in section 5.6.3.

6. Pillar I Requirements

6.1 Counterparty Credit Risk (CCR)

CCR arises from the possibility a counterparty failing to perform on an obligation arising from derivative transactions and SFTs such as repurchase agreements.

The exposure values for SFTs and derivative transactions have been calculated by applying respectively the "Financial Collateral Comprehensive Method" and the Mark-to-Market Method of the CRR. Total exposures values are analysed in template 26 EU CCR2 below.

6.1.1 Internal Capital and Credit Limits for Counterparty Credit Exposures

The model, which was approved by the BoD, sets maximum limits for financial institutions, based on their credit rating and T1 capital base or the Bank's T1 capital base, in case it is lower. Afterwards, an internal scoring system is applied that considers qualitative and quantitative factors such as:

- Asset Risk
- Capital adequacy
- Profitability
- Liquidity
- Market share
- Ownership strength
- Rating Outlook
- Country Rating

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

Two types of limits are monitored:

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

Allocated MM limits are set for a short duration, unless they are used for independent amounts (as defined in the Credit Support Annex (CSA) agreement) or collateral. Limits for derivative transactions are assigned to counterparties with a CSA agreement in place. Allocated derivative limits with counterparties that have not signed a CSA can also be approved following ALCO approval.

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

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.

Risk Reporting and measurement system for Counterparty Credit Risk
Counterparty credit and settlement limits, explained above, for Treasury transactions are monitored real-time through the bank's front to back system. Any violations appear on a window and one can drill down to the deal causing the violation. Also, in the case of a violation, an automatic e-mail is sent to the dealers and MR Officers with an attached report with all the necessary details of the deal created the violation.

6.1.2 Policies for Securing Collateral and Establishing Credit Reserves

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

The responsibilities of the collateral management team are as follows:
(a) Handling collateral valuations and margin calls (for derivatives).
(b) Maintain relevant data and liaise with counterparties regarding issues of collaterals.

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

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

The Group has chosen the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement for contracting its derivatives activity. These agreements provide 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. They may also reduce settlement exposure (e.g. for FX transactions) by allowing same-day same-currency payments to be set-off against one another. 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. CSAs further mitigate risk by allowing collateral to be posted on a regular basis to collateralise the mark to market exposure of a net derivative portfolio. For uncleared derivative trades, the Group trades under Variation Margin CSA agreements in line with European Markets Infrastructure Regulation (EMIR) margining provisions whereby thresholds have been set to zero and collateral exchange is carried out on a daily basis following the netting of exposures on a T+1 basis.

For derivative trades which are eligible for clearing, the Group trades under ISDA Cleared Derivatives Execution Agreement (CDEA) agreements with its counterparties so that eligible trades are cleared centrally with London Clearing House of Central Clearing Counterparty (LCH CCP).

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

As at 31 December 2019, the Group had signed the CSA part of the ISDA Master Agreement with 28 counterparties (2018: 28 counterparties) and Global Master Repurchase Agreements (GMRAs) with 11 counterparties (2018: 4 counterparties). The Group has an agreement in place with a QCCP since 2018. As at 31 December 2019, the Group maintained exposures with CSA with 14 counterparties (2018: 14 counterparties) and exposures under GMRA with 2 counterparties (2018: 4 counterparties).

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

The following table presents the total amounts that were transferred to (where the indicated amount is negative) or obtained from (where the indicated amount is positive) counterparties as a result of reaching the threshold amounts of 11 of the counterparties (2018: 11 counterparties) for CSAs and 2 of the counterparties (2018: 4 counterparties) for GMRAs, as at 31 December:

	2019	2018
	€000	€000
Total Positive	**470**	12,220
Total Negative	**(41,104)**	(42,631)
Total	**(40,634)**	(30,411)

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

EU CCR5-B - Composition of collateral for exposures to Counterparty Credit Risk

2019	**Collateral used in derivative transactions**				**Collateral used in SFTs**	
	Fair value of collateral received		**Fair value of posted collateral**		**Fair value of collateral received**	**Fair value of posted collateral**
	Segregated	**Unsegregated**	**Segregated**	**Unsegregated**		
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Cash	**-**	**470**	**28,610**	**7,907**	**-**	**4,587**
Total	**-**	**470**	**28,610**	**7,907**	**-**	**4,587**

2018						
Cash	12,020	200	-	27,947	-	14,684
Total	12,020	200	-	27,947	-	14,684

Increase in Mark to Market losses of the outstanding derivative transactions since last reporting date; translate into higher posted amount in the case of derivatives. The lower posted amounts in SFTs are as a result of REPO maturities.

6.1.3 Policies with Respect to Wrong-Way Risk Exposures

Wrong way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Group's derivative transactions) have an adverse impact on the Probability of Default (PD) of a counterparty. This risk is not currently measured as it is not anticipated to be significant given that the bulk of the deals are cleared with the bank's QCCP and the existence of CSAs for almost all the uncleared derivative transactions, with daily settlement of margins that significantly reduce credit risk resulting in a total accounting CVA charge equal to only €539 thousand (2018: €321 thousand) and a net credit exposure from Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements of €150 thousand (2018: €1,069 thousand).

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

As at 31 December 2019, 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. Currently, no CSA agreement is linked to the credit ratings of the involved parties. Thus, no additional collateral is expected to be required, as at 31 December 2019, in the event of a downgrade.

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

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

Gross positive fair value	**2019**	2018
	€000	€000
Cyprus and Group	**23,040**	24,734

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	**2019**	2018
	€000	€000
Cyprus and Group	**620**	13,289

Net derivative credit exposure	**2019**	2018
	€000	€000
Cyprus and Group	**150**	1,069

The net credit exposure of Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements, is presented in the table below. Collateral received through the CSA agreements from counterparties as at December 2019 was €470 thousand (2018: €12,220 thousand).

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

	Gross positive fair value or net carrying amount	**Netting benefits**	**Netted current credit exposure**	**Collateral held**	**Net credit exposure**
2019	**€000**	**€000**	**€000**	**€000**	**€000**
Derivatives	**23,040**	**22,420**	**620**	**470**	**150**
SFTs	**17,737**	**-**	**17,737**	**-**	**17,737**
Cross-product netting	-	-	-	-	-
Total	**40,777**	**22,420**	**18,357**	**470**	**17,887**
2018					
Derivatives	24,734	11,445	13,289	12,220	1,069
SFTs	25,601	-	25,601	-	25,601
Cross-product netting	-	-	-	-	-
Total	50,335	11,445	38,890	12,220	26,670

6.1.6 Mark-to-Market Method for Derivatives and Financial Collateral Comprehensive Approach for Security Financing Transactions

Derivative exposure values are calculated by applying the Mark-to-market Method of the CRR whereby the exposure value is the sum of:

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

6.1.6 Mark-to-Market Method for Derivatives and Financial Collateral Comprehensive Approach for Security Financing Transactions (continued)

Potential future credit exposure: Add-on amount equal to a percentage of the nominal amount of each deal based on its remaining maturity and the type of contract.

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

Where the derivatives are under ISDA, article 298 of the CRR is applied whereby the single derivative exposure values under the particular agreement are netted in the manner described by paragraph 1(c) of article 298 of the CRR.

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.

SFT exposure values are calculated by applying the Financial Collateral Comprehensive Approach of the CRR and the appropriate supervisory volatility adjustments whereby the exposure value is net of:

- Security value posted as collateral which is the sum of its book value and an appropriate add-on based on supervisory volatility adjustments. The appropriate supervisory volatility adjustments are based on the type of security, its issuer, their external credit assessment and their residual maturity.
- The cash received under the repurchase agreement transaction.

Only Cyprus has derivative and SFT transactions. All SFT transactions are performed with Institutions.

	2019	2018
	€000	€000
Institutions	**17,737**	27,693
Corporates	**718**	389
Retail	**15**	4
Total	**18,470**	28,086

The table below shows the analysis of CCR per approach. All rows and columns that are not relevant to the institution's activities or methods applied are not included.

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

	Notional	**Replacement cost/current market value**	**Potential future credit exposure**	**Effective expected positive exposure (EEPE)**	**Multiplier**	**Exposure at Default (EAD) post Credit Risk Mitigation (CRM)**	**RWAs**
2019	**€000**	**€000**	**€000**	**€000**		**€000**	**€000**
Mark to market		620	8,385			733	699
Financial collateral comprehensive method (for SFTs)						17,737	8,869
Total							**9,568**
2018							
Mark to market		13,289	13,975			2,484	1,195
Financial collateral comprehensive method (for SFTs)						25,601	12,801
Total							**13,996**

6.1.6 Mark-to-Market Method for Derivatives and Financial Collateral Comprehensive Approach for Security Financing Transactions (continued)

The decrease in the RWAs in derivative transactions under the mark-to-market method stems from decreased exposure values due to increased CRM. The decrease in the SFT RWAs under the financial collateral comprehensive method stems from the overall decrease in balance sheet values in SFT transactions.

6.1.7 CCR exposures by regulatory portfolio and risk

The table below provides a breakdown of CCR exposures, calculated under the Standardised Approach, by portfolio (type of counterparties) and by risk weight. All rows and columns that are not relevant to the institution's activities are not included.

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

Exposure classes		Risk weight				Total	Of which unrated
		20%	50%	75%	100%		
2019		**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
6	Institutions	-	17,737	-	-	17,737	-
7	Corporates	-	-	-	718	718	718
8	Retail	-	-	15	-	15	15
11	**Total**	**-**	**17,737**	**15**	**718**	**18,470**	**733**
2018							
6	Institutions	525	27,168	-	-	27,693	-
7	Corporates	-	-	-	389	389	389
8	Retail	-	-	4	-	4	4
11	**Total**	**525**	**27,168**	**4**	**389**	**28,086**	**393**

The allocation of exposure values among exposure classes remains unchanged. The overall decrease among the values is the result of decreased exposure values from derivatives due to increased CRM and the decrease in SFT exposure values from decreased balance sheet values in SFT transactions.

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

All derivatives the bank enters are for hedging purposes and they are included in the banking book.

The exposure values of derivatives are calculated as described in Section 6.1.6.

The notional amounts and current credit exposure for all derivative types that the bank has positions are analysed in the table below:

Type of derivative 2019	Hedged against				Total
	Bond	Net Assets	Balance Sheet	Interest Rate Risk	
Notional Amounts	**€000**	**€000**	**€000**	**€000**	**€000**
Interest Rate Swap	1,020,426	-	54,061	214,097	**1,288,584**
Interest Rate Option	-	-	34,871	1,100,000	**1,134,871**
Exchange Rate Forward	-	94,824	21,521	-	**116,345**
Exchange Rate Swap	-	-	1,180,271	-	**1,180,271**
Exchange Rate Option	-	-	1,800	-	**1,800**
Total Notional amounts	**1,020,426**	**94,824**	**1,292,524**	**1,314,097**	**3,721,871**
Exposure Values					
Interest Rate Swap	2,665	-	316	166	**3,147**
Interest Rate Option	-	-	122	378	**500**
Exchange Rate Forward	-	379	236	-	**615**
Exchange Rate Swap	-	-	4,721	-	**4,721**
Exchange Rate Option	-	-	22	-	**22**
Total Exposure values	**2,665**	**379**	**5,417**	**544**	**9,005**
2018					
Notional Amounts					
Interest Rate Swap	1,016,083	-	57,652	-	**1,073,735**
Interest Rate Option	-	-	-	1,650,000	**1,650,000**
Exchange Rate Forward	-	71,878	14,813	-	**86,691**
Exchange Rate Swap	-	17,152	1,214,401	-	**1,231,553**
Exchange Rate Option	-	-	12,704	-	**12,704**
Total Notional amounts	**1,016,083**	**89,030**	**1,299,570**	**1,650,000**	**4,054,683**
Exposure Values					
Interest Rate Swap	16,992	-	267	-	**17,259**
Interest Rate Option	-	-	-	4,568	**4,568**
Exchange Rate Forward	-	288	117	-	**405**
Exchange Rate Swap	-	69	4,864	-	**4,933**
Exchange Rate Option	-	-	98	-	**98**
Total Exposure values	**16,992**	**357**	**5,346**	**4,568**	**27,263**

The decrease in the exposure values results from increased QCCP clearing and the reduction in the Interest Rate Floor notional.

6.1.9 Regulatory CVA charge for capital calculation

All rows that are not relevant to the institution's activities or methods applied are not included.

EU CCR2 - CVA capital charge

2019		**Exposure value**	**RWAs**
		€000	**€000**
4	All portfolios subject to the Standardised method	18,470	3,050
5	**Total subject to the CVA capital charge**	**18,470**	**3,050**

2018		**Exposure value**	**RWAs**
		€000	**€000**
4	All portfolios subject to the Standardised method	28,086	8,863
5	**Total subject to the CVA capital charge**	**28,086**	**8,863**

The decrease in the exposure value is the result of a decrease in both derivative transactions (2019: €733 thousand, 2018: €2,484 thousand) and SFTs (2019: €17,737 thousand, 2018: €25,601 thousand).

6.2 Group's Exposure to Credit Risk and ECL

The following sections provide an analysis of past due and credit impaired loans, exposures post-value adjustments (before and after applying CRM and CCF) and ECL of loans and advances.

6.2.1 Past Due and Credit Impaired Loans

Past due and credit impaired loans
Past due loans are those with delayed payments or in excess of authorised credit limits.

The Group considers loans and advances to customers that meet the NPE definition as per EBA standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

The definitions of credit impaired and default are aligned so that Stage 3 represents all loans which are considered defaulted or otherwise credit impaired. When a financial asset has been identified as credit impaired, are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

Additional details on credit impaired loans and the definition of default are disclosed in Note 2.19.2 of the Consolidated Financial Statements of the Company for 2019.

Impairment of loans and advances to customers
The Group uses a forward looking ECL model, requiring judgement, estimates and assumptions in determining the level of ECLs. ECLs are recorded for all financial assets measured at amortised cost.

At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), unless assets are deemed as POCI. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). The Group's policy for determining if there has been a significant increase in credit risk is disclosed in Note 2.19.3 of the Consolidated Financial Statements of the Company for 2019.

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

6.2.1 Past Due and Credit Impaired Loans (continued)

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

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

Stage 3: Financial assets which are considered to be credit-impaired and lifetime losses are recognised.

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

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet.

The Group's policy on the impairment of financial assets is disclosed in Note 2.19 and the significant judgements, estimates and assumptions on the calculation of ECL are disclosed in Note 5.2 of the Consolidated Financial Statements of the Company for 2019.

6.2.2 Total and average amount of net exposures

The average corresponds to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of CCF. Value adjustments refer to specific credit risk adjustments, additional value adjustments to reflect the fair value of the asset and other own funds reductions on specific asset items.

Net exposures, mainly in exposure classes "Exposures in default" and "Items associated with particularly high risk", are affected by the implementation of the IFRS 9 transitional arrangements under article 473(a) of the CRR on 1 January 2018 whereby provisions held against assets are decreased by a ratio predefined under article 473(a) of the CRR. It results in increased net exposures compared to balance sheet amounts. The adjustment affects both on and off-balance sheet items on which provisions are allocated. As at 31 December 2019 the transitional adjustment was €262,456 thousand (2018: €304,793 thousand on transition 01 January 2018). The amount will be fully phased out in a predefined by the CRR manner until 1 January 2023.

Exposure classes that are not relevant to the Group's activities are not included.

6.2.2 Total and average amount of net exposures (continued)

EU CRB-B Total and average net amount of exposures

	Net exposures at 31 December 2019	Average net exposures 2019
	€000	€000
Central governments or central banks	6,147,361	5,819,003
Regional governments or local authorities	129,451	137,020
Public sector entities	82,439	56,659
Multilateral development banks	112,144	114,458
International organisations	107,307	107,659
Institutions	657,243	707,975
Corporates	4,446,821	4,374,341
Of which: SMEs	*2,765,282*	*2,686,124*
Retail	2,533,994	2,571,297
Of which: SMEs	*733,414*	*747,853*
Secured by mortgages on immovable property	3,278,570	3,128,568
Of which: SMEs	*744,496*	*713,522*
Exposures in default	2,075,020	2,542,616
Items associated with particularly high risk	1,192,328	1,311,259
Covered bonds	163,331	167,553
Collective investments undertakings	205	354
Equity exposures	33,745	113,785
Other exposures	1,995,122	2,211,745
Total Standardised Approach	***22,955,081***	***23,364,292***
Total	**22,955,081**	**23,364,292**

6.2.2 Total and average amount of net exposures (continued)

EU CRB-B Total and average net amount of exposures

	Net exposures at 31 December 2018 (restated)	**Average net exposures 2018** (restated)
	€000	**€000**
Central governments or central banks	5,411,361	4,787,178
Regional governments or local authorities	125,380	104,014
Public sector entities	38,037	35,309
Multilateral development banks	95,974	67,568
International organisations	107,988	62,236
Institutions	687,454	965,409
Corporates	4,165,748	4,373,717
Of which: SMEs	*2,429,590*	*2,762,906*
Retail	2,540,366	2,714,001
Of which: SMEs	*763,991*	*797,455*
Secured by mortgages on immovable property	3,039,631	3,509,503
Of which: SMEs	*647,522*	*1,187,949*
Exposures in default	3,550,740	3,769,753
Items associated with particularly high risk	1,682,216	1,817,979
Covered bonds	141,529	139,833
Collective investments undertakings	172	208
Equity exposures	110,547	119,443
Other exposures	2,402,743	2,347,906
Total Standardised Approach	***24,099,886***	***24,814,057***
Total	**24,099,886**	**24,814,057**

The main drivers behind the changes in the net exposures and average net exposures are analysed in section 5.5.1 above.

6.2.3.1 Breakdown of exposures by geographical areas and exposure classes

The net value relates to amounts post value adjustments but before the application of CCF. Value adjustments refer to specific credit risk adjustments, additional value adjustments to reflect the fair value of the asset and other own funds reductions related to specific asset items. The country or geographical area in which the exposure is classified is driven by the country of residence/incorporation of the counterparty.

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

Exposure classes that are not relevant to the Group's activities are not included.

EU CRB-C Geographical breakdown of exposures

2019	EU countries	Cyprus	United Kingdom	France	Greece	Other EU countries[10]	Other geographical areas	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	6,126,885	5,835,957	13,416	185,223	5,149	87,140	20,476	**6,147,361**
Regional governments or local authorities	75,488	66,452	-	-	-	9,036	53,963	**129,451**
Public sector entities	82,439	745	-	22,910	-	58,784	-	**82,439**
Multilateral development banks	-	-	-	-	-	-	112,144	**112,144**
International organisations	-	-	-	-	-	-	107,307	**107,307**
Institutions	461,700	27,972	61,590	82,495	3,718	285,925	195,543	**657,243**
Corporates	4,232,901	3,891,241	24,973	13,608	211,358	91,721	213,920	**4,446,821**
Retail	2,509,462	2,471,255	29,187	305	4,649	4,066	24,532	**2,533,994**
Secured by mortgages on immovable property	3,226,381	3,159,601	54,693	311	5,937	5,839	52,189	**3,278,570**
Exposures in default	1,998,246	1,886,035	82,954	45	11,573	17,639	76,774	**2,075,020**
Items associated with particularly high risk	1,158,680	1,092,136	37,642	4,645	8,848	15,409	33,648	**1,192,328**
Covered bonds	34,043	-	-	-	-	34,043	129,288	**163,331**
Collective investments undertakings	205	205	-	-	-	-	-	**205**
Equity exposures	33,745	33,136	-	-	472	137	-	**33,745**
Other exposures	1,987,586	1,848,876	29,575	-	99,031	10,104	7,536	**1,995,122**
Total Standardised Approach	***21,927,761***	***20,313,611***	***334,030***	***309,542***	***350,735***	***619,843***	***1,027,320***	***22,955,081***
Total	**21,927,761**	**20,313,611**	**334,030**	**309,542**	**350,735**	**619,843**	**1,027,320**	**22,955,081**

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

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

EU CRB-C Geographical breakdown of exposures

2018 (restated)	EU countries	Cyprus	United Kingdom	France	Greece	Other EU countries[11]	Other geographical areas	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	1,072,888	699,222	13,068	269,379	12,367	78,852	4,338,473	**5,411,361**
Regional governments or local authorities	71,507	71,507	-	-	-	-	53,873	**125,380**
Public sector entities	38,037	9,011	-	13,312	-	15,714	-	**38,037**
Multilateral development banks	-	-	-	-	-	-	95,974	**95,974**
International organisations	-	-	-	-	-	-	107,988	**107,988**
Institutions	484,458	34,961	122,978	12,897	12,942	300,680	202,996	**687,454**
Corporates	4,064,330	3,884,097	26,580	14,053	83,733	55,867	101,418	**4,165,748**
Retail	2,510,071	2,462,687	38,002	207	4,490	4,685	30,295	**2,540,366**
Secured by mortgages on immovable property	2,989,863	2,922,691	59,735	344	2,423	4,670	49,768	**3,039,631**
Exposures in default	3,444,623	3,294,413	101,262	71	10,469	38,408	106,117	**3,550,740**
Items associated with particularly high risk	1,668,190	1,636,673	1,596	-	13,962	15,959	14,026	**1,682,216**
Covered bonds	27,224	1	-	-	-	27,223	114,305	**141,529**
Collective investments undertakings	172	172	-	-	-	-	-	**172**
Equity exposures	110,547	109,999	-	-	381	167	-	**110,547**
Other exposures	2,392,434	2,200,882	57,996	-	120,431	13,125	10,309	**2,402,743**
Total Standardised Approach	***18,874,344***	***17,326,316***	***421,217***	***310,263***	***261,198***	***555,350***	***5,225,542***	***24,099,886***
Total	**18,874,344**	**17,326,316**	**421,217**	**310,263**	**261,198**	**555,350**	**5,225,542**	**24,099,886**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1 and they relate to Cyprus. The decreased observed in "Other geographical areas" relates to the transfer between balances with ECB included in Other geographical areas, to balances with the Central Bank of Cyprus (CBC) included in Cyprus and EU countries.

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

6.2.3.2 Concentration of exposures by industry and exposure classes

The net exposures relate to amounts post value adjustments but before the application of CCF. "Other services" include exposures to private individuals, activities of extraterritorial organisations and bodies, other services activities, and financial and insurance activities.

The materiality of industry sectors has been determined using the following threshold: All industry groups that do not exceed 1% of total net exposures have been included in column "Other" and all exposure classes that do not exceed 1% of total net exposures have been included in row "Other". The industry groups that for 2019 have been included in "Other" are Agriculture, forestry and fishing; Mining and quarrying; Electricity, gas, steam and air conditioning supply; Water supply Information and communication; Human health services and social work activities; Education and arts; Entertainment and recreation; and "Administrative and support service activities".

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

EU CRB-D Concentration of exposures by industry

	Manufacturing	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Real estate activities	Professional, scientific and technical activities	Public administration and defence, compulsory social security	Other services	Other	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	6,147,361	-	-	**6,147,361**
Institutions	-	-	-	-	-	-	-	-	657,243	-	**657,243**
Corporates	302,590	223,916	843,000	322,900	959,259	733,337	273,595	55	341,469	446,700	**4,446,821**
Of which SMEs	*205,637*	*147,989*	*459,703*	*200,045*	*715,069*	*579,302*	*89,829*	*55*	*57,794*	*312,335*	***2,767,758***
Retail	89,710	96,847	312,645	27,057	45,236	33,150	99,357	14	1,645,272	184,706	**2,533,994**
Of which SMEs	*84,988*	*88,811*	*290,150*	*22,349*	*38,994*	*30,944*	*57,645*	*3*	*1,304*	*118,225*	***733,413***
Secured by mortgages on immovable property	112,657	89,343	338,965	37,534	74,128	123,513	102,751	-	2,220,934	178,745	**3,278,570**
Of which SMEs	*94,338*	*56,479*	*258,002*	*13,685*	*49,315*	*113,546*	*65,561*	-	*5,509*	*88,059*	***744,494***
Exposures in default	80,261	169,670	273,349	15,666	50,050	56,015	72,613	5	1,190,728	166,663	**2,075,020**
Items associated with particularly high risk	984	678,027	29,611	-	42,208	299,981	10,183	-	129,431	1,903	**1,192,328**
Other exposures	-	55,485	-	-	-	703,165	-	-	1,236,472	-	**1,995,122**
Other	1,712	-	30	552	3	89	-	236,827	389,221	188	**628,622**
Total Standardised Approach	***587,914***	***1,313,288***	***1,797,600***	***403,709***	***1,170,884***	***1,949,250***	***558,499***	***6,384,262***	***7,810,770***	***978,905***	***22,955,081***
Total	**587,914**	**1,313,288**	**1,797,600**	**403,709**	**1,170,884**	**1,949,250**	**558,499**	**6,384,262**	**7,810,770**	**978,905**	**22,955,081**

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

EU CRB-D Concentration of exposures by industry

	Manufacturing	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Other services	Other	Total
2018 (restated)	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	-	5,411,361	-	-	**5,411,361**
Institutions	-	-	-	-	-	-	-	-	-	687,454	-	**687,454**
Corporates	274,799	244,425	841,074	231,020	926,502	542,065	243,965	73,979	-	424,127	363,792	**4,165,748**
Of which SMEs	*188,913*	*140,340*	*498,469*	*109,334*	*589,577*	*450,267*	*70,495*	*53,882*	-	*75,137*	*257,272*	***2,433,686***
Retail	93,534	101,351	326,519	23,289	45,389	35,365	103,775	59,847	32	1,623,093	128,172	**2,540,366**
Of which SMEs	*88,614*	*93,950*	*302,531*	*18,986*	*38,816*	*32,100*	*62,852*	*45,971*	*20*	*1,874*	*78,276*	***763,990***
Secured by mortgages on immovable property	107,249	74,313	332,581	33,564	60,432	78,260	101,804	47,098	-	2,090,226	114,104	**3,039,631**
Of which SMEs	*90,689*	*44,249*	*241,810*	*11,950*	*36,195*	*72,698*	*69,258*	*25,403*	-	*5,091*	*50,179*	***647,522***
Exposures in default	185,871	369,918	516,041	29,142	230,312	226,107	141,362	69,015	437	1,582,454	200,081	**3,550,740**
Items associated with particularly high risk	1,941	1,093,849	23,761	393	29,961	394,662	13,321	1,862	-	105,625	16,841	**1,682,216**
Other exposures	-	55,783	-	-	-	845,967	-	-	-	1,500,993	-	**2,402,743**
Other	1,606	-	24	8,859	2	110	-	1	233,418	375,453	154	**619,627**
Total Standardised Approach	***665,000***	***1,939,639***	***2,040,000***	***326,267***	***1,292,598***	***2,122,536***	***604,227***	***251,802***	***5,645,248***	***8,389,425***	***823,144***	***24,099,886***
Total	**665,000**	**1,939,639**	**2,040,000**	**326,267**	**1,292,598**	**2,122,536**	**604,227**	**251,802**	**5,645,248**	**8,389,425**	**823,144**	**24,099,886**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they relate to "Construction", "Wholesale and retail trade", "Other services" and "Public administration and defense, compulsory social security".

The contribution from the industry "Administrative and support service activites" fell below the 1% materiality threshold and was included in industry "Other" in 31 December 2019 table.

6.2.4 Net exposures by residual maturity and exposure classes

The net exposures relate to amounts post value adjustments but before the application of CCF. Exposures for which the counterparty has a choice of when an amount is repaid (e.g. current accounts) have been assigned to column "On demand". Exposures for which there is no stated maturity (e.g. tangible assets) have been assigned to column "No stated maturity".

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

EU CRB–E Maturity of exposures

2019	Net exposure value					
	On demand	**<=1 year**	**>1 year <=5 years**	**> 5 years**	**No stated maturity**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	1,263,246	3,891,639	352,112	640,364	-	**6,147,361**
Institutions	130,883	250,361	216,284	59,715	-	**657,243**
Corporates	1,566,168	322,715	612,897	1,945,041	-	**4,446,821**
Retail	1,146,318	65,367	228,354	1,093,955	-	**2,533,994**
Secured by mortgages on immovable property	173,396	43,569	255,550	2,806,055	-	**3,278,570**
Exposures in default	272,564	1,122,296	94,300	585,860	-	**2,075,020**
Items associated with particularly high risk	105,912	243,292	429,920	363,229	49,975	**1,192,328**
Other exposures	-	-	-	-	1,995,122	**1,995,122**
Other	12,643	127,325	400,933	53,771	33,950	**628,622**
Total Standardised Approach	***4,671,130***	***6,066,564***	***2,590,350***	***7,547,990***	***2,079,047***	***22,955,081***
Total	**4,671,130**	**6,066,564**	**2,590,350**	**7,547,990**	**2,079,047**	**22,955,081**

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

EU CRB–E Maturity of exposures

2018 (restated)	**Net exposure value**					
	On demand	**<=1 year**	**>1 year <=5 years**	**> 5 years**	**No stated maturity**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	141,532	4,408,270	476,202	252,254	133,103	5,411,361
Institutions	184,331	302,132	131,615	69,376	-	687,454
Corporates	1,255,066	309,654	468,918	2,132,110	-	4,165,748
Retail	1,179,835	68,628	222,661	1,069,242	-	2,540,366
Secured by mortgages on immovable property	157,774	36,613	252,533	2,592,711	-	3,039,631
Exposures in default	437,687	1,532,290	259,468	1,321,295	-	3,550,740
Items associated with particularly high risk	139,537	535,633	562,364	421,061	23,621	1,682,216
Other exposures	-	-	-	-	2,402,743	2,402,743
Other	12,550	19,145	286,321	190,892	110,719	619,627
Total Standardised Approach	***3,508,312***	***7,212,365***	***2,660,082***	***8,048,941***	***2,670,186***	***24,099,886***
Total	**3,508,312**	**7,212,365**	**2,660,082**	**8,048,941**	**2,670,186**	**24,099,886**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they relate to "<=1 year", ">5 years", "No stated maturity" and "On demand".

6.2.5 Impaired and Past Due Exposures before Credit Risk Mitigation and after applying credit conversion factors by Economic Activity

	Stage 2		Stage 3	Total
	> 1 dpd and < 90 dpd	> 90 dpd		
2019	**€000**	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	1,109	2	26,272	27,383
Mining and quarrying	-	9	20,027	20,036
Manufacturing	2,684	1	80,063	82,748
Electricity, gas, steam and air-conditioning supply	11	-	2,298	2,309
Water supply	112	-	1,867	1,979
Construction	7,667	4	293,794	301,465
Wholesale and retail trade	15,738	27	286,122	301,887
Transportation and storage	779	1	15,666	16,446
Accommodation and food service activities	2,490	15	50,508	53,013
Information and communication	799	1	11,111	11,911
Real estate activities	4,904	2	171,128	176,034
Professional, scientific and technical activities	4,302	29	80,706	85,037
Administrative and support service activities	2,628	22	51,904	54,554
Public administration and defence; compulsory social security	5	-	5	10
Education	465	4	21,540	22,009
Human health and social work activities	1,486	1	16,296	17,783
Arts, entertainment and recreation	1,847	1	15,504	17,352
Other service activities	81,007	1,334	1,211,124	1,293,465
Total	**128,033**	**1,453**	**2,355,935**	**2,485,421**

6.2.5 Impaired and Past Due Exposures before Credit Risk Mitigation and after applying credit conversion factors by Economic Activity (continued)

	Stage 2		Stage 3	Total
	> 1 dpd and < 90 dpd	> 90 dpd		
2018	**€000**	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	1,490	6	47,072	48,568
Mining and quarrying	69	-	44,972	45,041
Manufacturing	7,186	10	183,481	190,677
Electricity, gas, steam and air-conditioning supply	220	1	1,260	1,481
Water supply	319	-	3,103	3,422
Construction	7,237	69	854,318	861,624
Wholesale and retail trade	22,660	88	516,408	539,156
Transportation and storage	670	3	29,354	30,027
Accommodation and food service activities	11,302	32	227,041	238,375
Information and communication	924	8	25,883	26,815
Real estate activities	8,536	52	451,184	459,772
Professional, scientific and technical activities	4,269	35	144,855	149,159
Administrative and support service activities	6,253	69	69,713	76,035
Public administration and defence; compulsory social security	1	-	437	438
Education	328	24	24,862	25,214
Human health and social work activities	2,182	22	24,293	26,497
Arts, entertainment and recreation	698	23	24,493	25,214
Other service activities	73,921	1,966	1,610,193	1,686,080
Total	**148,265**	**2,408**	**4,282,922**	**4,433,595**

6.2.6 Impaired and Past Due Exposures before Credit Risk Mitigation and after applying credit conversion factors by Geographic Area[12]

2019	Stage 2		Stage 3	Total
	> 1 dpd and < 90 dpd	> 90 dpd		
	€000	€000	€000	€000
Cyprus	**116,719**	**1,351**	**2,144,225**	**2,262,295**
Greece	**339**	**11**	**12,164**	**12,514**
United Kingdom	**5,873**	**57**	**83,987**	**89,917**
Romania	**15**	**1**	**25,352**	**25,368**
Other countries	**5,087**	**33**	**90,207**	**95,327**
Total	**128,033**	**1,453**	**2,355,935**	**2,485,421**

2018				
Cyprus	135,039	1,993	4,006,096	4,143,128
Greece	230	129	16,494	16,853
United Kingdom	6,923	27	101,422	108,372
Romania	123	5	49,530	49,658
Other countries	5,950	254	109,380	115,584
Total	148,265	2,408	4,282,922	4,433,595

6.2.7 Exposures covered by Eligible Financial Collateral and Credit Protection

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

Exposure Portfolio	Financial collateral	On-balance sheet netting	Guarantees	Other funded Credit Protection	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	10	-	-	**10**
Corporates	181,851	26,490	17,361	19	**225,721**
Exposures in default	17,129	1,637	3,472	243	**22,481**
Institutions	8,569	2	1,777	-	**10,348**
Items associated with particularly high risk	98,751	26,805	8	-	**125,564**
Public sector entities	527	22	-	-	**549**
Regional governments or local authorities	2,635	15,475	33,075	-	**51,185**
Retail	215,976	85,782	7,754	480	**309,992**
Secured by mortgages on immovable property	30,442	63,544	20,331	31	**114,348**
Total	**555,880**	**219,767**	**83,778**	**773**	**860,198**

[12] Country of residence of the obligor.

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

Exposure Portfolio	Financial collateral	On-balance sheet netting	Guarantees	Other funded Credit Protection	Total
2018	**€000**	**€000**	**€000**	**€000**	**€000**
Corporates	154,398	20,738	17,831	-	**192,967**
Exposures in default	24,876	3,729	3,398	13	**32,016**
Institutions	25,646	1	-	-	**25,647**
Items associated with particularly high risk	136,223	32,522	4	-	**168,749**
Public sector entities	517	24	-	-	**541**
Regional governments or local authorities	2,853	14,392	38,149	-	**55,394**
Retail	188,138	92,890	8,598	-	**289,626**
Secured by mortgages on immovable property	28,772	67,941	19,801	-	**116,514**
Total	**561,423**	**232,237**	**87,781**	**13**	**881,454**

"Financial collateral" includes, at its majority, cash collateral, equities traded in the main index and government debt securities. It includes the effects of master-netting agreements covering SFTs, €8,272 thousand (2018: €24,799 thousand) all of which are allocated in exposure portfolio "Institutions". On-balance sheet netting and master-netting agreements are explained in Section 6.6 below. "Guarantees" include guarantees received from banks, the Government of Cyprus and the European Investment Fund. "Other funded credit protection" refers to cash on deposit with third party institutions in a non-custodial arrangement and pledged to the lending institution. Its treatment is effectively the same as that of guarantees.

6.2.8.1 Credit quality of exposures by exposure class and instrument

The gross carrying value relates to the contractual balances before any impairments made via an allowance or via a direct reduction in the carrying amount according to the applicable accounting framework. Column (c) represents the value adjustment used in the calculation of the RWAs while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) includes changes in column (c) between the current and the previous year calculated at exposure class level. Column (c) represents the IFRS 9 transitional specific credit risk adjustment values, calculated under article 473(a) of the CRR, which results in decreased provisions used for RWAs purposes compared to the provisions reported in the Consolidated balance sheet of the Group.

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

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

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

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

	a	b	c	D	e	f	g
31 December 2019	**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	6,148,482	1,121	-	-	(167)	6,147,361
Institutions	94,362	631,336	94,463	-	94,361	343	631,235
Corporates	1,980,168	4,510,952	1,510,104	-	1,015,450	(2,989,983)	4,981,016
Of which: SMEs	*939,586*	*2,813,177*	*718,631*	-	*454,454*	*(2,630,529)*	*3,034,132*
Retail	2,377,876	2,575,805	1,805,846	-	960,359	(156,508)	3,147,835
Of which: SMEs	*588,605*	*740,736*	*444,191*	-	*245,646*	*(49,806)*	*885,150*
Secured by mortgages on immovable property	1,095,592	3,313,286	204,059	-	91,147	2,135	4,204,819
Of which: SMEs	*189,552*	*751,264*	*38,611*	-	*17,862*	*(20,763)*	*902,205*
Exposures in default	*5,547,999*	-	*3,472,979*	-	-	*(3,123,512)*	*2,075,020*
Items associated with particularly high risk	785,024	921,340	514,036	-	342,719	(1,516,012)	1,192,328
Other exposures	-	2,050,695	55,573	-	-	55,515	1,995,122
Other	85	630,982	2,444	-	485	(3,022)	628,623
Total Standardised Approach	***6,333,107***	***20,782,878***	***4,187,646***	-	***2,504,521***	***(4,607,699)***	***22,928,339***
Total	**6,333,107**	**20,782,878**	**4,187,646**	-	**2,504,521**	**(4,607,699)**	**22,928,339**
Of which: Loans	6,124,883	16,173,439	4,111,915	-	2,504,521	(4,657,476)	18,186,407
Of which: Debt securities	-	1,665,186	1,159	-	-	(137)	1,664,027
Of which: Off - balance-sheet exposures	208,140	860,189	18,999	-	-	(5,604)	1,049,330

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

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

	a	b	c	d	e	f	g
31 December 2018 (restated)	**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	5,412,649	1,288	-	-	1,287	5,411,361
Institutions	93,631	635,503	94,120	-	93,599	(53,145)	635,014
Corporates	5,969,183	4,254,493	4,500,087	-	2,865,717	(151,115)	5,723,589
Of which: SMEs	*4,368,924*	*2,498,139*	*3,349,160*	-	*2,145,333*	*(97,832)*	*3,517,903*
Retail	2,650,774	2,584,409	1,962,354	-	1,063,717	25,829	3,272,829
Of which: SMEs	*654,062*	*773,422*	*493,997*	-	*258,433*	*(19,925)*	*933,487*
Secured by mortgages on immovable property	1,431,256	3,070,309	201,924	-	97,273	43,359	4,299,641
Of which: SMEs	*378,878*	*654,415*	*59,374*	-	*28,304*	*2,570*	*973,919*
Exposures in default	*10,147,231*	-	*6,596,491*	-	-	*14,976*	*3,550,740*
Items associated with particularly high risk	2,798,700	913,564	2,030,048	-	1,365,411	70,203	1,682,216
Other exposures	-	2,402,801	58	-	-	58	2,402,743
Other	2,554	622,541	5,466	-	2,772	2,307	619,629
Total Standardised Approach	***12,946,098***	***19,896,269***	***8,795,345***	-	***5,488,489***	***(61,217)***	***24,047,022***
Total	**12,946,098**	**19,896,269**	**8,795,345**	-	**5,488,489**	**(61,217)**	**24,047,022**
Of which: Loans	12,653,124	15,037,275	8,769,391	-	5,488,489	(38,895)	18,921,008
Of which: Debt securities	-	1,338,418	1,296	-	-	1,296	1,337,122
Of which: Off - balance-sheet exposures	292,807	887,870	24,603	-	-	(23,673)	1,156,074

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

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they relate to a decrease in Gross carrying values of Defaulted exposures and their corresponding Specific credit adjustments and Accumulated write-offs and to an increase of the Gross carrying values of Non-defaulted exposures.

6.2.8.2 Credit quality of exposures by industry

The gross carrying value relates to the contractual balances before any impairments made via an allowance or via a direct reduction in the carrying amount according to the applicable accounting framework. Column (c) represents the value adjustment used in for the calculation of the RWAs, while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) includes changes in column (c) between the current and the previous year calculated at exposure class level. Column (c) represents the IFRS 9 transitional specific credit risk adjustment values calculated under article 473(a) of the CRR which results in decreased provisions used for RWAs purposes compared to the provisions reported in the Consolidated balance sheet of the Group.

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

Materiality applied: All industry sectors that do not exceed 1% of total net exposures have been included in row "Other". The industry groups that have been included in "Other" are Agriculture, forestry and fishing, Mining and quarrying, Electricity, gas, steam and air conditioning supply, Water supply, Information and communication, Human health services and social work activities, Education and arts and Entertainment and recreation, and Administrative and support service activities.

6.2.8.2 Credit quality of exposures by industry (continued)

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

	a	b	c	d	e	f	g
31 December 2019	**Gross carrying values of**		**Specific risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Manufacturing	240,225	510,417	162,848	-	96,128	(249,905)	587,794
Construction	648,104	1,026,304	361,121	-	210,929	(1,599,589)	1,313,287
Wholesale and retail trade	727,279	1,520,817	450,535	-	231,998	(598,585)	1,797,561
Transport and storage	66,795	388,730	52,135	-	36,853	(89,252)	403,390
Accommodation and food service activities	211,782	1,135,760	176,659	-	128,123	(373,486)	1,170,883
Real estate activities	471,973	1,801,369	324,310	-	228,493	(543,767)	1,949,032
Professional, scientific and technical activities	269,315	486,914	197,729	-	141,197	(302,371)	558,500
Public administration and defence, compulsory social security	6	6,387,818	3,562	-	486	(3,376)	6,384,262
Other services	3,289,065	6,702,911	2,207,246	-	1,299,427	(595,255)	7,784,730
Other	408,563	821,838	251,501	-	130,887	(252,113)	978,900
Total	**6,333,107**	**20,782,878**	**4,187,646**	**-**	**2,504,521**	**(4,607,699)**	**22,928,339**

6.2.8.2 Credit quality of exposures by industry (continued)

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

	a	b	c	d	e	f	g
31 December 2018 (restated)	**Gross carrying values of**		**Specific risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Manufacturing	587,673	490,080	412,753	-	234,181	29,404	665,000
Construction	2,803,579	1,096,770	1,960,710	-	1,305,120	42,296	1,939,639
Wholesale and retail trade	1,550,969	1,538,151	1,049,120	-	554,667	20,329	2,040,000
Transport and storage	169,272	298,382	141,387	-	96,431	5,799	326,267
Accommodation and food service activities	770,183	1,072,559	550,145	-	394,936	5,972	1,292,597
Real estate activities	1,305,079	1,685,534	868,077	-	494,422	(141,954)	2,122,536
Professional, scientific and technical activities	635,521	468,806	500,100	-	367,233	116,239	604,227
Administrative and support service activities	218,513	185,885	152,598	-	84,806	81,512	251,800
Public administration and defence, compulsory social security	3,177	5,649,009	6,938	-	2,973	3,863	5,645,248
Other services	4,361,742	6,777,323	2,802,501	-	1,778,821	(142,339)	8,336,564
Other	540,390	633,770	351,016	-	174,899	(82,338)	823,144
Total	**12,946,098**	**19,896,269**	**8,795,345**	**-**	**5,488,489**	**(61,217)**	**24,047,022**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they relate to a decrease in Gross carrying values of Defaulted exposures in "Construction", "Wholesale and retail trade", "Real estate activities" and "Other services" and their corresponding Specific credit adjustments and Accumulated write-offs and to an increase the Gross carrying values of Non-defaulted exposures in "Public administration and defence, compulsory social security".

The contribution from the industry "Administrative and support services" fell below the 1% materiality threshold and was included in industry "Other" in 31 December 2019 table.

6.2.8.3 Credit quality of exposures by geography

The gross carrying value relates to the contractual balances before any impairments made via an allowance or via a direct reduction in the carrying amount according to the applicable accounting framework. Column (c) represents the value adjustment used in the calculation of the RWAs, while column (e) is a subset of column (c) and represents the partial and total amount of principal and past-due interest of any on-balance sheet instrument that is derecognised because the institution has no reasonable expectations of recovering the contractual cash-flows. Column (f) includes changes in column (c) between the current and the previous year calculated at exposure class level. Column (c) represents the IFRS 9 transitional specific credit risk adjustment values calculated under article 473(a) of the CRR which results in decreased provisions used for RWAs purposes compared to the provisions reported in the Consolidated balance sheet of the Group.

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

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

EU CR1-C Credit quality of exposures by geography

31 December 2019	a	b	c	d	e	f	G
	Gross carrying value of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EU Countries	**6,095,092**	**19,890,191**	**4,029,226**	-	**2,425,649**	**(4,575,203)**	**21,956,057**
Cyprus	5,464,822	18,364,022	3,515,442	-	2,025,982	(4,483,466)	20,313,402
United Kingdom	302,061	246,878	220,091	-	160,462	(5,532)	328,848
France	78	307,808	95	-	27	28	307,791
Greece	132,609	339,603	121,477	-	101,645	(18,000)	350,735
Other countries[13]	195,522	631,880	172,121	-	137,533	(68,233)	655,281
Other geographical areas	**238,015**	**892,687**	**158,420**	**-**	**78,872**	**(32,496)**	**972,282**
Total	**6,333,107**	**20,782,878**	**4,187,646**	**-**	**2,504,521**	**(4,607,699)**	**22,928,339**

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

6.2.8.3 Credit quality of exposures by geography (continued)

EU CR1-C Credit quality of exposures by geography

31 December 2018 (restated)	a	b	c	d	e	f	G
	Gross carrying value of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the year**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EU Countries	**12,651,108**	**14,794,935**	**8,604,429**	-	**5,411,507**	**14,155**	**18,841,614**
Cyprus	11,887,096	13,437,718	7,998,908	-	4,995,187	130,334	17,325,906
United Kingdom	325,675	296,789	225,623	-	160,337	(26,706)	396,841
France	100	309,056	67	-	57	(635)	309,089
Greece	153,257	247,418	139,477	-	101,867	(29,650)	261,198
Other countries[14]	284,980	503,954	240,354	-	154,059	(59,188)	548,580
Other geographical areas	**294,990**	**5,101,334**	**190,916**	**-**	**76,982**	**(75,372)**	**5,205,408**
Total	**12,946,098**	**19,896,269**	**8,795,345**	**-**	**5,488,489**	**(61,217)**	**24,047,022**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they relate to Cyprus with a decrease in gross carrying values of Defaulted exposures and their corresponding Specific credit adjustments and Accumulated write-offs and to an increase the gross carrying values of Non-defaulted.

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

6.2.9 Non-performing exposures

The tables below disclose NPEs based on the definitions of the EBA standards. The definition of credit impaired loans (Stage 3) is aligned to the EBA NPEs definition. As per the EBA standards and ECB Guidance to Banks on NPLs (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

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

Additional details on the definition of NPEs are disclosed in Note 2.19.2 of the Consolidated Financial Statements of the Company for 2019.

In January 2020, the Bank entered into an agreement with B2Kapital Cyprus Ltd, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €398 million and gross book value of €139 million as at 31 December 2019, known as Project Velocity 2. The sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2020. In addition, the Group continues to work on smaller trades, including the sale of a portfolio of credit facilities related to Helix 1 (known as 'Project Helix 1 tail') with gross book value of €46 million, of mainly secured NPEs. Both portfolios have been classified as disposal groups held for sale as at 31 December 2019.

During 2018, the Group has reached an agreement for the sale of a portfolio (the 'Portfolio') of loans and advances to customers and stock of property (known as 'Project Helix', or the 'Transaction') and a portfolio of loans and advances to customers known as 'Velocity'. Both portfolios have been classified as disposal groups held for sale as at 31 December 2018.

BOC PCL received consideration of c.€1,186 million on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 March 2018, of which €45 million concern the BOC PCL participation in the senior debt issued to finance the transaction. As at the date of the completion of the sale, the Portfolio included loans and advances to customers of gross book value amounting to €2,631 million (net book value €1,054 million) and stock of properties with carrying value amounting to €109 million. In June 2019 the Group has derecognised the disposed portfolio relating to Project Helix.

During June 2019 the Group disposed of the portfolio of project 'Velocity'. The portfolio of project Velocity comprised of gross loans and advances to customers amounting to €30 million with net book value of €4 million. The Group has derecognised the disposed portfolio relating to Project Velocity as of 30 June 2019.

Further analysis of the loans and advances to customers portfolio, which is included in this disposal group, is disclosed in Note 46.7 of the Consolidated Financial Statements of the Company for 2019.

The tables below are presented using figures per the Consolidated Financial Statements of the Company for 2019 and 2018 including loans and advances to customers at amortised cost classified as held for sale and loans and advances to customers measured at FVPL.

6.2.9 Non-performing exposures (continued)

Credit quality of performing and non-performing exposures by past due days

31 December 2019	Gross carrying amount/Nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤30 days	Past due >30 days ≤90 days		Unlikely to pay that are not past-due or are Past due ≤90 days	Past due > 90 days ≤180 days	Past due >180 days ≤1 year	Past due >1 year ≤2 years	Past due >2 years ≤5 years	Past due >5 years ≤7 years	Past due >7 years	Of which: defaulted
Loans and advances[15]	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central banks	**4,908,487**	4,908,487	-	**-**	-	-	-	-	-	-	-	-
General governments	**56,920**	56,920	-	**1**	-	-	-	-	1	-	-	1
Credit institutions	**320,953**	320,953	-	**-**	-	-	-	-	-	-	-	-
Other financial corporations	**96,884**	96,822	62	**27,459**	1,442	1	16,971	102	251	7,994	698	27,459
Non-financial corporations	**4,889,081**	4,877,311	11,770	**1,382,074**	483,598	35,244	86,941	84,300	148,926	240,548	302,517	1,382,074
Of which SMEs	***3,589,148***	*3,577,378*	*11,770*	***1,073,846***	*201,038*	*35,221*	*86,937*	*84,147*	*144,341*	*236,608*	*285,554*	*1,073,846*
Households	**3,906,507**	3,889,848	16,659	**2,285,998**	365,164	81,407	154,657	181,264	511,019	440,291	552,196	2,285,998
	14,178,832	**14,150,341**	**28,491**	**3,695,532**	**850,204**	**116,652**	**258,569**	**265,666**	**660,197**	**688,833**	**855,411**	**3,695,532**
Loans and advances to customers classified as held for sale[15]	**990**	**990**	**-**	**183,974**	**5,300**	**1,242**	**4,125**	**-**	**54,371**	**118,936**	**-**	**183,974**
Debt securities												
Central banks	**13,416**	13,416	-	**-**	-	-	-	-	-	-	-	-
General governments	**933,294**	933,294	-	**-**	-	-	-	-	-	-	-	-
Credit institutions	**521,596**	521,596	-	**-**	-	-	-	-	-	-	-	-
Other financial corporations	**264,347**	264,347	-	**-**	-	-	-	-	-	-	-	-
Non-financial corporations	**6,849**	6,849	-	**-**	-	-	-	-	-	-	-	-
	1,739,502	**1,739,502**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet exposures												
Central Bank	**-**			**-**								-
General governments	**13,282**			**-**								-
Credit institutions	**51,569**			**-**								-
Other financial corporations	**18,294**			**1,086**								1,086
Non-financial corporations	**1,602,574**			**221,848**								221,848
Households	**704,752**			**8,603**								8,603
	2,390,471			**231,537**								**231,537**
Total	**18,309,795**	**15,890,833**	**28,491**	**4,111,043**	**855,504**	**117,894**	**262,694**	**265,666**	**714,568**	**807,769**	**855,411**	**4,111,043**

The NPEs at 31 December 2019 amounted to €3,880 million, compared to €7,518 million at 31 December 2018, reflecting a reduction of 48%, driven by the completion of Project Helix. The reduction in gross loans by 19% since 31 December 2018 is attributed mainly to the completion of Projects Helix 1 and Velocity (sale of €2.6 billion of gross loans), and to loans other than Helix and Velocity portfolios derecognised or repaid (c€2.4 billion). New loans originated or purchased and drawdowns of existing facilities during 2019 amounted to c€1.9 billion. The movement of loans and advances to customers is disclosed in Note 46.6 and of the Consolidated Financial Statements of the Company for 2019.

[15] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.9 Non-performing exposures (continued)

Credit quality of performing and non-performing exposures by past due days

31 December 2018	Gross carrying amount/nominal amount									
	Performing exposures			Non-performing exposures						
		Not past due or past due ≤30 days	Past due >30 days ≤90 days		Unlikely to pay that are not past due or are past due ≤90 days	Past due >90 days ≤180 days	Past due >180 days ≤1 year	Past due >1 year ≤5 years	Past due >5 years	Of which: defaulted
Loans and advances[16]	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central banks	4,456,768	4,456,768	-	-	-	-	-	-	-	-
General governments	70,635	70,635	-	3	-	-	-	3	-	3
Credit institutions	473,263	473,263	-	-	-	-	-	-	-	-
Other financial corporations	146,572	146,452	120	21,338	6,199	47	132	2,969	11,991	21,338
Non-financial corporations	4,389,902	4,374,856	15,046	1,941,479	862,861	35,336	83,877	312,460	646,945	1,941,479
Households	3,782,706	3,750,348	32,358	2,805,496	614,331	85,232	133,334	894,739	1,077,860	2,805,496
	13,319,846	**13,272,322**	**47,524**	**4,768,316**	**1,483,391**	**120,615**	**217,343**	**1,210,171**	**1,736,796**	**4,768,316**
Loans and advances to customers classified as held for sale[16]	**101,812**	**95,924**	**5,888**	**2,749,301**	**376,870**	**56,411**	**175,380**	**513,079**	**1,627,561**	**2,749,301**
Debt securities										
Central banks	13,068	13,068	-	-	-	-	-	-	-	-
General governments	866,852	866,852	-	-	-	-	-	-	-	-
Credit institutions	261,043	261,043	-	-	-	-	-	-	-	-
Other financial corporations	218,687	218,687	-	-	-	-	-	-	-	-
Non-financial corporations	6,523	6,523	-	-	-	-	-	-	-	-
	1,366,173	**1,366,173**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet exposures										
General governments	13,410			-						-
Credit institutions	61,888			-						-
Other financial corporations	31,727			1,754						1,754
Non-financial corporations	1,717,915			306,335						306,335
Households	691,440			18,066						18,066
	2,516,380			**326,155**						**326,155**
Total	**17,304,211**	**14,734,419**	**53,412**	**7,843,772**	**1,860,261**	**177,026**	**392,723**	**1,723,250**	**3,364,357**	**7,843,772**

[16] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.9 Non-performing exposures (continued)

Performing and non-performing exposures and related provisions

31 December 2019	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures- accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances[17]															
Central banks	4,908,487	4,908,487	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	56,920	6,111	50,809	1	-	1	3,389	11	3,378	-	-	-	485	52,045	1
Credit institutions	320,953	320,953	-	-	-	-	72	72	-	-	-	-	-	-	-
Other financial Corporations	96,884	53,869	43,015	27,459	-	27,459	2,699	1,111	1,588	14,843	-	14,843	103,754	68,444	12,571
Non-financial Corporations	4,889,081	3,999,543	889,538	1,382,074	-	1,382,074	67,823	42,772	25,051	686,025	-	686,025	705,421	4,244,908	578,703
Of which SMEs	*3,589,148*	*2,960,345*	*628,803*	*1,073,846*	*-*	*1,073,846*	*60,185*	*40,165*	*20,020*	*576,635*	*-*	*576,635*	*671,723*	*3,202,913*	*471,900*
Households	3,906,507	3,153,702	752,805	2,285,998	-	2,285,998	67,608	46,310	21,298	1,080,696	-	1,080,696	1,062,108	3,478,462	1,176,920
	14,178,832	**12,442,665**	**1,736,167**	**3,695,532**	**-**	**3,695,532**	**141,591**	**90,276**	**51,315**	**1,781,564**	**-**	**1,781,564**	**1,871,768**	**7,843,859**	**1,768,195**
Loans and advances to customers classified as held for sale[17]	**990**	**177**	**813**	**183,974**	**-**	**183,974**	**37**	**7**	**30**	**158,998**	**-**	**158,998**	**310.294**	**592**	**14,062**
Debt securities															
Central banks	13,416	13,416	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	933,294	884,164	49,130	-	-	-	1,319	843	476	-	-	-	-	-	-
Credit institutions	521,596	521,596	-	-	-	-	36	36	-	-	-	-	-	-	-
Other financial corporations	264,347	264,347	-	-	-	-	140	140	-	-	-	-	-	-	-
Non-financial corporations	6,849	6,849	-	-	-	-	-	-	-	-	-	-	-	-	-
	1,739,502	**1,690,372**	**49,130**	**-**	**-**	**-**	**1,495**	**1,019**	**476**	**-**	**-**	**-**	**-**	**-**	**-**
Off-balance-sheet exposures															
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	13,282	2	13,280	-	-	-	-	-	-	-	-	-	-	6,940	-
Credit institutions	51,569	51,569	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	18,294	7,002	11,292	1,086	-	1,086	1	-	1	-	-	-	-	12,377	1,035
Non-financial corporations	1,602,574	1,187,087	415,487	221,848	-	221,848	197	49	148	21,904	-	21,904	-	821,552	6,258
Households	704,752	473,509	231,243	8,603	-	8,603	10	1	9	-	-	-	-	208,733	2,322
	2,390,471	**1,719,169**	**671,302**	**231,537**	**-**	**231,537**	**208**	**50**	**158**	**21,904**	**-**	**21,904**	**-**	**1,049,602**	**9,615**
Total	**18,309,795**	**15,852,383**	**2,457,412**	**4,111,043**	**-**	**4,111,043**	**143,331**	**91,352**	**51,979**	**1,962,466**	**-**	**1,962,466**	**2,182,062**	**8,894,053**	**1,791,872**

[17] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.9 Non-performing exposures (continued)

31 December 2018	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures			On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances[18]														
Central banks	4,456,768	4,456,768	-	-	-	-	-	-	-	-	-	-	-	-
General governments	70,635	6,621	64,014	3	-	3	3,681	13	3,668	-	-	-	56,834	1
Credit institutions	473,263	473,263	-	-	-	-	731	731	-	-	-	-	-	-
Other financial corporations	146,572	59,455	87,117	21,338	-	21,338	4,907	1,701	3,206	8,471	-	8,471	84,107	12,080
Non-financial corporations	4,389,902	2,934,857	1,455,045	1,941,479	-	1,941,479	82,874	40,159	42,715	864,983	-	864,983	3,804,114	914,060
Of which SMEs	*3,085,246*	*2,144,920*	*940,326*	*1,487,514*	-	*1,487,514*	*67,138*	*40,159*	*26,979*	*691,916*	-	*691,916*	*2,742,481*	*753,010*
Households	3,782,706	3,187,768	594,938	2,805,496	-	2,805,496	62,805	55,987	6,818	1,208,624	-	1,208,624	3,321,886	1,530,602
	13,319,846	**11,118,732**	**2,201,114**	**4,768,316**	**-**	**4,768,316**	**154,998**	**98,591**	**56,407**	**2,082,078**	**-**	**2,082,078**	**7,266,941**	**2,456,743**
Loans and advances to customers classified as held for sale[18]	**101,812**	**7,147**	**94,665**	**2,749,301**	**-**	**2,749,301**	**50,914**	**3,635**	**47,279**	**1,646,091**	**-**	**1,646,091**	**48,539**	**991,924**
Debt securities														
Central banks	13,068	13,068	-	-	-	-	-	-	-	-	-	-	-	-
General governments	866,852	817,870	48,982	-	-	-	1,420	730	690	-	-	-	-	-
Credit institutions	261,043	261,043	-	-	-	-	1	1	-	-	-	-	-	-
Other financial corporations	218,687	218,687	-	-	-	-	8	8	-	-	-	-	-	-
Non-financial corporations	6,523	6,523	-	-	-	-	1	1	-	-	-	-	-	-
	1,366,173	**1,317,191**	**48,982**	**-**	**-**	**-**	**1,430**	**740**	**690**	**-**	**-**	**-**	**-**	**-**
Off-balance-sheet exposures														
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	13,410	2	13,408	-	-	-	-	-	-	-	-	-	7,169	-
Credit institutions	61,888	61,888	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	31,727	9,623	22,104	1,754	-	1,754	27	3	24	-	-	-	17,141	1,545
Non-financial corporations	1,717,915	1,204,057	513,858	306,335	-	306,335	3,420	1,306	2,114	23,421	-	23,421	837,713	23,869
Households	691,440	440,679	250,761	18,066	-	18,066	457	5	452	360	-	360	189,532	3,441
	2,516,380	**1,716,249**	**800,131**	**326,155**	**-**	**326,155**	**3,904**	**1,314**	**2,590**	**23,781**	**-**	**23,781**	**1,051,555**	**28,855**
Total	**17,304,211**	**14,159,319**	**3,144,892**	**7,843,772**	**-**	**7,843,772**	**211,246**	**104,280**	**106,966**	**3,751,950**	**-**	**3,751,950**	**8,367,035**	**3,477,522**

The NPEs at 31 December 2019 amounted to €3,880 million, compared to €7,518 million at 31 December 2018, reflecting a reduction of 48%, driven by the completion of Project Helix. The reduction in gross loans by 19% since 31 December 2018 is attributed mainly to the completion of Projects Helix 1 and Velocity (sale of €2.6 billion of gross loans) and to loans other than Helix and Velocity portfolios derecognised or repaid (c.€2.4 billion). New loans originated or purchased and drawdowns of existing facilities during 2019 amounted to c€1.9 billion. The movement of loans and advances to customers and the movement in ECL of loans and advances, including the loans and advances to customers held for sale, are disclosed in Notes 46.6 and 46.9 of the Consolidated Financial Statements of the Company for 2019.

[18] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.9 **Non-performing exposures** (continued)

Quality of non-performing exposures by geography

31 December 2019	Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
	€000	€000	€000	€000	€000	€000	€000
On-balance sheet[19 20]							
Cyprus	17,503,597	3,511,094	3,511,094	17,070,648	1,815,360		65,486
Greece	190,978	5,258	5,258	190,978	3,441		-
United Kingdom	313,944	142,508	142,508	313,944	69,733		-
Russia	118,546	85,166	85,166	118,546	51,394		-
Other countries	1,671,765	135,480	135,480	1,645,839	78,271		-
	19,798,830	**3,879,506**	**3,879,506**	**19,339,955**	**2,018,199**		**65,486**
Off-balance sheet							
Cyprus	2,525,572	205,351	205,351			3,239	
Greece	73,514	25,534	25,534			18,868	
United Kingdom	3,354	146	146			-	
Russia	2,022	55	55			-	
Other countries	17,546	451	451			5	
	2,622,008	**231,537**	**231,537**			**22,112**	
Total	**22,420,838**	**4,111,043**	**4,111,043**	**19,339,955**	**2,018,199**	**22,112**	**65,486**

For the above analysis a materiality threshold of 1% on total gross exposures was used to evaluate the material countries. In row "other countries", all immaterial countries were included that are disclosed in Appendix III – List of immaterial countries. As per the above table, 88% of the gross on balance sheet exposures of the Group are in Cyprus showing the commitment of the Group to support the local economy.

[19] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit

[20] Amounts presented include loans and advances to customers classified as as held for sale

6.2.9 **Non-performing exposures** (continued)

Credit quality of loans and advances by industry

31 December 2019[21,22]	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
	€000	€000	€000	€000	€000	€000
Agriculture, forestry and fishing	76,263	22,013	22,013	76,263	9,808	-
Mining and quarrying	44,989	31,851	31,851	44,989	15,613	-
Manufacturing	445,212	108,138	108,138	445,212	65,358	-
Electricity, gas, steam and air conditioning supply	56,423	3,791	3,791	56,423	1,994	-
Water supply	8,149	2,409	2,409	8,149	1,334	-
Construction	823,276	265,879	265,879	823,276	144,336	-
Wholesale and retail trade	1,294,815	371,613	371,613	1,294,815	185,720	-
Transport and storage	348,147	16,594	16,594	348,147	11,176	-
Accommodation and food service activities	1,055,448	50,116	50,116	912,933	44,823	-
Information and communication	83,791	15,279	15,279	83,791	8,260	-
Financial and insurance activities	-	-	-	-	-	-
Real estate activities	1,266,772	296,405	296,405	1,132,721	93,298	60,504
Professional, scientific and technical activities	425,134	90,832	90,832	280,380	53,916	-
Administrative and support service activities	80,831	33,167	33,167	78,185	13,852	-
Public administration and defence, compulsory social	-	-	-	-	-	-
Education	91,591	23,314	23,314	91,591	4,928	-
Human health services and social work activities	75,167	4,355	4,355	75,167	4,134	-
Arts, entertainment and recreation	26,880	8,488	8,488	26,880	5,674	-
Other services	68,267	37,830	37,830	68,267	29,120	-
	6,271,155	**1,382,074**	**1,382,074**	**5,847,189**	**693,344**	**60,504**

[21] Amounts presented exclude loans and advances to customers classified as as held for sale

[22] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit

6.2.9 **Non-performing exposures** (continued)

Credit quality of loans and advances by industry

31 December 2018[23,24]	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
	€000	€000	€000	€000	€000	€000
Agriculture, forestry and fishing	81,684	19,490	19,490	81,684	12,076	-
Mining and quarrying	47,676	32,238	32,238	47,676	5,160	-
Manufacturing	428,828	134,950	134,950	428,828	74,884	-
Electricity, gas, steam and air conditioning supply	44,322	1,674	1,674	44,322	1,492	-
Water supply	13,738	2,883	2,883	13,738	1,831	-
Construction	972,059	382,697	382,697	972,059	184,282	-
Wholesale and retail trade	1,431,706	522,151	522,151	1,431,706	254,823	-
Transport and storage	267,190	29,309	29,309	267,190	22,828	-
Accommodation and food service activities	1,005,691	96,702	96,702	856,256	58,563	-
Information and communication	83,643	26,457	26,457	83,643	8,562	-
Financial and insurance activities	-	-	-	-	-	-
Real estate activities	1,140,596	406,226	406,226	990,251	110,409	63,860
Professional, scientific and technical activities	446,279	141,138	141,138	293,727	62,838	-
Administrative and support service activities	102,312	37,336	37,336	99,490	20,883	-
Public administration and defence, compulsory social	-	-	-	-	-	-
Education	75,076	24,911	24,911	75,076	5,211	-
Human health services and social work activities	69,478	5,412	5,412	69,478	4,451	-
Arts, entertainment and recreation	30,573	15,345	15,345	30,573	9,416	-
Other services	90,530	62,560	62,560	90,525	46,288	-
Total	**6,331,381**	**1,941,479**	**1,941,479**	**5,876,222**	**883,997**	**63,860**

[23] Amounts presented exclude loans and advances to customers classified as as held for sale

[24] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations

6.2.9 **Non-performing exposures** (continued)

Collateral obtained by taking possession and execution processes

31 December 2019	**Collateral obtained by taking possession**	
	Value at initial recognition	**Accumulated negative changes**
	€000	**€000**
Property, plant and equipment (PP&E)	-	-
Other than PP&E		
Residential immovable property	447,166	7,969
Commercial immovable property	567,470	36,972
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	51,684	12,920
Other	355,884	2,091
Total	**1,422,204**	**59,952**

31 December 2018	**Collateral obtained by taking possession**	
	Value at initial recognition	**Accumulated negative changes**
	€000	**€000**
Property, plant and equipment (PP&E)	-	-
Other than PP&E		
Residential immovable property	340,551	7,060
Commercial immovable property	786,012	33,457
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	45,156	10,361
Other	327,606	3,450
Total	**1,499,325**	**54,328**

6.2.9 **Non-performing exposures** (continued)

Changes in the stock of non-performing loans and advances

The tables below disclose the movements (inflows and outflows) of NPEs:

	31 December 2019		31 December 2018	
	Gross carrying amount	**Related net accumulated recoveries**	**Gross carrying amount**	**Related net accumulated recoveries**
	€000	**€000**	**€000**	**€000**
Initial stock of non-performing loans and advances to customers	**4,768,316**		**8,803,716**	
Inflows to non-performing portfolios	502,523		576,644	
Outflows from non-performing portfolios				
Outflow to performing portfolio	(355,141)		(511,981)	
Outflow due to loan repayment, partial or total	(441,712)		(578,919)	
Outflow due to collateral liquidations	(842)	-	(3,628)	-
Outflow due to taking possession of collateral	(163,136)	-	(300,950)	-
Outflow due to sale of instruments	(183,976)	-	-	-
Outflow due to risk transfer	-	-	(2,749,301)	-
Outflow due to write-off	(430,500)		(401,558)	
Outflow due to other situations	-		(65,707)	
Final stock of non-performing loans and advances to customers (excluding loans and advances to customers classified as held for sale)	**3,695,532**	**-**	**4,768,316**	**-**

The Group continues to be actively exploring alternative avenues to accelerate this reduction and move with its risk appetite target. NPEs as defined by EBA were reduced by €1,073 million during 2019, accounting for 30% of gross loans, compared to 36% at 31 December 2018.

The improvement in the NPEs is a result of the Bank's strategy to further de-risking its balance sheet and has been achieved mainly through the following: (i) normal curability i.e. clients that have been restructured in the past and fulfil the post forbearance conditions, ii) disposal of a more delinquent and risky part of the loan book, and (iii) consensual foreclosures and write offs.

6.2.9 **Non-performing exposures** (continued)

Collateral obtained by taking possession and execution processes – vintage breakdown

The tables below disclose the total collateral obtained by taking possession by type and by time since date of foreclosure:

31 December 2019	Debt balance reduction		Total collateral obtained by taking possession									
	Gross carrying amount	Accumulated negative changes			Foreclosed ≤2 years		Foreclosed >2 years ≤5 years		Foreclosed >5 years		Of which: non current assets held for sale	
			Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Collateral obtained by taking possession classified as PP&E	-	-	-	-								
Collateral obtained by taking possession other than classified as PP&E												
Residential immovable property	587,597	216,621	447,166	7,969	170,388	1,240	263,035	2,677	13,743	4,052	-	-
Commercial immovable property	1,078,348	375,178	567,470	36,972	109,537	-	399,106	14,070	58,827	22,902	-	-
Movable property	-	-	-	-	-	-	-	-	-	-	-	-
Equity and debt instruments	53,389	10,959	51,684	12,920	6,528	2,559	45,156	10,361	-	-	-	-
Other	271,258	143,406	355,884	2,091	123,348	193	231,300	1,428	1,236	470	-	-
Total	**1,990,592**	**746,164**	**1,422,204**	**59,952**	**409,801**	**3,992**	**938,597**	**28,536**	**73,806**	**27,424**	**-**	**-**

6.2.9 **Non-performing exposures** (continued)

Collateral obtained by taking possession and execution processes – vintage breakdown

31 December 2018	Debt balance reduction		Total collateral obtained by taking possession									
					Foreclosed ≤2 years		Foreclosed >2 years ≤5 years		Foreclosed >5 years		Of which: non current assets held for sale	
	Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Collateral obtained by taking possession classified as PP&E	-	-	-	-								
Collateral obtained by taking possession other than classified as PP&E												
Residential immovable property	365,544	144,393	340,551	7,060	195,799	1,696	116,431	1,839	28,321	3,525	-	-
Commercial immovable property	1,528,046	569,294	786,012	33,457	345,374	4,012	393,060	16,509	47,578	12,936	236,329	11,182
Movable property	-	-	-	-	-	-	-	-	-	-	-	-
Equity and debt instruments	53,389	10,959	45,156	10,361	-	-	45,156	10,361	-	-	-	-
Other	188,473	75,307	327,606	3,450	115,993	2,514	209,955	571	1,658	365	-	-
Total	**2,135,452**	**799,953**	**1,499,325**	**54,328**	**657,166**	**8,222**	**764,602**	**29,280**	**77,557**	**16,826**	**236,329**	**11,182**

6.2.9 **Non-performing exposures** (continued)

Collateral valuation – loans and advances

	Loans and advances to customers											
31 December 2019		**Performing**		**Non performing**								
					Unlikely to pay that are not past due or past due ≤90 days	**Past due > 90 days**						
			Of which past due > 30 days ≤90 days				**Of which past due > 90 days ≤180 days**	**Of which past due > 180 days ≤1 year**	**Of which past due > 1 year ≤2 years**	**Of which past due > 2 years ≤5 years**	**Of which past due > 5 years ≤7 years**	**Of which past due > 7 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Gross carrying amount[25,26]	**12,644,924**	**8,949,392**	**28,491**	**3,695,532**	**850,204**	**2,845,328**	**116,652**	**258,569**	**265,666**	**660,197**	**688,833**	**855,411**
Of which: Secured	11,653,971	8,348,214	26,151	3,305,757	660,814	2,644,943	111,128	247,539	256,042	618,623	631,949	779,662
Of which: Secured with immovable Property	10,551,413	7,344,513	24,627	3,206,900	625,826	2,581,074	110,214	228,177	253,395	610,353	610,008	768,927
Of which: Instruments with LTV higher than 60% and lower or equal to 80%	2,524,819	2,019,562		505,257	189,583	315,674						
Of which: Instruments with LTV higher than 80% and lower or equal to 100%	1,909,285	1,373,118		536,167	103,328	432,839						
Of which: Instruments with LTV higher than 100%	2,630,471	839,320		1,791,151	184,675	1,606,476						
Accumulated impairment for secured assets	1,104,822	135,459	539	969,363	175,180	794,183	32,120	62,881	70,675	189,386	209,203	229,918
Collateral												
Of which value capped at the value of exposure	10,546,368	7,932,360	22,521	2,614,008	589,284	2,024,724	96,547	192,621	218,474	491,060	476,015	550,007
Of which: Immovable Property	9,379,133	6,862,927	21,578	2,516,206	527,126	1,989,080	95,715	186,765	216,917	486,936	463,818	538,929
Of which value above the cap	7,867,222	6,935,772	21,714	931,450	420,555	510,895	39,588	68,288	77,166	120,650	84,344	120,859
Of which: Immovable Property	6,407,314	5,560,796	21,156	846,518	373,384	473,134	38,989	67,429	75,976	118,671	79,274	92,795
Financial guarantees received	172,170	138,702	177	33,468	2,925	30,543	274	974	3,693	13,804	7,336	4,462
Accumulated partial write off	1,871,768	99,821	515	1,771,947	106,299	1,665,648	18,761	12,987	13,292	195,549	339,339	1,085,720

[25] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans

[26] Excluding loans and advances to customers classified as disposal groups held for sale

6.2.9 Non-performing exposures (continued)

Collateral valuation – loans and advances

	Loans and advances to customers											
31 December 2018		Performing		Non performing								
					Unlikely to pay that are not past due or past due ≤90 days	Past due > 90 days						
			Of which past due > 30 days				Of which past due > 90 days ≤180 days	Of which past due > 180 days ≤1 year	Of which past due > 1 year ≤2 years	Of which past due > 2 years ≤5 years	Of which past due > 5 years ≤7 years	Of which past due > 7 years
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Gross carrying amount[27,28]	**13,158,131**	**8,389,815**	**47,524**	**4,768,316**	**1,483,391**	**3,284,925**	**120,615**	**217,343**	**307,230**	**902,941**	**945,446**	**791,350**
Of which: Secured	12,024,944	7,812,082	44,970	4,212,862	1,278,455	2,934,407	114,669	204,955	284,910	788,807	834,024	707,042
Of which: Secured with immovable Property	11,107,614	7,032,943	43,001	4,074,671	1,238,857	2,835,814	111,933	199,962	279,307	772,815	781,574	690,223
Of which: Instruments with LTV higher than 60% and lower or equal to 80%	2,841,326	2,197,229		644,097	296,847	347,250						
Of which: Instruments with LTV higher than 80% and lower or equal to 100%	2,083,809	1,331,742		752,067	312,049	440,018						
Of which: Instruments with LTV higher than 100%	3,027,387	808,041		2,219,346	401,267	1,818,079						
Accumulated impairment for secured assets	1,160,724	138,358	1,047	1,022,366	200,327	822,039	13,783	32,480	59,617	240,806	264,158	211,195
Collateral												
Of which value capped at the value of exposure	10,682,587	7,337,136	43,505	3,345,451	1,104,628	2,240,823	101,317	179,462	244,534	626,071	601,065	488,374
Of which: Immovable Property	9,775,363	6,570,986	41,747	3,204,377	1,010,854	2,193,523	99,821	177,817	241,560	616,915	584,364	473,046
Of which value above the cap	7,464,027	6,322,906	37,063	1,141,121	587,979	553,142	44,679	61,881	80,019	151,794	103,089	111,680
Of which: Immovable Property	6,265,452	5,203,090	36,196	1,062,362	557,343	505,019	43,410	60,727	78,449	149,136	96,219	77,078
Financial guarantees received	210,145	161,353	1,765	48,792	10,561	38,231	1,734	2,862	7,657	13,613	10,163	2,202

[27] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans

[28] Excluding loans and advances to customers classified as disposal groups held for sale

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

Defaulted exposures are exposures that satisfy the NPE definition.

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

31 December 2019	**Contractual value defaulted exposures**
	€000
Opening balance	12,945,931
Loans and debt securities that have defaulted or impaired during the year	188,795
Returned to non-defaulted status	(349,157)
Amounts written off	(440,942)
Other changes	(6,011,604)
Closing balance	**6,333,023**

31 December 2018	
Opening balance	12,360,502
Loans and debt securities that have defaulted or impaired during the year	1,620,193
Returned to non-defaulted status	(231,938)
Amounts written off	(954,242)
Other changes	151,416
Closing balance	**12,945,931**

The decrease in the gross contractual value of defaulted exposures during 2019 is driven at its majority by the sale of Helix and Velocity portfolios which is reflected in line "Other changes". "Other changes" include to a lesser extent to normal movements in the balances such as accrued interest, repayments and withdrawals. In 2018 the "Loans and debt securities that have defaulted or impaired during the year" include the impact from the alignment of the default definition used for RWAs purposes with the NPE definition as of 1 January 2018, whilst in 2019 only the natural new defaults which are materially smaller compared to the amounts of cured positions included in "Returned to non-defaulted status".

6.2.11 Credit Risk Adjustments

6.2.11.1 ECL of Loans and Advances to Customers

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

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

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

Further information on the impairment of financial assets can be found in Note 2.19 of the Consolidated Financial Statements of the Company for 2019.

In accordance with Article 110(4) Regulation (EU) No 575/2013 the criteria for the distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments has to be that general provisions are freely available to meet losses which subsequently materialise. In addition, amounts included in the calculation of General Credit Risk Adjustments should be fully available, as regards to timing and amount, to meet such losses, at least on a gone-concern basis. Therefore the Group concluded that both credit risk adjustments from individually and collectively assessed loans, are Specific Credit Risk Adjustments.

The movement of ECL of loans and advances to customers including the loans and advances to customers held for sale by staging and geographical area are disclosed in Note 46.9 of the Consolidated Financial Statements of the Company for 2019.

The ECL of loans and advances to customers including the loans and advances to customers held for sale by business line is also disclosed in Note 46.9 of the Consolidated Financial Statements of the Company for 2019.

6.2.11.2 Credit Risk Adjustments recorded to Income Statement

Credit losses of financial instruments and net gain on derecognition of loans and advances to customers

The table is presented using figures per the Consolidated Financial Statements of the Company for 2019.

	2019	2018
	€000	€000
Net gains on derecognition of loans and advances to customers measured at amortised cost	**8,187**	27,825

Credit losses to cover credit risk on loans and advances to customers		
Impairment loss net of reversals on loans and advances to customers	**260,114**	512,956
Recoveries of loans and advances to customers previously written off	**(25,627)**	(140,735)
Changes in expected cash flows	**3,537**	(37,756)
Financial guarantees and commitments	**(5,573)**	(5,382)
	232,451	329,083

Credit losses of other financial instruments		
Amortised cost debt securities	**(36)**	(1,011)
FVOCI debt securities	**101**	(274)
Loans and advances to banks	**(659)**	711
Balances with central banks	**-**	(5,872)
Other financial assets	**5,384**	8,056
	4,790	1,610

6.2.11.3 Changes in the accumulated specific and general credit risk adjustment

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

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

	2019		2018	
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
	€000	€000	€000	€000
1 January	**3,462,005**	**-**	3,452,850	-
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	**-**	**-**	1,689,497	-
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	319,102	-
Restated balance at 1 January	**3,462,005**	**-**	**5,461,449**	**-**
Increases due to amounts set aside for estimated loan losses during the year	**624,351**	**-**	1,494,385	-
Decreases due to amounts reversed for estimated loan losses during the year	**(364,237)**	**-**	(981,429)	-
Decreases due to amounts taken against accumulated credit risk adjustments	**(440,942)**	**-**	(2,666,113)	-
Impact of exchange rate differences and other adjustments	**10,481**	**-**	(6,506)	-
Business combinations, including acquisitions and disposals of subsidiaries	**-**	**-**	(3,594)	-
Contractual interest (provided) not recognised in the income statement	**114,717**	-	164,437	-
Disposal of Helix 1 and Velocity 1 portfolios and discontinued operations	**(1,602,825)**	**-**	(624)	-
31 December	**1,803,550**	**-**	**3,462,005**	-
Recoveries on credit risk adjustments recorded directly to the income statement	**25,627**	**-**	140,735	-
Specific credit risk adjustments directly recorded to the income statement	**(3,537)**	**-**	37,756	-

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

The above table includes credit losses relating to loans and advances to customers classified as held for sale but does not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and provisions for impairment on financial guarantees and commitments amounting to €22,112 thousand (31 December 2018: €27,685 thousand).

6.2.12 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

The loans forborne continue to be classified as Stage 3 in the case they are performing forborne exposures under probation for which additional forbearance measures are extended, or performing forborne exposures under probation that present more than 30 days past due within the probation period.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to categorise the facility as credit impaired, as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

Rescheduled loans and advances are those facilities for which the Group has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

The forbearance characteristic contributes in two specific ways for the calculation of lifetime ECL for each individual facility. Specifically, it is taken into consideration in the scorecard development where if this characteristic is identified as statistically significant it affects negatively the rating of each facility. The second contribution of the forbearance flag is in the construction of the through the cycle PD curve, where when feasible a specific curve for the forborne products is calculated and assigned accordingly.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears; that is forbearance of the arrears and capitalisation of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.

6.2.12 Forbearance (continued)

- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.

Long-term restructuring solutions can include the following:

- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.

Forborne exposures are referred to as rescheduled loans and advances to customers in the Consolidated Financial Statements of the Company for 2019 and their definition is aligned with the EBA definition of forborne exposures.

Further information on the definition, movement and credit quality of forborne exposures can be found in Note 46.12 of the Consolidated Financial Statements of the Company for 2019.

6.2.12 Forbearance (continued)

Credit quality of forborne exposures

31 December 2019	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne		Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances[29]								
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	16,123	2,366	2,366	2,366	1,004	462	5,269	1,885
Non-financial corporations	479,300	737,602	737,602	603,551	11,287	337,290	728,430	323,550
Households	331,312	1,245,937	1,245,937	1,235,124	12,651	513,772	1,016,919	716,559
	826,735	**1,985,905**	**1,985,905**	**1,841,041**	**24,942**	**851,524**	**1,750,618**	**1,041,994**
Loans and advances to customers classified held for sale[29]	**163**	**45,028**	**45,028**	**45,028**	**9**	**37,429**	**3,381**	**3,376**
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans commitments given	**5,698**	**9,233**	**9,233**	**9,233**	**-**	**-**	**5,265**	**-**
Total	**832,596**	**2,040,166**	**2,040,166**	**1,895,302**	**24,951**	**888,953**	**1,759,264**	**1,045,370**

[29] Amounts presented are before the fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.12 **Forbearance** (continued)

Credit quality of forborne exposures (continued)

31 December 2018	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which: defaulted	Of which: impaired				
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances[30]								
Central banks	-	-	-	-	-	-	-	-
General governments	1,595	-	-	-	468	-	45	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	22,407	5,621	5,621	5,621	1,298	2,076	15,512	3,548
Non-financial corporations	640,833	1,042,164	1,042,164	891,818	19,311	347,924	1,078,484	559,658
Households	438,345	1,486,583	1,486,583	1,476,022	10,517	471,184	1,361,818	961,766
	1,103,180	**2,534,368**	**2,534,368**	**2,373,461**	**31,594**	**821,184**	**2,455,859**	**1,524,972**
Loans and advances to customers classified held for sale[30]	**54,232**	**1,437,851**	**1,437,851**	**1,437,851**	**28,285**	**797,692**	**620,995**	**596,982**
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans commitments given	**11,555**	**8,774**	**8,774**	**8,774**	**-**	**-**	**10,039**	**-**
Total	**1,168,967**	**3,980,993**	**3,980,993**	**3,820,086**	**59,879**	**1,618,876**	**3,086,893**	**2,121,954**

The decrease in the gross carrying amount of exposures with forbearance measures is driven at its majority by the sale of projects Helix and Velocity.

[30] Amounts presented are before the fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.

6.2.12 Forbearance (continued)

Quality of forbearance

The table below does not include loans and advances to customers classified as disposal groups held for sale.

	Gross carrying amount of forborne exposures	
	2019	**2018**
	€000	**€000**
Loans and advances that have been forborne more than twice	**665,862**	872,382
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	**334,170**	319,961

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

6.3.1 Application of External Ratings from Recognised ECAIs

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

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

The general ECAI association with each credit quality step complies with the standard association published by the CBC, as at 31 December 2020 and 2019, as follows:

Credit Quality Step	Moody's Rating	Risk Weight [31]			Sovereigns Risk Weight	Corporates & CIUs Risk Weight	Covered Bonds Risk Weight
		Own Rating		Country Rating			
		Residual Maturity up to 3 months	Residual Maturity more than 3 months	Original Maturity more than 3 months			
1	Aaa to Aa3	20%	20%	20%	0%	20%	10%
2	A1 to A3	20%	50%	50%	20%	50%	20%
3	Baa1 to Baa3	20%	50%	100%	50%	100%	20%
4	Ba1 to Ba3	50%	100%	100%	100%	100%	50%
5	B1 to B3	50%	100%	100%	100%	150%	50%
6	Caa1 or lower	150%	150%	150%	150%	150%	100%

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

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

6.3.2 Transfer of Credit Assessments onto Items in the Banking book

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

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

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

1. Issue/Exposure
2. Issuer/Counterparty

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

6.3.3 Net Exposure Values before and after Credit Risk Mitigation

Net exposures relate to amounts post value adjustments but before the application of CCF.

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

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

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

	1	2	3	4	5	6	Uniform Regulatory Treatment	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,745,202	11,308	343	-	-	-	390,508	**6,147,361**
Regional governments or local authorities	66,452	-	-	-	-	-	62,999	**129,451**
Public sector entities	-	-	-	-	-	-	82,439	**82,439**
Multilateral development banks	112,144	-	-	-	-	-	-	**112,144**
International organisations	107,307	-	-	-	-	-	-	**107,307**
Institutions	520,230	89,048	10,761	7,079	5,077	25,048	-	**657,243**
Corporates	-	-	-	16,103	40,683	-	4,390,035	**4,446,821**
Retail	-	-	-	-	-	-	2,533,994	**2,533,994**
Secured by mortgages on immovable property	-	-	-	-	-	-	3,278,570	**3,278,570**
Exposures in default	-	-	-	-	-	-	2,075,020	**2,075,020**
Items associated with particularly high risk	-	-	-	-	-	-	1,192,328	**1,192,328**
Covered bonds	163,331	-	-	-	-	-	-	**163,331**
Collective investment undertakings (CIUs)	-	-	-	-	-	-	205	**205**
Equity	-	-	-	-	-	-	33,745	**33,745**
Other items	-	-	-	-	-	-	1,995,122	**1,995,122**
Total	**6,714,666**	**100,356**	**11,104**	**23,182**	**45,760**	**25,048**	**16,034,965**	**22,955,081**

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

	1	2	3	4	5	6	Uniform Regulatory Treatment	Total
2018 (restated)	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,265,683	11,560	232	133,103	-	-	783	**5,411,361**
Regional governments or local authorities	71,507	-	-	-	-	-	53,873	**125,380**
Public sector entities	-	-	-	-	-	-	38,037	**38,037**
Multilateral development banks	95,974	-	-	-	-	-	-	**95,974**
International organisations	107,988	-	-	-	-	-	-	**107,988**
Institutions	563,145	55,722	2,087	27,193	846	38,461	-	**687,454**
Corporates	-	-	-	-	-	-	4,165,748	**4,165,748**
Retail	-	-	-	-	-	-	2,540,366	**2,540,366**
Secured by mortgages on immovable property	-	-	-	-	-	-	3,039,631	**3,039,631**
Exposures in default	-	-	-	-	-	-	3,550,740	**3,550,740**
Items associated with particularly high risk	-	-	-	-	-	-	1,682,216	**1,682,216**
Covered bonds	141,529	-	-	-	-	-	-	**141,529**
Collective investment undertakings (CIUs)	-	-	-	-	-	-	172	**172**
Equity	-	-	-	-	-	-	110,547	**110,547**
Other items	-	-	-	-	-	-	2,402,743	**2,402,743**
Total	**6,245,826**	**67,282**	**2,319**	**160,296**	**846**	**38,461**	**17,584,856**	**24,099,886**

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

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

	1	2	3	4	5	6	Uniform Regulatory treatment	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,780,089	11,308	343	-	-	-	390,508	**6,182,248**
Regional governments or local authorities	33,376	-	-	-	-	-	63,000	**96,376**
Public sector entities	-	-	-	-	-	-	82,439	**82,439**
Multilateral development banks	158,415	-	-	-	-	-	-	**158,415**
International organisations	107,307	-	-	-	-	-	-	**107,307**
Institutions	521,325	89,048	10,769	7,079	5,590	25,048	-	**658,859**
Corporates	-	-	-	16,103	40,683	-	4,372,655	**4,429,441**
Retail	-	-	-	-	-	-	2,525,760	**2,525,760**
Secured by mortgages on immovable property	-	-	-	-	-	-	3,258,208	**3,258,208**
Exposures in default	-	-	-	-	-	-	2,071,305	**2,071,305**
Items associated with particular high risk	-	-	-	-	-	-	1,192,320	**1,192,320**
Covered bonds	163,331	-	-	-	-	-	-	**163,331**
Collective investments undertakings (CIU)	-	-	-	-	-	-	205	**205**
Equity	-	-	-	-	-	-	33,745	**33,745**
Other items	-	-	-	-	-	-	1,995,122	**1,995,122**
Total	**6,763,843**	**100,356**	**11,112**	**23,182**	**46,273**	**25,048**	**15,985,267**	**22,955,081**

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

	1	2	3	4	5	6	Uniform Regulatory treatment	Total
2018 (restated)	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,304,038	11,560	232	133,103	-	-	783	**5,449,716**
Regional governments or local authorities	33,358	-	-	-	-	-	53,873	**87,231**
Public sector entities	-	-	-	-	-	-	38,037	**38,037**
Multilateral development banks	142,654	-	-	-	-	-	-	**142,654**
International organisations	107,988	-	-	-	-	-	-	**107,988**
Institutions	565,891	55,722	2,087	27,206	846	38,461	-	**690,213**
Corporates	-	-	-	-	-	-	4,147,917	**4,147,917**
Retail	-	-	-	-	-	-	2,531,768	**2,531,768**
Secured by mortgages on immovable property	-	-	-	-	-	-	3,019,830	**3,019,830**
Exposures in default	-	-	-	-	-	-	3,547,329	**3,547,329**
Items associated with particular high risk	-	-	-	-	-	-	1,682,212	**1,682,212**
Covered bonds	141,529	-	-	-	-	-	-	**141,529**
Collective investments undertakings (CIU)	-	-	-	-	-	-	172	**172**
Equity	-	-	-	-	-	-	110,547	**110,547**
Other items	-	-	-	-	-	-	2,402,743	**2,402,743**
Total	**6,295,458**	**67,282**	**2,319**	**160,309**	**846**	**38,461**	**17,535,211**	**24,099,886**

6.3.3.3 Breakdown of exposures by asset class and risk weight under the Standardised Approach

The exposures are disclosed post CCF and post CRM techniques.

All rows and columns that are not relevant to the Group's activities are not included in the table below.

EU CR5 Standardised Approach

December 2019	Risk weight													
Exposure classes	**0%**	**4%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Other**	**Deducted**	**Total**	**Of which unrated[32]**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,780,040	-	11,308	11,417	-	-	-	379,091	-	-	343	-	**6,182,199**	379,091
Regional government or local authorities	62,999	-	-	2,709	-	-	-	-	-	-	-	-	**65,708**	-
Public sector entities	81,694	-	-	45	-	-	-	-	-	-	-	-	**81,739**	-
Multilateral development banks	158,415	-	-	-	-	-	-	-	-	-	-	-	**158,415**	112,144
International organisations	107,307	-	-	-	-	-	-	-	-	-	-	-	**107,307**	107,307
Institutions	1,273	-	-	500,765	-	91,349	-	6,167	24,357	-	-	-	**623,911**	-
Corporates	-	-	-	-	-	-	-	3,331,306	41,183	-	-	-	**3,372,489**	3,315,705
Retail	-	-	-	-	-	-	1,349,638	-	-	-	-	-	**1,349,638**	1,349,635
Secured by mortgages on immovable property	-	-	-	-	2,400,232	743,944	-	-	-	-	-	-	**3,144,176**	3,144,175
Exposures in default	-	-	-	-	-	-	-	1,633,250	280,246	-	-	-	**1,913,496**	1,913,495
Higher-risk categories	-	-	-	-	-	-	-	-	936,566	-	-	-	**936,566**	936,565
Covered bonds	-	-	163,331	-	-	-	-	-	-	-	-	-	**163,331**	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	205	-	-	-	-	**205**	205
Equity	-	-	-	-	-	-	-	2,725	-	31,020	-	-	**33,745**	33,745
Other items	151,551	-	-	50,471	-	-	-	1,756,256	-	-	36,844	51,204	**2,046,326**	2,046,326
Total	**6,343,279**	-	**174,639**	**565,407**	**2,400,232**	**835,293**	**1,349,638**	**7,109,000**	**1,282,352**	**31,020**	**37,187**	**51,204**	**20,179,251**	**13,338,393**

[32] Includes all exposures for which an issue/issuer or country rating is not available or they follow uniform regulatory treatment.

6.3.3.3 Breakdown of exposures by asset class and risk weight under the Standardised Approach (continued)

EU CR5 Standardised Approach

December 2018 (restated)	Risk weight													
Exposure classes	**0%**	**4%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Other**	**Deducted**	**Total**	**Of which unrated[33]**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,304,909	11,560	232	-	-	-	-	-	-	132,955	-	-	**5,449,656**	783
Regional government or local authorities	53,873	-	-	3,503	-	-	-	-	-	-	-	-	**57,376**	-
Public sector entities	37,416	-	-	35	-	-	-	-	-	-	-	-	**37,451**	-
Multilateral development banks	142,654	-	-	-	-	-	-	-	-	-	-	-	**142,654**	95,974
International organisations	107,988	-	-	-	-	-	-	-	-	-	-	-	**107,988**	107,988
Institutions	1,435	-	-	523,293	-	59,590	-	7,830	32,878	-	-	-	**625,026**	-
Corporates	-	-	-	-	-	-	-	3,054,089	515	-	-	-	**3,054,604**	3,054,602
Retail	-	-	-	-	-	-	1,388,908	-	-	-	-	-	**1,388,908**	1,388,908
Secured by mortgages on immovable property	-	-	-	-	2,235,078	646,658	-	-	-	-	-	-	**2,881,736**	2,881,736
Exposures in default	-	-	-	-	-	-	-	2,617,988	718,401	-	-	-	**3,336,389**	3,336,388
Higher-risk categories	-	-	-	-	-	-	-	-	1,354,894	-	-	-	**1,354,894**	1,354,894
Covered bonds	-	-	141,529	-	-	-	-	-	-	-	-	-	**141,529**	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	172	-	-	-	-	**172**	172
Equity	-	-	-	-	-	-	-	14,842	-	95,705	-	-	**110,547**	110,546
Other items	153,715	-	-	37,224	-	-	-	2,211,804	-	-	-	212,033	**2,614,776**	2,614,776
Total	**5,801,990**	**11,560**	**141,761**	**564,055**	**2,235,078**	**706,248**	**1,388,908**	**7,906,725**	**2,106,688**	**228,660**	**-**	**212,033**	**21,303,706**	**14,946,767**

The main drivers behind the overall decrease in net values are analysed in section 5.5.1. At their majority they resulted in an increase in the 0% RW mainly from the sale consideration of the Project Helix with a respective decrease in the 100% and 150% from the release of NPEs and decrease in the 250% exposures from the disposal of the associate CNP Cyprus Insurance Holdings Ltd. The law amendment of the Cyprus Parliament legislative on 1 March 2019 allowing for the conversion of DTA into DTC for regulatory capital purposes carrying a RW of 100% which were previously risk weighted at 250% or deducted from capital is reflected by the increase in the 100% risk weight and decrease in the 250% risk weighted in exposure class "Central governments or central banks". All other movements are in line with balance sheet movements. "Other" risk weights in exposure class "Other items" includes the book value of properties held for sale that have been on-boarded after a failed auction and risk weight exceeds the normal 100% risk weight following SREP recommendation.

[33] Includes all exposures for which an issue/issuer or country rating is not available or they follow uniform regulatory treatment.

6.4 Exposures in Equities in the Banking Book

The Group holds certain legacy equity securities and certain equity securities obtained from customers in satisfaction of debt. The intention, in line with an ALCO decision, is to run this portfolio down.

Listed equity securities are measured at fair value, being the market value of these securities on a recognised stock exchange. Unlisted securities are also measured at fair value, which is determined using valuation models with inputs form both, market observable data and non-observable data. These models are periodically reviewed by qualified personnel.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity include, where applicable, prevailing government bond yields, country risk premiums, industry inputs (e.g. beta, debt to equity ratio), discount for size premium, discount for lack of liquidity, prevailing borrowing cost level, country GDP growth rate. In addition, where available, valuation is based on business plans and cash flow projections of the company along with the prevailing net debt position of the company. In cases where cash flow projections are not available prevailing industry multiples are utilised for valuation purposes (e.g. P/E ratio, P/B ratio, EV/Earnings before interest, tax, depreciation & amortisation (EBITDA) with relevant adjustments effected where required (e.g. for company or market size).

Further information on fair value measurement of equities securities is disclosed in Note 23 of the Consolidated Financial Statements of the Company for 2019.

The Group irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Equity investments at FVOCI comprise mainly investments in private Cyprus registered companies, acquired through loan restructuring activity and specifically through debt for equity swaps. Further information is disclosed in Note 21 of the Consolidated Financial Statements of the Company for 2019.

The carrying value of the Group's equity securities at 31 December 2019 was €15,202 thousand (2018: €11,534 thousand) and it was equal to their fair value, analysed as follows:

	2019	2018
	€000	€000
Listed on the CSE	**1,451**	1,498
Listed on other stock exchanges	**137**	167
Other unlisted	**13,614**	9,869
Total	**15,202**	11,534

During 2019 no equity investments measured at FVOCI has been disposed of (2018: €5,458 thousand). The cumulative gain transferred to retained earnings during the year 2018 amounted to €173 thousand. There were no other transfers from OCI to retained earnings during the year.

6.5 Exposure to Interest Rate Risk on Positions in the Banking Book

6.5.1 Nature of the Interest Rate Risk and Key Assumptions

Interest Rate Risk in the Banking Book refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. Moreover, optionalities embedded in the Bank's products may give rise to interest rate risk.

In order to control/quantify/monitor the risk from changes in interest rates, the outcomes of two types of analysis are taken into account:

1. Impact on the NII – earnings measure
2. Impact on the EV – EV measure

In addition to the above two types of measures, interest rate risk for EUR (which consists of the bulk of the Group's balance sheet) is also measured using interest rate gap analysis where the assets, liabilities and off balance sheet items are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as Non-Rate Sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated.

Impact on NII is measured assuming either that the composition of the Banking Book remains the same (static balance sheet) or dynamic balances in line with the bank's financial plan, depending on the scenario undertaken. As per the analysis undertaken for the preparation of the market risk policy no prepayment models are used due to:

1. the immaterial amount of loans subject to prepayment risk and the macroeconomic conditions in Cyprus (high unemployment rate, reduction in salaries etc.). As per the new Mortgage Credit Directive (voted in April 2017) the Bank is allowed to charge the interest rate cost, in cases the customer repays early (instead of only admin charge) for all new mortgage loans irrespective of the loan amount and with no retrospective effect. Furthermore, the analysis performed by the Bank for the portfolio before the new 2017 aforementioned legislation, indicates that loans subject to prepayment risk on which no interest rate cost can be charged are decreasing. As per the latest analysis performed, the amount of fixed rate loans that are subject to prepayment risk was around €9.8 million as at the end of December 2019 (€13.6 million as at the end of December 2018). The analysis indicates that no prepayment modelling is required. Prepayment of loans will be assessed for modelling only if the ratio of loans for which no penalty can be charged over the total loans is greater than 1%.
2. the low level of fixed deposits that allow withdrawals without a penalty charge and low usage of the option to withdraw early. Early withdrawal of deposits will be assessed for modelling when the ratio of the deposits allowing withdrawals without penalty over the total fixed deposits is greater than 1%.

It is noted that the Bank may at its discretion allow its customers to prepay their loans. However, in the case of loan prepayments, penalty charges can apply for fixed rate loans, to cover any associated cost.

The prepayment related risk is measured and reviewed at least on an annual basis.

Treatment of Non-Maturing Deposits

Non-Maturing Deposits (NMDs) are liabilities which are free to be withdrawn at any time since they have no contractually agreed maturity date. Historically, NMDs proved to be stable, even when market rates change. Any interest rate paid on these deposits is usually lower than that paid on other sources of funding. The core[34] deposit assumptions and the maturity profile of these accounts are modelled. It is noted that the assumed maturity profile for all categories is constrained to the tenor limit in line with the BASEL guidelines. Maturity profile assumptions vary according to depositor characteristics (e.g. retail or wholesale) and accounts characteristics (e.g. transactional or non-transactional).

[34] Core deposits are those balances of NMDs that would remain in a place with high probability, based on historical evidence. Statistical analysis indicates that these accounts are unlikely to reprice even under significant changes in interest rates.

6.5.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

Floor on Deposits

All deposit categories are assumed to have a 0% floor, given that it would be unlikely for the Bank to offer negative deposit rates.

Notice Accounts

Notice accounts, in the case of decrease in rates, are assumed to have a time lag of 2 months. This means that any decrease in interest rates will impact the interest rate of these accounts only two months after the rate change. This is required given that the Bank is required by the PSD, to give notice (75 days) to its clients for any upcoming interest rate change not in the customers' favour.

Beta of Bank Base Rate Loans, Fixed Deposits and Notice accounts

It is noted that the EUR Bank base rate loans (referenced to the CBC deposit index) have high correlation to the changes of the fixed deposits and notice account rates. It is noted that Bank base rate loans are revised quarterly and are directly linked to the CBC benchmark rate which is lagged by 2 months compared to the current month. Based on statistical evidence, the sensitivity of CBC index to the Bank's EUR Fixed Deposits and Notice accounts is 83% in case of increasing rates and 100% in case of decreasing rates. The relationship of the fixed and notice deposit rates to market rate changes has been defined, after taking feedback from the Business Lines.

Floor on Loans

For existing loans where there is a contractual agreement in place, a floor of 0% on the reference rate is applied only. All new loans are assumed to have a floor of 0% on the reference rate, given that such a condition is included in all new loan contracts.

Treatment of Equity

Equity does not impact the EV or NII calculations of the Bank.

Interest Rate scenarios

The interest rate risk scenarios selected by the Bank consider:

a. Up and down parallel shifts in the yield curve of varying magnitude based on statistical analysis of past behaviour of interest rates
b. Changes in the yield curve shape (flattening, steepening, short up and down etc.) and
c. Basis risk i.e. changes in the relationships between different key market rates.

It is noted that different interest rate scenarios apply to exposures in different currencies that account more than 5% of either banking book assets or liabilities. Currencies with less than 5% will be included until the sum of assets or liabilities included in the calculation is at least 90%. No change in NII and EV is calculated for the rest of the currencies.

The Interest Rate Effects under the BASEL scenarios (in line with the scenarios presented in the BCBS April 2016 paper) are produced on a quarterly basis and are presented for information purposes. No compliance with limits is required.

Stress Testing and Reverse Stress Testing is performed on an annual basis as part of the ICAAP process, including the standard regulatory shock which involves sudden +/-200 basis points change of the yield curve applying a floor of 0% to all loans with a contractual floor agreement and to all deposits (regulatory shock is done on a quarterly basis). If +/-200 basis points is lower than the actual level of change in interest rates, calculated using the 1st and 99th percentile of observed one-day interest rate changes over a five year period scaled up to a 240-day year, the higher level of shock arising from the latter calculation should be applied as the standard shock.

The market rate shocks for EUR and USD, which are the currencies corresponding to the bulk of the Bank's balance sheet items are indicated below:

6.5.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

EUR: Parallel UP / DN: +/- 50 bps, Steepening: 1 day:-50 bps & 360 mons: 50 bps, Flattening: 1 day: +50 bps & 360 mons: -50 bps, Short UP / DN: 1 day: +/- 50 bps & 360 mons: 0 bps.

USD: Parallel UP / DN: +/- 60 bps, Steepening: 1 day:-60 bps & 360 mons: 60 bps, Flattening: 1 day: +60 bps & 360 mons: -60 bps, Short UP / DN: 1 day: +/- 60 bps & 360 mons: 0 bps.

The above shocks were calculated using statistical analysis of historical interest rates.

6.5.2 Impact of Downward and Upward Rate Shocks

The ALCO recommends the policy and limits on the maximum allowable interest rate risk in the banking book, for each currency, which are then approved by the BoD though its RC. The exposure is described below.

6.5.2.1 On Earnings

The maximum loss limit applies for the Year 1 impact on NII. The limit is set as a percentage of the Group capital and as a percentage of Group NII.

The table below indicates how the NII of the Group, over a one-year period, will be affected assuming parallel and non-parallel interest rate changes in the market interest rates of the main currencies:

2019	**Euro**	**US Dollar**	**Total**
	€000	**€000**	**€000**
Change in interest rates	***(50 bps)***	***(60 bps)***	
Parallel up	**27,577**	**869**	**28,446**
Parallel down	**(30,735)**	**(2,382)**	**(33,117)**
Steepening	**(23,857)**	**(1,018)**	**(24,875)**
Flattening	**21,225**	**(202)**	**21,023**
Short up	**26,401**	**609**	**27,010**
Short down	**(29,958)**	**(2,118)**	**(32,076)**

2018			
Change in interest rates	*(50 bps)*	*(60 bps)*	
Parallel up	32,247	393	32,640
Parallel down	(28,001)	(1,711)	(29,712)
Steepening	(23,917)	(1,538)	(25,455)
Flattening	26,894	276	27,170
Short up	31,211	379	31,590
Short down	(27,743)	(1,847)	(29,590)

6.5.2.2 On Economic Value of Equity

The impact on the EV of equity is measured for the Group's positions, given a 200 bps change in market interest rates. ALCO has set a maximum internal limit of 15%[35] for this change, compared to the 20% regulatory maximum ratio. The change in the EV of the Group's equity as at the end of December 2019 amounted to minus €83.8 million as a result of a 200 bps increase in market interest rates and to €50.9 million as a result of a 200 bps decrease in market interest rates (-4.4% and +2.7% of Group T1 capital, calculated in accordance with CBC rules). As at the end of December 2018, the change of the EV amounted to minus €144.6 million (-7.8% of Group T1 capital) as a result of 200 bps increase in market interest rates. The impact on the EV of equity is also measured under various parallel and non-parallel interest rate changes of lower magnitude. The increase in the impact since last year, is not due to materially different exposures but due to the shift of Customer Deposits from fixed rate deposits to current accounts and saving accounts.

The regulatory EV change of a 200 bps, change in market interest rates as well as the parallel and non-parallel interest rate changes in the market interest rates of the main currencies are indicated in the tables below:

Group regulatory Economic Value change

2019	**Euro**	**US Dollar**	**Total**
	€000	**€000**	**€000**
Change in economic value (€000): +200 bps	**(87,013)**	**6,512**	**(83,757)**
Change in economic value (€000): -200 bps	**115,147**	**(6,684)**	**50,889**
Change on CET1 (%)	**-4.6%/+6.0%**	**+0.3%/-0.4%**	**-4.4%/+2.7%**

2018	**Euro**	**US Dollar**	**Total**
	€000	**€000**	**€000**
Change in economic value (€000): +200 bps	(148,915)	8,676	(144,578)
Change in economic value (€000):-200 bps	476,298	(12,343)	225,806
Change on CET1 (%)	-8.0%/+25.6%	+0.5%/-0.7%	-7.8%/+12.1%

2019	**Euro**	**US Dollar**	**Total**
	€000	**€000**	**€000**
Change in interest rates	**(50 bps)**	**(60 bps)**	
Parallel up	**(56,259)**	**1,977**	**(55,270)**
Parallel down	**91,255**	**(2,769)**	**42,858**
Steepening	**(21,581)**	**(1,017)**	**(22,598)**
Flattening	**14,034**	**523**	**7,278**
Short up	**(29,632)**	**1,687**	**(28,788)**
Short down	**51,308**	**(2,588)**	**23,067**

[35] The 15% limit has been approved by ALCO in December 2018 (previous limit was 10%) and by the Board in January 2019.

6.5.2.2 On Economic Value of Equity (continued)

2018	Euro	US Dollar	Total
	€000	€000	€000
Change in interest rates	*(50 bps)*	*(60 bps)*	
Parallel up	(63,551)	2,659	(62,222)
Parallel down	87,037	(3,558)	39,961
Steepening	(36,216)	(1,093)	(37,309)
Flattening	21,382	620	11,001
Short up	(32,584)	2,271	(31,449)
Short down	38,322	(3,253)	15,908

The aggregation of exposures for all currencies is done by adding together any negative and 50% of any positive EVE changes as per EBA guidelines.

6.6 Information on Credit Risk Mitigation Techniques

The Group has implemented various methods in order to achieve effective mitigation of credit risk. Some of the most important methods implemented are listed below:

- Identifying the sectors of the economy where the Bank is not willing to finance or may finance under strict conditions (i.e. dangerous / prohibited sectors of the economy).
- Setting of sanctioning limits for all line/Unit Managers and the various Sanctioning / Approving Authorities of the Bank (including the Credit Committees). Automation of the credit scoring process / sanctioning limit decision (implemented in February 2018), reduces significantly the risk of a credit application being approved by an incorrect approving authority.
- Setting of thresholds relating to LTV Ratios as well as procedures for taking collaterals especially mortgages on residential and commercial properties.
- Issuing circulars and guidelines concerning the granting of credit which are in line with the regulatory directives.

The purpose of a collateral is to secure the Bank's claims towards a customer when granting a credit facility and it acts as a credit risk mitigant in the case of customer default.

The Group sets the following criteria for accepting collaterals:

(a) They should be sufficient to cover the proposed facility throughout its duration.
(b) They should provide capital efficiency and minimum risk.
(c) They should be easy to realise in the case of customer default in the current regulatory framework and market availability.

As a principle, the financed asset should be obtained as collateral. Deviations from this rule may be allowed in cases where (a) there is a valid reason for not pledging the financed property (b) the alternative collateral fully covers the finance amount, and (c) an official valuation is performed for both properties by the same valuer and the alternative collateral is deemed to be at least as easily realisable as the property to be financed. When the collateral is in the name of a third party, the personal/corporate guarantee of the third party is usually obtained. For capital efficiency, the duration/maturity of the collateral should be at least the same as that of the facility.

Netting and set-off
In most jurisdictions in which the Group operates, credit risk exposures can be reduced by applying netting and set-off. Netting is applied on derivative exposures and set-off on customer advances exposures.

6.6 Information on Credit Risk Mitigation Techniques (continued)

ISDA agreements allow for netting of credit risk exposure to a counterparty resulting from derivative transactions against obligations to the counterparty in the event of default and therefore produce a lower net credit exposure. These agreements may also reduce settlement exposure (e.g. for FX transactions) by allowing payments on the same day in the same currency to be set-off against one another. The Bank has signed variation margin agreements in line with EMIR margining requirements and to this effect the netted positions are calculated on a daily basis and the threshold is set at 0%. Furthermore, CSA which forms part of ISDA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Set-off is being applied through the application of the credit mitigation technique of the CRR "On-Balance sheet netting" under Article 195. It is applied to reciprocal same currency cash balances between the institution and the counterparty, reflecting the right of set-off and it is treated as cash collateral for RWAs purposes. Set off is only applied where all minimum requirements described in Article 205 of the CRR are met and only when the institution has the legal right to set off the credit balances of a customer against their debit balances in the absence of legal pledge of cash collateral. The credit balances used for on-balance sheet netting are of account types "Fixed Deposit" and "Notice Accounts" which are flagged by the system requesting the appropriate senior approval before the release of monies to the customer from these accounts.

On-balance sheet netting is only applied in the calculation of RWAs by way of decreasing the exposure amount to be risk weighted. It recognises the balances of deposit accounts which have been flagged as eligible and for which withdrawal is only allowed after internal approval as at the reference date.

Detailed analyses on both Netting and Set-off are presented in Section 6.2.7 above.

6.6.1 Main Types of Collateral Accepted

Collaterals are classified into two categories:

(a) Own (belonging to the borrower).
(b) Third Party (belonging to third party, not being the borrower).

Collaterals cover facilities as per agreement with the customer and Bank approval.

6.6.1.1 Legal Pledge of Cash Deposit (Cash Collateral)

Pledged deposits (blocked funds) including any interest, are considered as the highest level of security. When the currency of the facility is the same as the currency of the deposit, then the facility must be covered by 105% by cash collateral; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage.

6.6.1.2 Government Guarantees

Guarantees issued by sovereigns are usually governed by the respective law of the country that issues the guarantee and they should be signed by an authorised representative of the government issuing the guarantee.

6.6.1.3 Bank Guarantees

These include guarantees issued by local and foreign banks. Bank guarantees are accepted in line with the various Group limits set by the MR and which are based on each bank's credit worthiness.

6.6.1.4 Mortgages (Legal Charge on Property)

Mortgage on real estate property is the most common form of collateral accepted by the Group. They are generally accepted only when the Group's claim ranks first over other creditors. Lower ranking mortgages (i.e. 2nd, 3rd, etc.) are accepted only when the Bank has first ranking mortgage as well, or where the country's legal system protects the value of a second mortgage (or the first ranked mortgagees have restricted their claim). All mortgages are written for the equivalent of the facility amount plus 10%, and in the same currency as the related facility's currency; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage. For buildings, a fire/earthquake insurance policy is also required and it should be assigned in favour of the Group.

6.6.1.5 Assignment of Sale of Contract

When the property offered as collateral has no official title deed necessary for a mortgage, the Group can accept the assignment of the contract of sale. With the assignment of the contract of sale, the buyer of the property assigns to the Group the benefits arising from the contract. The assignment of the contract should be registered with the Land Registry and is considered equivalent to a mortgage provided that the assignment of the sale of contract is accompanied by the corporate guarantee of the developer (seller) and the developer's (seller's) related project is mortgaged in favour of the Bank.

6.6.1.6 Personal/Corporate Guarantees

Whilst personal/corporate guarantees are considered as a weaker form of collateral, they are obtained as additional or supporting collateral to other forms of security held by the Group. For corporate guarantees, Bank's officers need to ensure that this act is permitted in the incorporation documents of the entity giving the guarantee. When the customer is a legal entity, the personal guarantees of the main shareholders/directors, key persons and any other parties having active participation or control in the entity must be obtained. When the debtor is not a local resident, it is recommended to receive personal guarantees from local residents. The amount of the guarantee should be at least equal to the amount of the facility, and if possible cover any interest or additional charges.

In order to accept the guarantee of an individual or a legal entity, their creditworthiness needs to be assessed. This is done by obtaining the same information for the guarantor as for the borrower, as per the relevant provisions of the CBC Directive on Credit Granting and Review Processes.

For example, guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as provide various documents depending on the case e.g. proof of income tax clearance, VAT statements, business plans, building permits. Although the guarantor's income is not taken into account in calculating the repayment ability of the borrower (except for spouses), they are assessed for creditworthiness and may be rejected for any negative financial or other reason. In addition, all guarantors must be evaluated through the credit scoring (individuals) or other evaluation processes (Borrower rating/Financial Index for legal entities) that are issued from time to time, using relevant assets and liabilities statements which must be at least in time with the revision of the customer's facilities. In order for the Group to accept the guarantees, the guarantors should be solvent.

The Group does not have credit derivatives.

6.6.1.7 Fixed Charges

For assets owned by companies, the charge is registered on specific new or existing fixed assets, other than real estate property, of the company. It gives the Bank priority on the charged items over all other creditors including preferential creditors. The ownership, possession and condition of these assets should be verified and where appropriate insurance policies on these assets should be assigned in favour of the Bank.

6.6.1.8 Floating Charges on Bank Assets

This type of security can only be offered by a limited liability company which registers a charge on all of its assets (present and future), without restrictions, in favour of the Group. The Group must ensure that these assets are adequately insured and the insurance policies are assigned to the Group. The charge gives the Group the right to appoint a receiver in order to manage the company and therefore gives the Group the following advantages:

(a) 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) Access to unencumbered assets owned by the company.

6.6.1.9 Assignment of Life Insurance Policies

The original beneficiary assigns to the Group all (a) indemnities from the insurance company in case of death of the beneficiary or (b) proceeds from liquidation/termination of investment/endowment policies. Insurance policies can be Term, Life or Investment/Endowment. The life insurance policy should be by insurance companies approved by the Group as eligible life insurance policy providers.

The assignment of life insurance policies is a lending condition in the following cases:

(a) Long term facilities, e.g. housing loans.
(b) Unavailability of tangible collateral.
(c) The primary collateral offered is considered illiquid.
(d) There is dependence on a single individual for the repayment of the customer's facility (including the shareholders-company relationship).

6.6.1.10 Assignment of General Insurance Policies

Insurance protection on a mortgaged property is a key factor for the reduction of credit risk. It also directly affects the capital adequacy and asset quality. Therefore, it is mandatory for all mortgaged property to be properly and adequately secured against fire, earthquake and other risks and that the rights of the policy are assigned to the Bank. Other General Insurance policies may include buildings, content, motor, personal accident, public liability, etc.

6.6.1.11 Assignment of Receivables

The original beneficiary assigns the receivables to the Group without notification to the paying party. It is a weaker form of collateral unless the Group can notify the debtor of the assignment. Their eligibility depends on:

(a) The degree of trust and confidence the Bank has in the assignor.
(b) he legal assignability of the receivables.
(c) The clear and unambiguous definability of the receivables and their value.
(d) The receivables being free from third-party rights.

6.6.1.12 Pledge on Marketable Securities (Shares, Debt Securities, etc.)

Due to its high market volatility and dependency on the prevailing economic conditions, the pledge on marketable securities should be avoided and be accepted only in special cases after careful evaluation. Where the pledge is justified, the market value should be closely monitored to adhere to the Group's requirements. Credit Risk Management in co-operation with MR sets the minimum haircut to be applied to such pledged securities.

6.6.2 Collateral Valuation Policy

It is essential that collaterals offered to the Group as security are valued at the point of credit origination and also monitored at regular intervals. This ensures that the value of the collateral is still adequate to cover the facilities granted by the Group and that they can be taken into account for capital adequacy purposes.

6.6.2.1 Mortgages (Legal Charge on Property)

Mortgaged property is valued by approved independent valuers based on the standards, policies and procedures set by the Bank's Valuations Unit.

Valuation Values

The valuation report presents the following values:

1. Market Value (MV) of the property is based on the assumption that there is a willing buyer / seller within a logical time period and that an arm's length transaction after a logical marketing period can take place, according to the type of property and market conditions.
2. Forced Sale Value (FSV) of a property is calculated at a percentage lower than the market value to estimate the sale price that would be expected on a quick disposal (if required), i.e. the value expected to be reached through a forced sale.
3. Insurance values, the report includes both the insurance replacement value ("new for old") and insurance current value of the property to be used as guidelines for insurance purposes by the Bank (properties should be adequately and properly insured as per the Bank's guidelines).

Immovable property collateral should be valued, adhering to European and international standards, which include the European Valuation Standards (Blue Book) and the Royal Institute of Chartered Surveyors (RICS) standards (Red Book).

Valuation amount in case of two or more valuations/discrepancies

Where there are two valuations performed by approved valuers for the same property with different amounts, the lowest of the valuations is taken into account for lending purposes. If there is a discrepancy greater than 20% between the two valuations, they are reviewed by Valuations Unit and if required a third valuation is performed internally.

External Valuers/Monitoring & Control of Valuations

The selection of an external valuer is based on specific criteria and is the exclusive responsibility of the Valuations Unit, without customer or any other Bank unit / department involvement or intervention. This is an inviolable condition. External valuers must be independent of the credit evaluation, approval and granting process. They must not have any conflict of interest regarding the result of the valuation or any interest in the property.

External valuers should not come into contact with customers regarding the valuation, unless this is absolutely necessary in order to complete the valuation (e.g. for buildings where an internal inspection is required or to collect any documents/information relevant to the valuation).

Valuation Frequency/Monitoring

New Lending

New Lending Amount	No. of Valuations
2019 and 2018	
Lending < €3 million	1
Lending > €3 million	2

For new lending over €3 million, in case there is a discrepancy greater that 20% between the two valuations then a third valuation should be performed.

When an application is evaluated for new lending with property offered as collateral, the valuations are carried out by an external independent valuer.

In all cases, the lower of the market value and the purchase value (based on the sales contract) is used.

6.6.2.1 Mortgages (Legal Charge on Property) (continued)

Revision of Facilities
Properties mortgaged to the Group and held as security are to be monitored at regular intervals, according to the table below, to ensure that the value of the property is still adequate to cover the facilities given by the Group.

For the purpose of monitoring and indexing property values the relevant P.P.I's issued by the Central Bank are used. Residential properties (including land) are monitored against the residential P.P.I. while commercial properties (including land) against the commercial P.P.I. according to the above table. The following four values are given which are used according to the objective of the exercise (lending, capital calculation, provisioning etc.):
If there is reason to believe that the value of a specific property has *declined* materially relative to the general property prices provided by the Index, then an official valuation must be requested through the Valuations and Unit. These properties are recognised in two ways: A questionnaire of possible trigger events has been prepared and provided to front line credit officers who, through their continuous communication with their customers, will identify any significant changes in the property prices. In addition, major trigger events that may negatively affect property prices, such as fires, earthquakes, or changes in planning zones are monitored by Valuations Unit, which will inform the relevant credit officers and the CRMD in order to proceed with valuations where necessary.

Amount of Customer Facilities	**Official Valuation Period**
	Commercial and Residential Properties
Below €3 million	No valuation unless there is a material decline in property value
Above €3 million	3 years
	Index Monitoring
Irrespective of amount	Quarterly

Restructuring Facilities

During restructuring applications, the age of the valuation is as follows, unless the LTV of the customer is below 50% based on the most recent valuation:

Facility Amount	**Date of last Valuation**	
	Commercial	Residential
Irrespective of amount	1 year	3 years

Terminated Facilities
For customers whose accounts have been terminated the frequency of valuations is as follows:

Facility Amount	**Frequency/Age of Valuation**
At the time of termination (irrespective of amount)	1 year
Properties securing already terminated accounts	Monitored using appropriate indices, as per paragraph "Revision of Facilities" above.

Properties mortgaged for NPEs should be monitored / revalued according to the table below:

Amount of Customer Group Facilities	**Official Valuation Period**
	Commercial and Residential properties
Irrespective of amount	Immediately when exposure is classified as non-performing
Above €300K	1 year
Below €300K	Index Monitoring - no valuation unless there is a material decline

6.6.2.1 Mortgages (Legal Charge on Property) (continued)

Cases where a more frequent/immediate valuation is required, at the Bank's discretion

- When market conditions are volatile, i.e. the market exhibits extraordinary variations in prices (the CBC property indexes may be used as a reference).
- A settlement proposal by the property's owner or by the principal debtor to pay an amount against the debt, in exchange for the cancellation of the whole or part of a mortgage.
- Cancellation or removal of a mortgage from one or more mortgaged properties of a customer, while there are still unsettled obligations. In this case, a revaluation of all properties of the customer which are to remain mortgaged is performed, to verify that the unsettled obligations are adequately secured. Exceptions to this may apply, for example, where recent valuations of the remaining properties are available or where a unit that is part of a project mortgaged in favour of the Bank is sold and the appropriate amount is received against the seller's loan (as previously approved by the appropriate sanctioning authority).
- A decision to sell the mortgaged property through an auction, where a minimum starting auction price must be specified (based on laws relating to foreclosures for which there is a separate procedure).
- A decision by the Bank to purchase the property against settlement of debt (DFAS).
- A decision to sell a problematic mortgaged property to a third party, before it is transferred to the Bank.
- Whenever deemed necessary by the Bank.
- In cases where a property is leased, the property should be checked every year to confirm that it is still used by the leaseholder for their own purposes and that the lease payments are being made normally.
- A significant increase in the LTV ratio of the customer, for example when the LTV exceeds the level specified in the Bank's Lending Policy.

Recoverable Amounts for mortgages

For mortgages registered before 1/1/2001, the recoverable amount is the lowest of the following values:
(i) Mortgage amount + 9% interest from the registration date
(ii) Mortgage amount * 2
(iii) Forced Sale Value
(iv) The maximum amount of the facility secured, where the collateral is specific.

For mortgages registered after 1/1/2001, the recoverable amount is the lowest of the following values:
(i) Mortgage amount + interest (Bank Base Rate + applicable margin) from the registration date
(ii) Forced Sale Value
(iii) The maximum amount of the facility secured, where the collateral is specific.

In all cases, prior mortgages plus interest are taken into consideration.

6.6.2.2 Cash collateral (Lien on credit balances)

The recoverable amount is equal to 100% of the blocked amount and is recognised by the system automatically at origination. Foreign currency blocked amounts are converted automatically to Euro on a daily basis. In case there is a mismatch of the currency of the facility and the currency of the collateral, the additional margin required to cover the exchange rate risk is supplied by Market Risk. Close monitoring of these loans is necessary in order to request additional collateral when the collateral cover falls below certain levels.

6.6.2.3 Assignment of Sale of Contract

Sales contracts do not have a recoverable amount but indirectly acquire value in the following cases:

(a) When there is a developer guarantee for the buyer's loan and the project is financed and mortgaged within the same bank.
(b) When accompanied by a bank guarantee or letter of allocation (within the Group).

6.6.2.4 Fixed and Floating Charges

In order to calculate the value of the fixed or floating charge, the last audited asset certificate/financial statements respectively must not be older than 18 months.

For the calculation of the value for the assets included in the fixed and/or floating charge, the percentages for different asset classes are as per the regulatory directives.

6.6.2.5 Personal/Corporate Guarantees

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

6.6.2.6 Government Guarantees

The recoverable amount is up to 100% of the guarantee amount. In addition government guarantees must be within the approved country limits.

6.6.2.7 Bank Guarantees

100% of the guarantee value at origination plus interest, where applicable from the date of issue.

6.6.2.8 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.)

When listed shares are taken as collateral, the Bank should also ensure:

- Such shares are listed on recognised exchanges where access via its own brokers is feasible.
- That these shares are adequately liquid and the Bank will be able to have an exit route without undue risks on its position.
- That no undue concentration exists on any listed share that the Bank holds as collateral.
- BOC shares listed on recognised stock exchanges are generally not accepted as collateral, unless approved by the appropriate sanctioning authority.

Recoverable Amounts	Listed	Non Listed
Shares (Cyprus and abroad)	75% of the market value where the % of shares pledged per customers group does not exceed 3% of the total shares of the company, 50% apply in cases the % of pledged shares exceed the 3%	50% of company net worth
Bonds & Debentures issued by banks (Cyprus and abroad)	90%	90% of NPV
Bonds & Debentures issued by other public companies (Cyprus and abroad)	70%	50% of nominal value provided issuer has positive net asset value
Government Bonds (Cyprus)	100%	100%
Government Bonds & Debentures	Subject to CBC approval	Subject to CBC approval
BOC Money Market Funds	90%	n/a
BOC Enhanced Cash Bond Funds	70%	n/a
BOC UCITS	SRRI	n/a
Other BOC Funds (non-UCITS)	50%	n/a

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.

6.6.2.8 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.) (continued)

For non-listed shares, the recoverable amount is calculated manually based on 50% of the net worth of the company based on recent audited accounts (not older than 18 months).

For monitoring purposes, the appropriate action should be taken by the responsible officer as follows:

Increase in facility amount in relation to security value	Action taken
+15%	Inform appropriate business line Director – Request additional collateral, deposits, decrease lending, evaluate the possibility of liquidation.
+25%	Inform appropriate business line Director and obtain approval from the related approving authority for immediate liquidation, assessing the impact of such action on the company and its related group.

6.6.2.9 Assignment of Life Insurance Policies

Term life insurance policies have no recoverable amount.

For endowment (investment) life insurance policies, the recoverable amount is 100% of the latest surrender value. This should take into account any possible expenses associated with redeeming the policy.

6.6.2.10 Other Collateral Types

- Pledge on goods (0%).
- Assignment of receivables (0%).
- Positive/Negative pledge (0%).
- Vehicles under stock finance facilities (0%-75%) depending on the age of the vehicle (recorded manually at origination and then depreciated automatically by the system).
- Items under hire-purchase, 50% of net book value at origination and subsequently depreciated automatically according to the type of item.

6.6.2.11 Shipping Mortgages

Shipping collateral is considered a specialised collateral. Valuations need to be based on acceptable valuation sources such as recognised shipbroking firms. Since there is no international recognised body for shipping valuations (equivalent to RICS), it is important to receive estimates from recognised firms with long-standing experience and acceptance by the market. Revaluations are conducted at least on annual basis.

Age of vessel	Recoverable Amount
Up to 20 years	70% of market value
Over 20 years	100% of scrap value

6.6.3 Concentrations within Credit Risk Mitigation

The Group has a material concentration of property collateral. Further analysis on fair value of collateral and credit enhancements held by the Group is presented in Note 46 of the Consolidated Financial Statements of the Company for 2019.

The table below illustrates the effect of all CRM techniques applied in accordance with the CRR, including the financial collateral comprehensive method. The exposure amount displayed in table below are after the application of specific credit risk adjustments, as explained in Section 6.2 above.

RWAs density is a synthetic metric on the riskiness of each portfolio.

All rows and columns that are not relevant to the Group's activities are not included in the table below.

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWAs**	**RWA density**
	€000	**€000**	**€000**	**€000**	**€000**	**%**
Central governments or central banks	6,147,322	39	6,182,199	-	382,591	6.2
Regional government or local authorities	116,832	12,619	65,688	20	542	0.8
Public sector entities	81,720	719	81,698	41	9	-
Multilateral development banks	112,144	-	158,415	-	-	-
International organisations	107,307	-	107,307	-	-	-
Institutions	579,003	52,231	579,047	27,127	179,648	29.6
Corporates	3,323,220	1,122,883	3,157,118	214,653	3,353,301	99.5
Retail	1,532,259	1,001,720	1,263,734	85,889	960,387	71.2
Secured by mortgages on immovable property	3,221,557	57,013	3,115,178	28,998	1,180,406	37.5
Exposures in default	1,899,021	175,999	1,879,130	34,366	2,053,619	107.3
Higher-risk categories	980,729	211,599	895,399	41,167	1,404,849	150.0
Covered bonds	163,331	-	163,331	-	16,333	10.0
Collective investment undertakings (CIUs)	205	-	205	-	205	100.0
Equity	33,745	-	33,745	-	80,275	237.9
Other items	1,995,122	-	1,995,122	-	1,876,882	94.1
Total	**20,293,517**	**2,634,822**	**19,677,316**	**432,261**	**11,489,047**	**57.1**

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2018 (restated)	**Exposures before CCF and CRM**		**Exposures post CCF and CRM**		**RWAs and RWAs density**	
Exposure classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWAs**	**RWAs density**
	€000	**€000**	**€000**	**€000**	**€000**	**%**
Central governments or central banks	5,411,301	60	5,449,656	-	332,873	6.1%
Regional government or local authorities	112,619	12,761	57,294	82	701	1.2%
Public sector entities	37,441	596	37,417	34	7	0.0%
Multilateral development banks	95,974	-	142,654	-	-	0.0%
International organisations	107,988	-	107,988	-	-	0.0%
Institutions	564,793	70,189	565,945	31,388	177,904	29.8%
Corporates	2,959,947	1,205,412	2,823,286	230,929	3,016,593	98.8%
Retail	1,575,155	965,208	1,327,376	61,529	987,312	71.1%
Secured by mortgages on immovable property	2,948,717	90,914	2,838,939	42,797	1,077,148	37.4%
Exposures in default	3,301,085	249,655	3,272,657	63,732	3,695,591	110.8%
Higher-risk categories	1,432,856	249,360	1,299,798	55,096	2,032,341	150.0%
Covered bonds	141,529	-	141,529	-	14,153	10.0%
Collective investment undertakings (CIUs)	172	-	172	-	172	100.0%
Equity	110,547	-	110,547	-	254,105	229.9%
Other items	2,402,743	-	2,402,743	-	2,219,249	92.4%
Total	**21,202,867**	**2,844,155**	**20,578,001**	**485,587**	**13,808,149**	**65.6%**

The main drivers behind the overall decrease in exposures, RWAs and the RWAs density are analysed in section 5.5.1.

6.6.3 Concentrations within Credit Risk Mitigation (continued)

The table below presents the exposure value excluding loans and advances classified as held for sale covered by financial collateral, other collateral, guarantees and credit derivatives.

EU CR3 Credit risk mitigation techniques overview

2019	**Exposures unsecured – carrying amount**	**Exposures secured - carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
	€000	**€000**	**€000**	**€000**	**€000**
Total loans	700,675	10,021,166	9,600,262	56,646	-
Total debt securities	1,574,675	163,332	163,332	-	-
Total exposures	**2,275,350**	**10,184,498**	**9,763,594**	**56,646**	**-**
Of which defaulted	109,054	1,801,128	1,760,232	13,953	-
2018					
Total loans	679,003	10,242,783	9,096,436	63,778	-
Total debt securities	1,223,214	141,529	141,529	-	-
Total exposures	**1,902,217**	**10,384,312**	**9,237,965**	**63,778**	**-**
Of which defaulted	123,190	2,564,951	2,260,245	30,105	-

Exposures in unsecured debt securities have increased from 2018 to 2019 (from a total €1,223 million in 2018 to a total €1,575 million in 2019). The increase of €352 million during 2019 is mainly due to various purchases of Cyprus Government bonds and senior bank bonds. Additional purchases of covered bonds, also took place, hence the increase in the exposure in secured debt securities from a total of €142 million in 2018 to a total of €163 million in 2019.

Unsecured and secured loan exposures have decreased during the year mainly due to the classification of Velocity 2 and Helix 1 tail portfolios into held for sale.

7. Remuneration Policy and Practices

The Group Remuneration Policy captures provisions from the CSE Code, the UK Code in line with the Bank's decision to comply with the UK Code 2018 as of 26 November 2018 and relevant Directives of the CBC. The Group Remuneration Policy aims to align the remuneration of directors, Executive Management, officers and staff with the business strategy, objectives and long-term interests of the Group. It is consistent with the effective management of risks and does not encourage excessive risk-taking.

7.1 Human Resources and Remuneration Committee (HRRC)

7.1.1 The Role of the HRRC

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

The role of the HRRC is:

- To ensure that the Group is equipped with the human capital at the right size and with the right skill mix necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement and elicit the right behaviour which would lead to the desired outcome.
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market and sustainability for the future.
- To consider, agree and recommend to the Board the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive Directors of the Group, senior management and the Group Remuneration Policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive, the UK Code and the CSE Code.

The HRRC, through a formal and transparent process, considers, agrees, recommends to the Board and keeps under review an overall remuneration policy for the Group (the "Group Remuneration Policy") on an annual basis which:

- applies to all executive directors, senior management and other staff across the Group;
- aligns remuneration with job value, individual performance and potential;
- takes into account market conditions;
- is aligned with the Group's long-term business strategy and objectives, its values and its long-term interests;
- is in line with the regulatory framework;
- is aligned with the Group's capital and liquidity availability, the interests of its shareholders, does not encourage excessive risk taking and ensures an appropriate balance between fixed and performance-related remuneration, immediate and deferred remuneration;
- reviews and approves the remuneration packages of executive members of Group BoD vis-à-vis their performance;
- reviews remuneration packages of senior management and other key personnel whose total annual fixed remuneration exceeds €120 thousand as follows:
  - **All Divisional Directors that report directly to the CEO or to the First Deputy Chief Executive Officer or Deputy CEO (prior to the change in the Group organisational structure, those who reported directly to the Chief Executive Officer or the Deputy Chief Executive Officer and Chief Operating Officer), General Managers of major subsidiaries (EuroLife, GIC) and other employees whose total annual remuneration exceeds €120 thousand:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, (including salary, pension policy or any additional provident fund, contributions, option plans and other types of compensation), recommended by the CEO.
  - **Divisional Directors and other staff that report to Board Committees (RMD, Internal Audit, Compliance):** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, recommended by the Chairmen of RC and AC respectively (in consultation with CEO and Human Resources).
- proposes to the Board for approval, the fees payable to the Chairperson and Vice Chairperson of the Board.

7.1.2 Composition and Meetings of the HRRC

The HRRC has a minimum of 3 members who are appointed by the BoD on an annual basis. The HRRC must consist entirely of independent non-executive directors. Following the resignation of its Chairperson on 21 January 2019, Dr. Michael Heger, a member of the Committee, who was appointed to the Board on 9 June 2016, was appointed as Chairman.

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

The HRRC held 12 meetings at Group level during 2019. The HRRC reviewed and approved the Group's Remuneration Policy. Additionally, the Committee reviewed the 2019 Training Plan and the Bank's annual performance appraisal results and the main findings.

The HRRC reviewed its terms of reference in order to ensure continuing appropriateness and full alignment with regulatory framework, especially with the UK Code.

7.1.3 Relevant Stakeholders

The HRRC ensures that internal control functions (i.e. Internal Audit, RMD and Compliance) and the HR Division are involved in the design, review and implementation of the Group Remuneration Policy.

In developing its Group Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the UK Code as well as the CBC Directive on Governance and Management Arrangements of Credit Institutions which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in CRD IV, as well as the regulatory restrictions currently pertinent to the banking sector.

7.2 Performance Related Pay

This section aims to describe the remuneration schemes that will be applied to BOC PCL taking into consideration stakeholder consultation and agreement (Trade Union, Regulator etc.).

Remuneration consists of fixed plus variable pay.

7.2.1 Fixed Remuneration

Fixed Remuneration refers to the staff's main form of remuneration. It comprises of salary and any applicable (including non-discretionary) position allowances and is determined by employment contracts, collective agreements (where applicable) and employment legislation.

- **Fixed Remuneration will be based on the following criteria:**
  - **Value of job:** The focus is on the content of the job and the job requirements rather than the job holder's seniority or education. Additionally, the emphasis is on rewarding for the contribution of the job to the Bank's business results, differentiating consistently between various levels.
  - **Individual contribution and potential (results, attitude and behaviour):** This requires the following:
    - **Job clarity** – what the Group expects from each job in terms of accountabilities/KPIs and skills/competencies.
    - Effective implementation of a performance management process in building a performance culture.
  - **Market Value (compared with external employee markets of comparable nature):** Reward will be linked in a clear and justifiable way to relevant and appropriate external market practices and conditions.
- **Changes in fixed remuneration:**
  Fixed remuneration and annual increases are currently negotiated with the Trade Union through the collective agreement. Once the collective agreement is renegotiated, fixed remuneration may change as follows:

7.2.1 Fixed Remuneration (continued)

- **Performance Related Increases (Pay Movement within same Grade's Pay Range)**
  Under normal circumstances, performance related increases - within the approved budget - should be granted to employees once per year, as a percentage increase to monthly gross salary, following the announcement of Group annual results and available budget amount.

  The exact salary increases cannot be defined in a static manner and will depend on budget availability. The amount of the increase will also be associated with the three elements that influence salary increase decisions, i.e. Annual Base Salary (ABS) comparative ratio, performance appraisal score and potential.
- **Pay Movement across different pay ranges**
  Under normal circumstances, in cases where an employee moves to a higher grade during the course of the year, the move to a higher grade may be accompanied by a pay increase, especially in cases where the upgraded employee's current salary (before the upgrade) is below the limits of the pay range of his/her new grade.

  The exact level of base salary increase will be determined by the employee's base pay positioning versus the pay ranges of the current as well as the new position. These pay increases will be implemented as needed subject to certain conditions and budget availability (e.g. minimum time at new position etc.).

7.2.2 Variable Remuneration

Variable remuneration refers to the additional discretionary remuneration paid to an individual as an incentive for increased productivity and competitiveness. It is based on the performance of the specific individual, the overall performance of the business unit the individual belongs to, the Group's consolidated financial results the prevailing economic market conditions. Variable remuneration might include financial instruments such as cash bonus schemes, stock option schemes and stock schemes, at the discretion of the Bank.

Variable remuneration should reflect a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description. The assessment of the performance is set in a multi-year framework in order to ensure that the process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes into account the underlying business cycle of the Group and its business risks.

Variable remuneration aims to:

(a) Elicit the appropriate behaviors that will produce the desired outcome, both in the short and long term;
(b) Increase employee's commitment towards the achievement of the Group's long-term objectives within a given set of values;
(c) Enhance employee's performance over a long-term basis, within the Bank's risk-taking framework;
(d) Align employee's long-term interests with those of the Bank's shareholders;
(e) Ensure a fair allocation of value produced, between employees and shareholders, and
(f) Retain high performers and attract talent.

Up to 100% of variable remuneration is subject to vesting, claw back and malus in accordance with criteria which include the following:

- Evidence of misbehavior or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks and compliance);
- When the Bank and/or the business unit in which the staff member works subsequently suffers a significant downturn in its financial performance;
- When the employee leaves the Group;
- When there are significant changes in the Bank's economic or regulatory capital base;
- Manipulation of financial performance or window dressing practices, and
- Hedging against a downward adjustment in compensation.

No amount of variable remuneration has been paid during 2019 and 2018. In line with the final 2019 and 2018 SREP decisions, the variable pay is capped at 10% of consolidated net revenues. In case the Group benefits from government intervention, then all restrictions that derive from the relevant legislation will apply.

7.2.3 Long-Term Incentive Plans (e.g. Performance Shares or Share Option Plans)

The BoD, following recommendation of the Group HRRC, may approve the implementation of a Long-Term Incentive Plan (such as Performance Share Plans or Share Option Plans) for employees. The implementation of share based or share linked Long-Term Incentive Plans is subject to approval by shareholders at a General Meeting by special resolution.

The AGM in November 2015 approved a Long-Term Incentive Plan which is still valid, pending on a number of preconditions that must be met (Section 5.1).

The Plan is currently on hold and as such, the design and the eligibility criteria of the Plan have not been finalised.

There was no outstanding deferred remuneration as at 31 December 2019 and 2018.

7.2.4 Non-Monetary Incentives

The Bank has in place a Team Incentive scheme which is incentivising employees of the front line (Consumer and SME, Corporate Banking, International Business, Insurance Business) based on predefined KPIs. The awards given are all non-monetary and take the form of Hotel Accommodations or Weekend Trips for the whole team, so as to promote also the team bonding and team collaboration.

7.2.5 Control Functions Pay

Remuneration of staff engaged in control functions (Internal Audit, Risk Management, Compliance and Information Security) must be weighed in favour of fixed remuneration so as to reflect the nature of their responsibilities. Staff engaged in control functions is compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

7.2.6 Pension Fund obligation risk

Pension obligation risk is the risk caused by the Bank's contractual or other liabilities to or with respect to a pension scheme. It also covers payments the Bank may make because of a moral or other obligation. The Bank has immaterial exposure to pension schemes and therefore there is no additional capital requirement for pension risk.

7.3 Design and Structure of Remuneration

7.3.1 Non-Executive Directors

The remuneration of non-executive directors is not linked to the profitability of the Group. The remuneration of non-executive directors is related to the responsibilities and time devoted for BoD meetings and decision-making for the governance of the Group, and for their participation in the committees of the BoD and the boards of Group subsidiary companies. The shareholders' AGM held on 14 May 2019 approved the same levels of remuneration as those approved at the AGM on 28 August 2018.

Non-Executive Directors are not eligible for variable remuneration or participation to a share option scheme.

7.3.2 Executive Directors

Remuneration Policy
The HRRC sets the remuneration of executive directors, and reviews their employment contracts (unless they are members of the senior management team and their terms of employment are based on the provisions of the collective agreement, excluding the CEO).

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, excl. CEO.

7.3.2 **Executive Directors** (continued)

The employment contract of the CEO was extended to 31 December 2020. On 3 March 2019 the Group's CEO Mr John Patrick Hourican informed the Board of his decision to leave the Group in September 2019. He was succeeded to the role of CEO by Mr Panicos Nicolaou.

The Group at present does not grant guaranteed variable remuneration or discretionary pension payments.

Service Termination Agreements
The service contract of one of the Executive Directors in office as at 31 December 2019 includes a clause for termination, by service of six months' notice to that effect by either the Executive Director or BOC PCL, without cause and the BOC PCL also maintains the right to pay to the Executive Director six months' salary in lieu of notice for immediate termination. There is an initial locked-in period of three years i.e. until 31 August 2022, during which no such notice may be served either by BOC PCL or the Executive Director, unless there is a change of control of BOC PCL as this is defined in the service agreement whereupon the Executive Director may serve the notice and is further entitled to compensation as this is determined in the service agreement. The terms of employment of the other Executive Director are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by BOC PCL based on years of service and for a four month prior written notice by the Executive Director in the event of a voluntary resignation.

Bonus
No bonuses were recommended by the BoD for executive directors for the year 2019.

Retirement Benefit Schemes
The CEO participates in a defined contribution plan largely on the same basis as other employees. The First D-CEO participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 15 of the Consolidated Financial Statements of the Company for 2019.

Share Options
No share options were granted to executive directors during 2019.

Other Benefits
Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. The relevant costs for Executive Management are disclosed in Note 51 of the Consolidated Financial Statements of the Company for 2019.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel

2019	Executive Directors	Other key management personnel	Other Material Risk Takers (MRTs)*
	€000	€000	€000
Salaries and other short term benefits	1,910	3,013	10,963
Termination benefits	-	186	4,099
Employer's contributions	100	170	1,472
Retirement benefit plan costs	152	131	959
Total	**2,162**	**3,500**	**17,493**
Number of beneficiaries during the year	**3**	**20**	**123**

2018			
Salaries and other short term benefits	2,453	3,070	8,950
Employer's contributions	98	192	1,041
Retirement benefit plan costs	216	127	764
Total	**2,767**	**3,389**	**10,755**
Number of beneficiaries during the year	**2**	**13**	**119**

*MRTs positions were approved by the Board in December 2018 and were broadly the same for 2019.

The "Other key management personnel" emoluments include the remuneration of the members of the senior management namely:

- All Divisional Directors that report directly to the CEO, or to the First Deputy CEO or Deputy CEO (prior to the change in the Group organisational structure, those who reported directly to the Chief Executive Officer or the Deputy CEO and Chief Operating Officer),and
- Divisional Directors that report to Board Committees.

No MRTs had total emoluments for the year, including employer's contributions and other benefits, above €1.0 million.

MRTs do not form part of other key management personnel.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

Remuneration for year 2019 (excluding termination benefits) by business line

	Remuneration**	Number of employees**[1]
2019	**€000**	
Corporate	**2,593**	**24**
Retail	**2,421**	**20**
IBUs and Private Banking	**2,122**	**17**
RRD	**2,509**	**13**
Insurance operations	**1,452**	**12**
Head office	**7,773**	**60**
Total	**18,870**	**146**

** Includes MRTs
[1] The number of employees is as at 31 December 2019

The above amounts are based on the organisational structure which was in place for the large part of the year 2019 and specifically until October 2019. The MRTs of the Global Corporate Banking & Markets Division (a new Division in the new organisational structure) are mainly included in the figures of the Corporate Banking Division and International Banking Division.

Remuneration for year 2018 (excluding termination benefits) by business line

	Remuneration**	Number of employees**
2018	**€000**	
Corporate	1,869	23
Retail	1,827	16
IBUs and Private Banking	1,709	17
RRD	2,072	11
Insurance operations	1,090	11
Head office	8,344	56
Total	16,911	134

**Includes MRTs

One executive director who resigned on 30 August 2019 had total emoluments up to 30 August 2019, including employer's contributions and other benefits in the range of €1.5 million to €2.0 million. Also, one key management personnel in 2019 had total emoluments for the year, including employer's contributions and other benefits in the range of €1.0 million to €1.5 million. One executive director and one key management personnel in 2018 had total emoluments for the year, including employer's contributions and other benefits in the range of €2.0 million to €2.5 million and €1.0 million to €1.5 million respectively.

Termination benefits

	Executive Directors	Other Key Management Personnel	Other Material Risk Takers
2019	**€000**	**€000**	**€000**
Total amount of severance payments made during the year	-	186	4,099
Total number of beneficiaries	-	1	23
Total amount of severance payments awarded during the year	-	186	4,099
Total number of beneficiaries	-	1	23
Single highest amount of severance payment awarded to an individual during the year	-	186	200
Total amount of new sign-on payments made during the year	-	-	-
Total number of beneficiaries	-	-	-

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

No termination fees have been paid during 2018.

The fees of the non-executive directors include fees as members of the BoD of the Bank and its subsidiaries, as well as of committees of the BoD. They include the fees and benefits for the period that they serve as members of the BoD. There is no other remuneration other than what is disclosed in this note.

Information regarding the remuneration of Members of the Board of Directors

2019	Remuneration for services*	Remuneration for participation in the Board of Directors and its Committees	Total remuneration for services	Remuneration and benefits from other Group companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of benefits that are considered to form remuneration	Total remuneration and benefits	Annual contribution to retirement benefits
	€000	€000	€000	€000	€000	€000	€000	€000
Executive Directors								
John P. Hourican	1,579	-	1,579	-	-	-	1,579	117
Panicos Nicolaou	179	-	179	-	-	-	179	15
Christodoulos Patsalides	252	-	252	-	-	-	252	20
Non-Executive Directors								
Josef Ackermann	-	57	57	-	-	-	57	-
Efstratios-Georgios Arapoglou	-	84	84	-	-	-	84	-
Maksim Goldman	-	122	122	-	-	-	122	-
Arne Berggren	-	117	117	-	-	-	117	-
Anat Bar-Gera	-	86	86	-	-	-	86	-
Lyn Grobler	-	92	92	-	-	-	92	-
Michael Heger	-	122	122	-	-	-	122	-
Michael Spanos	-	6	6	-	-	-	6	-
Ioannis Zographakis	-	159	159	-	-	-	159	-
Paula Hadjisotiriou	-	97	97	-	-	-	97	-
Maria Philippou	-	66	66	-	-	-	66	-
	2,010	**1,008**	**3,018**	-	-	-	**3,018**	**152**

2018								
Executive Directors								
John P. Hourican	2,339	-	2,339	-	-	-	2,339	198
Christodoulos Patsalides	212	-	212	-	-	-	212	18
Non-Executive Directors								
Josef Ackermann	-	150	150	-	-	-	150	-
Maksim Goldman	-	120	120	-	-	-	120	-
Arne Berggren	-	115	115	-	-	-	115	-
Anat Bar-Gera	-	85	85	-	-	-	85	-
Lyn Grobler	-	90	90	-	-	-	90	-
Michael Heger	-	110	110	-	-	-	110	-
Michael Spanos	-	100	100	-	-	-	100	-
Ioannis Zographakis	-	135	135	-	-	-	135	-
Paula Hadjisotiriou	-	36	36	-	-	-	36	-
Maria Philippou	-	29	29	-	-	-	29	-
	2,551	**970**	**3,521**	**-**	**-**	**-**	**3,521**	**216**

* Includes employers' contributions excluding contributions to retirement benefits.

7.5 Material Risk Takers (MRTs) of the Group

MRTs are the members of the senior management and employees of the Group whose professional activities could have a material impact on the Group's risk profile. A total of 146 individuals were classified as MRTs in 2019 (23 key management personnel and 123 other employees).

MRTs do not form part of other key management personnel.

7.6 Additional Information

Every year, the HRRC proposes to the BoD, the Annual Remuneration Policy Report which forms part of the Annual Corporate Governance Report of the Group. The Remuneration Policy Report is submitted to the shareholders' AGM for approval.

8. Asset Encumbrance

Asset encumbrance means pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

8.1 Encumbered and Unencumbered Assets by Asset Type

The values presented below, including totals, are based on a four-point median average across the four quarters in each of 2019 and 2018.

EU AE1 Encumbered and unencumbered

2019	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which EHQLA and HQLA		Of which EHQLA and HQLA
	€000	€000	€000	€000	€000	€000	€000	€000
Assets of the reporting institution	**2,977,489**	**292,021**			**17,130,838**	**1,255,458**		
Equity instruments	**-**	**-**	**-**	**-**	**163,313**	**-**	**163,313**	**-**
Debt securities	**292,021**	**292,021**	**292,303**	**292,303**	**1,471,490**	**1,255,458**	**1,490,037**	**1,274,240**
of which: covered bonds	*3,981*	*3,981*	*3,981*	*3,981*	*164,631*	*164,361*	*164, 765*	*164,765*
of which: asset- backed securities	-	-	-	-	-	-	-	-
of which: issued by general governments	*277,034*	*277,034*	*277,315*	*277,315*	*717,231*	*711,775*	*731,223*	*725,914*
of which: issued by financial corporations	*15,063*	*14,988*	*15,063*	*14,988*	*731,249*	*523,627*	*737,208*	*528,284*
of which: issued by non-financial corporations	-	-	-	-	*6,874*	-	*6,874*	-
Other assets	**2,684,361**	**-**			**15,577,806**	**-**		
of which: loans and advances to customers on demand	*60,598*	-			*4,635,466*	-		
of which: loans and advances to customers other than on demand	*2,655,684*	-			*8,567,360*	-		

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2018	**€000**	**€000**	**€000**	**€000**
Assets of the reporting institution	**3,308,191**		**18,183,138**	
Equity instruments	394	394	156,368	156,368
Debt securities	308,188	308,188	634,759	640,688
of which: covered bonds	*3,728*	*3,728*	*136,020*	*136,008*
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	*293,127*	*293,127*	*347,911*	*393,422*
of which: issued by financial corporations	*15,061*	*15,061*	*343,023*	*340,467*
of which: issued by non-financial corporations	-	-	*6,558*	*6,558*
Other assets[36]	3,202,606		17,864,452	

[36] Other assets consist of cash and bank placements, loans and advances and property

8.1 Encumbered and Unencumbered Assets by Asset Type (continued)

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations 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 secured funding and other collateralised obligations.

The vast majority of encumbered assets are within the Bank. Of the unencumbered assets around 15% (2018: 28%) are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in the 2019 Additional Risk and Capital Management Disclosures included in the 2019 Annual Financial Report of the Company.

8.2 Collateral Received by Product Type

There were no collateral received or own debt securities issued throughout 2019. The values presented below, including totals, are based on a four-point median average across the four quarters of 2018.

Lines that are not relevant to the Group's activities are not included.

EU AE2-Collateral received and own debt securities issued

	Fair value of encumbered collateral received or own debt securities issued	**Fair value of collateral received or own debt securities issued available for encumbrance**
2018	**€000**	**€000**
Collateral received by the reporting institution	**-**	**83,550**
Equity instruments	**-**	**-**
Debt securities	**-**	**83,550**
of which: is used by general governments	-	***83,550***
Other collateral received	**-**	**-**
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	**-**	**-**

8.3 Encumbered Assets/Collateral Received and Associated Liabilities

The values presented below, including totals, are based on a four-point median average across the four quarters in each of 2019 and 2018.

EU AE3 Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities (ABSs) encumbered
2019	**€000**	**€000**
Carrying amount of selected financial liabilities	**723,893**	**2,977,489**[37]
2018		
Carrying amount of selected financial liabilities	1,126,161	3,307,797[37]

The on balance sheet encumbered assets primarily consist of loans and advances to customers and investments in debt securities. These are mainly pledged for the funding facilities of the Central banks (ECB and CBC) and for the covered bond. Investments are mainly used as collateral for repurchase transactions with commercial banks, supplementary assets for the covered bond and with the ECB. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements, which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond and for other operational purposes.

As of October 2015 the €650 million covered bond own-issue is an eligible collateral for accessing funding from the ECB.

Loans and advances to customers include mortgage loans of a nominal amount €1,000 million as at 31 December 2019 (31 December 2018: €1,009 million) in Cyprus, pledged as collateral for the covered bond issued by BOC PCL in 2011 under its Covered Bond Programme. Furthermore, as at 31 December 2019 housing loans of a nominal amount €1,498 million (2018: €1,543 million) in Cyprus are pledged as collateral for the funding from the ECB.

S&P Global Ratings maintains an investment grade rating (BBB-) for the Republic of Cyprus with a stable outlook since September 2018, which was affirmed in March 2020. The Cyprus Government bonds became ECB eligible in September 2018.

[37] It includes the carrying value of balance sheet encumbered assets.

9. Securitisation positions

Securitisation results from a transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is tranched having both of the following characteristics: payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

"Tranche" means a contractually established segment of the credit risk associated with an exposure or a number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.

During 2019, the Group disposed a portfolio of loans and advances to customers customers with a gross book value of €2.8 billion (of which €2.7 billion related to non performing loans) (the Portfolio) and stock of property with carrying value amounting to €109 million (the Portfolio) and stock of property (known as 'Project Helix' or the 'Transaction') through the transfer of the Portfolio by BOC PCL to a licensed Cypriot Credit Acquiring Company (the 'CyCAC'). The shares of the CyCAC were subsequently acquired by certain funds affiliated with Apollo Global Management LLC (together with its consolidated subsidiaries 'Apollo', the purchaser of the Portfolio). Funds managed by Apollo provided equity capital in relation to the financing of the purchase of the Portfolio.

BOC PCL received consideration of c.€1,186 million on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 March 2018, of which €45 million concern the BOC PCL participation in the senior debt issued to finance the transaction, representing c.4% of the total acquisition funding. Other than the above, BOC PCL has no other securitisation positions. This transaction has been classified as a Traditional Securitisation. In June 2019 the Group has derecognised the disposed portfolio relating to Project Helix.

The senior debt is classified as an investment in debt securities at amortised cost. A cash-flow based ECL approach is used for the calculation of the ECL of this senior term facility. For the calculation of the IFRS 9 Provision and the setting of the IFRS 9 staging, three cash flows streams are needed: The cash flows as per original expectation as at end of June 2019 (optimistic scenario), the baseline cash flows (i.e. the contractual cash flows adjusted to take into account the actual payments of the facility up to date – or expected cash flows) and the adverse scenario cash flows (i.e. the contractual cash flows adjusted to take into account specific haircuts). The ECL is calculated as the weighted loss arising by comparing its IFRS gross carrying amount (calculated in the previous period) to the sum of discounted expected cash flows of the three scenarios. In case no loss arises by comparing the above cash flows, the ECL will be the product of i) the balance sheet amount of the bond, ii) a 12-month PD of 3.31% which is based on the rating of the Bank which is single B and iii) a loss given default (LGD) of 10% which is the floor of the Basel 3 revised IRB framework based on residential and commercial real estate.

In addition to credit and liquidity risks, other inherent risks may stem from potential breaches in warranties and disclaimers in the agreement. BOC PCL does not have any material retained positions and there is no need for further hedging. No re-securitisations are applied.

BOC PCL being the originator (directly involved in the original agreement which created the obligations or potential obligations giving rise to the securitised exposures) in the Project Helix traditional securitisation transaction invested in the senior tranche of the debt securities issued whereby traditional securitisation means the economic transfer of the exposures being securitised (transfer of ownership).

BOC PCL has applied the Standardised Approach for securitisation positions (SEC-SA) whereby a look-through approach is used in calculating the RWA and capital requirements for the position held in the securitisation under article 261 of the EU Regulation 2017/2401 amending the CRR.

There were no securitisation positions as at 31 December 2018.

9. Securitisation positions (continued)

	Traditional		
31 December 2019	**Exposure Value**	**RWAs**	**Capital Requirements**
Bank acts as originator	**€000**	**€000**	**€000**
Loans to corporates or SMEs (treated as corporates)	39,946	45,638	3,651
Total	**39,946**	**45,638**	**3,651**

BOC PCL does not hold any re-securitisation positions.

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

The subsidiary companies and branches, their activities and their consolidation method as at 31 December 2019 are presented in the table below:

EU LI3 – Outline of the differences in the scope of consolidation – entity by entity

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bank of Cyprus Public Company Ltd	Full consolidation	x	-	-	-	Commercial bank
Auction Yard Ltd	Full consolidation	x	-	-	-	Auction company
Bank of Cyprus Public Company Ltd (branch of BOC PCL)	Full consolidation	x	-	-	-	Administration of guarantees and holding of real estate properties
BOC Asset Management Romania S.A.	Full consolidation	x	-	-	-	Collection of the existing portfolio of receivables, including third party collections
JCC Payment Systems Ltd	Full consolidation	x	-	-	-	Card processing transaction services
LCP Holdings and Investments Public Ltd	Full consolidation	x	-	-	-	Holding company
MC Investment Assets Management LLC	Full consolidation	x	-	-	-	Problem asset management company
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Full consolidation	x	-	-	-	Investment banking, asset management and brokerage
S.Z. Eliades Leisure Ltd	Full consolidation	x	-	-	-	Land development and operation of a golf resort
Fortuna Astrum Ltd	Full consolidation	x	-	-	-	Problem asset management company
Bank of Cyprus Holdings Public Limited Company	Full consolidation	x	-	-	-	Holding company
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	Full consolidation	-	-	-	x	UCITS Fund
EuroLife Ltd	Full consolidation	-	-	-	x	Life insurance
General Insurance Of Cyprus Ltd	Full consolidation	-	-	-	x	General insurance
Kermia Ltd	Full consolidation	-	-	-	x	Property trading and development
Kermia Properties & Investments Ltd	Full consolidation	-	-	-	x	Property trading and development
CLR Investment Fund Public Ltd	Full consolidation	-	-	-	x	Investment company
BOC Secretarial Company Ltd	Full consolidation	-	-	-	x	Secretarial services
BOC ASSET MANAGEMENT LTD	Full consolidation	x	-	-	-	Managements administration and safekeeping of UCITS Units
Canosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Edoric Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jobelis Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kernland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Melsolia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thryan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Koralmon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kedonian Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lasteno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spacous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Calinora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marcozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Soluto Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Solomaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Linaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Andaz Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Unital Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Astromeria Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Neraland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Orzo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Wingstreet Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Nolory Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lynoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fitrus Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lisbo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mantinec Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Syniga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Colar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Irisa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Venicous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Regetona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Provezaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hillbay Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Senadaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Arcandello Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mostero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Camela Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ofraco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Forenaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hovita Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Helal Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Subworld Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lorman Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Yossi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gozala Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jongeling Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Badrul Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fareland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Barosca Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fogland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebasco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Homirova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Birkdale Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Blodar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cobhan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cranmer Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Domita Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Emovera Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Estaga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Innerwick Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Joberco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Labancor Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Laiki Lefkothea Center Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ligisimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Memdes Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nalmosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ramendi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Skellom Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Steparco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zecomex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valecross Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Altco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marisaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Olivero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jaselo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Pendalo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Toreva Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Frontyard Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Resoma Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Venetolio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bonsova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garmozy Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Palmco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Intelamon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Weinar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Balasec Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Eracor Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thermano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nouralia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mazima Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Diafor Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rulemon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thelemic Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Maledico Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Dentorio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valioco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bascone Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Resocot Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Soblano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Talamon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Paradexia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rosalica Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zandexo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Paramina Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tasabo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Coeval Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bendolio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kartama Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zemialand Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Secretsky Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Riveland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Asianco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nigora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Comenal Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cimonia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Finevo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nesia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dominion Industries Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Eurolife Properties Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Ledra Estate Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Les Coraux Estates Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Natakon Company Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Oceania Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Vieman Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Belvesi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hamura Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Meriaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flymoon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Legamon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Noleta Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Prodino Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Odolo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Tolmeco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Arlona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dilero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ensolo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Folimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pelika Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Calandomo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jalimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sendilo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Molemo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nivamo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Baleland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Icazo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Edilia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Limoro Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rofeno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Samilo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Green Hills Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otherland Properties Dorobanti SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Romaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Imoreth Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Inroda Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zunimar Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allioma Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nikaba Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gosman Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments and provision of services
Obafemi Holdings Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments and provision of services
Stamoland Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments and provision of services
Unoplan Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments and provision of services
Petrassimo Properties Ltd	Full consolidation	x	-	-	-	Holding of equipment located in the properties repossessed under DFAS
Tavoni Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Amary Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Holstone Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Alepar Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Cramonco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Monata Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Stormino Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Aktilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Alezia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Aparno Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Enelo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Mikosa Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Stevolo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Lomenia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Vemoto Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Vertilia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Zenoplus Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Ameleto Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Avaleto Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Carilo Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Gelimo Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Larizemo Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Midelox Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Montira Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Olisto Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Orilema Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property
Rifelo Properties Limited	Full consolidation	x	-	-	-	Reserved to accept property

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Selilar Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Nikaba Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Selilar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Battersee Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Bocaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Bonayia Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Hydrobius Ltd	Full consolidation	x	-	-	-	Intermediate holding
Imoreth Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Inroda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Janoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Otherland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Romaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Tantora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Trecoda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Zunimar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Allioma Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Landanafield Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding
Otoba Properties Ltd	Full consolidation	x	-	-	-	Inactive
Dolapo Properties Ltd	Full consolidation	x	-	-	-	Inactive

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bramwell Properties Ltd	Full consolidation	x	-	-	-	Inactive
Nivoco Properties Ltd	Full consolidation	x	-	-	-	Inactive
Prosilia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Elosis Properties Ltd	Full consolidation	x	-	-	-	Inactive
Iperi Properties Ltd	Full consolidation	x	-	-	-	Inactive
Paneuropean Ltd	Full consolidation	x	-	-	-	Inactive
Philiki Ltd	Full consolidation	x	-	-	-	Inactive
Philiki Management Services Ltd	Full consolidation	x	-	-	-	Inactive
Thames Properties Ltd	Full consolidation	x	-	-	-	Inactive
Renalandia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Finerose Properties Ltd	Full consolidation	x	-	-	-	Inactive
Weinco Properties Ltd	Full consolidation	x	-	-	-	Inactive
Crolandia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Fantasio Properties Ltd	Full consolidation	x	-	-	-	Inactive
Pariza Properties Ltd	Full consolidation	x	-	-	-	Inactive
Demoro Properties Ltd	Full consolidation	x	-	-	-	Inactive
Polkima Properties Ltd	Full consolidation	x	-	-	-	Inactive
Cyprialife Ltd	Full consolidation	x	-	-	-	Inactive
Imperial Life Assurance Ltd	Full consolidation	-	-	-	x	Inactive

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Laiki Bank (Nominees) Ltd	Full consolidation	-	-	-	x	Inactive
Nelcon Transport Co. Ltd	Full consolidation	-	-	-	x	Inactive
CYCMC II Ltd	Full consolidation	x	-	-	-	Inactive
CYCMC III Ltd	Full consolidation	x	-	-	-	Inactive
CYCMC IV Ltd	Full consolidation	x	-	-	-	Inactive
Kyprou Commercial SA	Full consolidation	x	-	-	-	Inactive
Kyprou Properties SA	Full consolidation	-	-	-	x	Inactive
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Full consolidation	-	-	-	x	Inactive
Kyprou Zois (branch of EuroLife Ltd)	Full consolidation	-	-	-	x	Inactive
Battersee Real Estate SRL	Full consolidation	x	-	-	-	Inactive
Bocaland Properties SRL	Full consolidation	x	-	-	-	Inactive
Trecoda Real Estate SRL	Full consolidation	x	-	-	-	Inactive
Tantora Properties SRL	Full consolidation	x	-	-	-	Inactive
Axxel Ventures Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
CLR Private Equity Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
Europrofit Capital Investors Public Limited	Full consolidation	-	-	-	x	Inactive
Commonland Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Fledgego Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Frozenport Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Loneland Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Melgred Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Mirodi Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Sylvesta Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
BC Romanoland Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Blindingqueen Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Buchuland Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Unknownplan Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Nallora Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Fairford Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Corner LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Diners Club (Cyprus) Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Leasing Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Omiks Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Salecom Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Bank of Cyprus (Channel Islands) Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off

APPENDIX II – Information flow to Risk Committee and Management Board

The CRO has unhindered access to the RC and Executive Management, and meets periodically with the Chair of the RC. All risk departments of the Bank produce various reports which are sent through the CRO to the ExCo of the Bank as well as to the Board. This ensures that all relevant bodies are aware and up to date of all relevant risks that the Bank is facing at all times.

While the above reports are used to monitor and review the risk profile holistically, there are other, supplementing standard and ad-hoc management reports that the different Risk Management functions use to monitor and control the risk profile.

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Frequency
1	Asset Quality Target Setting	Asset Quality Target Setting for front line divisions	Cyprus	Credit Risk	RC, ExCo	Annually
2	Credit Limits & Authorities	Credit Limits & Authorities	Cyprus	Credit Risk	RC, BoD, ExCo	Annually
3	Provisions Material	All relevant material that is provided for the determination of provisions	Group	Credit Risk	Joint AC & RC, BoD, Provisioning	Quarterly
4	Write-Offs Report Semi-Annual	Present write offs cases>1 million	Cyprus	Credit Risk	RC, BoD	Semi-annually
5	Annual Information Security Report	Reports to CBC current Risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	RC, BoD, OpCo, ExCo	Annually
6	Semi-Annual Country Report	Monitoring of exposures per country	Group	Market Risk	RC, BoD, ALCO	Semi-annually
7	Annual Review of Market Risk Limits	Review and revision, where necessary of market risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
8	Annual Review of Credit Limits (counterparty & country)	Review and revision, of credit risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
9	Authorisation Levels for Market Risk Related Limits	Authorisation Levels for Market Risk Related Limits	Group	Market Risk	RC, BoD	Annually
10	Market Risk Related Breaches	In 2019 Group ALCO ratified all breaches of market risk related limtis from 20%-50% and Board RC all breaches above 50%.	Group	Market Risk	RC, ALCO	Quarterly in 2019 Monthly from 2020
11	Insurance Cover Strategy & recommendation to the BOD	Insurance Cover Strategy & recommendation to the BOD	Group	Operational Risk	RC, BoD	Annually
12	Monthly Outstanding Findings Monitoring Dashboard	Report integrates Operational Risks, Information Security risks, Regulatory & Compliance risks (Financial Crime and RSCO) and provides data on open risks as well as completed and outstanding actions on such risks (analysis per level of risk and division). Includes Internal Audit review of RCSA results	Cyprus	Operational Risk	ExCo	Monthly
13	Yearly Report for the Appeals Committee (ApC) for the period 1st January 2019 to 31st December 2019	Presents cases examined by the Committee and the FO over a quarter and certain statistics as per CBC's requirement.	Cyprus	Operational Risk	Joint AC & RC, ExCo	Annually

APPENDIX II – Information flow to Risk Committee and Management Board (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
14	Annual Risk Management Report	Report includes: 1) Review of the main financial developments during the year which had a significant influence on the institution's operations and risk profile. 2) Description of the risk management framework, 3) Assumptions and results of the main stress tests and scenario analyses carried out during the year under review. 4) Detailed information on the risk profile of the institution and the capital allocation process. 5) Summary of the results of the risk and control self-assessment exercise conducted during the year under review together with recommendations for minimizing any increased operational risks identified. 6) Information on operational losses incurred. 7) Information on KRI and key performance indicators (KPIs) on NPLs monitored by the institution. 8) Calculation of the institution's capital requirements and capital adequacy ratio. 9) A comprehensive gap analysis section by major risk department whereby the risk management function will comment on the recommendations made in its report of the previous year including an assessment of the progress achieved and the current status. 10) Risk Management function action plans for 2019 by each major department/area.	Group	All Risk Units	RC, BoD, ExCo	Annually
15	Monthly Risk Report	Report of KRIs and events as well as data on selected Credit Appraisal statistics. Encompasses the full spectrum of Risks (Credit, Market, Operational, Information Security, International & Subsidiaries).	Group	All Risk Units	RC, BoD, ExCo	Monthly
16	Risk Management Strategy	Report documenting the Bank's key challenges in the risk area, focus areas, ambition, strategy, SWOT and needs.	Group	CRO	RC	Annually

APPENDIX II – Information flow to Risk Committee and Management Board (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
17	Strategy Risk Assessment	Risk assessment of the 3 year business plan.	Group	CRO	RC, BoD, ExCo	Annually
18	Risk Appetite Statement dashboard	Risk Appetite Statement of the Group	Group	RDO	RC, BoD, ExCo	Semi-annually
19	Risk Management's Division Budget	Risk Management's Division Budget	Group	RDO	RC	Annually
20	ECB SREP Stress Test (Bi-annual)	Update on ECB Stress Tests: process followed and outcome	Group	CRO	RC, ExCo	Annually
21	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Group	Market Risk	RC, ALCO	Annually
22	ICAAP	Internal Capital Adequacy Assessment Process	Group	All Risk Units	RC, BoD, ALCO, ExCo	Annually
23	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Group	Market Risk	RC, ALCO	Annually
24	ILAAP	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ALCO, ExCo	Annually
25	Liquidity Adequacy Statement	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ExCo	Annually
26	Capital Adequacy Statement	Capital Adequacy Statement	Group	Market Risk	RC, ALCO, ExCo	Annually
27	ICAAP update	ICAAP update of key risk matrix, risk analysis and stress tests	Group	Market Risk	RC, ALCO	Q2 and Q3
28	ILAAP update	ILAAP update of stress tests and evaluation of material changes	Group	Market Risk	RC, ALCO	Quarterly
29	Review of Risk Management Policies universe	Policy revisions	Cyprus	All RMD Departments	ExCo, RC	Annually or more frequent if warranted
30	Credit Monitoring of Healthy Portfolio	Provides an in-depth analysis of the healthy part of the Bank's portfolio.	Bank	Credit Risk	ExCo / RC	Quarterly / Monthly

APPENDIX III – List of immaterial countries

Other countries included in significant area 'EU countries'

Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg , Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia (2018 only), Spain, Sweden.

Other geographical areas included in significant area 'Non EU Countries'

Algeria, Antigua and Barbuda, Armenia, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Cambodia, Cameroon, Canada, Cayman Islands, China, Colombia, Egypt, Gambia, Georgia, Ghana, Greenland, Guernsey, Hong Kong, Iceland, India, Indonesia, Islamic Republic of Iran, Iraq, Israel, Japan, Jersey, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Lebanon, Liberia, Libya, The Former Yugoslav Republic of Macedonia, Malawi, Malaysia, Marshall Islands, Mauritius, Mexico, Moldova, Monaco, Montenegro, Morocco, Mozambique, Nepal, New Zealand, Nigeria, Niue, Norway, Oman, Pakistan, Occupied Palestinian Territory, Panama, Philippines, Qatar, Russian Federation, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Switzerland, Syrian Arab Republic, Province of China Taiwan, Thailand, Turkey, Turks and Caicos Islands, Uganda, Ukraine, United Arab Emirates, United States, Uzbekistan, Vietnam, British Virgin islands, Zambia, Zimbabwe.

2019 only: Cuba, Namibia, Yemen

2018 only: Angola, Anguilla, , Argentina, Bermuda, Bouvet Island, British Indian Ocean Territory, Brunei Darussalam, Costa Rica, Curacao, Dominica, Gibraltar, Guinea, Isle of Man, Kyrgyzstan, Liechtenstein, Macao, Mauritania, Federated States of Micronesia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sri Lanka, Sudan, Turkmenistan, Tajikistan, Venezuela, U.S. Virgin islands.

'Supranationals' included in Other geographical areas

The ECB (2018 only), the European Financial Stability Facility, the Council of Europe Development Bank, the European Investment Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Stability Mechanism, the European Union, the Nordic Investment Bank, the Inter-American Development Bank, the International Finance Corporation.

"Other countries" included in NPEs by geography

Marshall Islands, Denmark, Romania, British Virgin Islands, Israel, Ireland, Spain, Liberia, Switzerland, Luxemburg, France, Belgium, Iran, United Arab Emirates, South Africa, Finland, United States, Ukraine, Bulgaria, Australia, Canada, Serbia, Jersey, Lebanon, Austria, Brazil, Bahrain, Netherlands, Germany, Sweden, Qatar, Kazakhstan, Georgia, China, Jordan, Italy, Norway, India, Zimbabwe, Singapore, South Korea, Armenia, Philippines, Cameroon, Pakistan, Latvia, Vietnam, Poland, Estonia, Belarus, Egypt, Oman, Kuwait, Malta, Botswana, Ghana, Slovakia, Macedonia.

APPENDIX IV – List of other countries and their % countercyclical buffer rate

The countries listed below are the countries which in either year had exposures subject to countercyclical buffer rate.

Other countries with 0% countercyclical buffer rate with exposures only in 2018
Anguilla, Argentina, Bangladesh, Bermuda, Bosnai and Herzegovina, Colombia, Denmark, Gibraltar, Japan, Libya, Malaysia, Montenegro, Portugal, Saint Kitts and Nevis, Sri Lanka, Sudan.

Other countries with 0% countercyclical buffer rate with exposures only in 2019
Cameroon, Kenya, Namibia, Turkey.

Other countries with 0% countercyclical buffer rate for 2019 & 2018
Algeria, Antiqua and Barbuda, Armenia, Australia, Austria, Bahamas, Bahrain, Belarus, Belgium, Belize, Botswana, Brazil, British Virgin Islands, Canada, Cayman Islands, China, Croatia, Egypt, Estonia, Finland, Georgia, Germany, Ghana, Greenland, Guernsey, Hong Kong, Hungary, India, Islamic Republic of Iran, Israel, Italy, Jersey, Jordan, Kazakhstan, Kuwait, Latvia, Lebanon, Liberia, Luxembourg, Malawi, Malta, Marshall Islands, Mexico, Moldova, Monaco, Nepal, Netherlands, New Zealand, Oman, Pakistan, Panama, Philippines, Poland, Qatar, Republic of Korea, Romania, Russian Federation, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Spain, Switzerland, Syrian Arab Republic, Tawian Province of China, Thailand, The Former Yogoslav Republic of Macedonia, Turks and Caicos Islands, Ukraine, United Arab Emirates, United States, Uzbekistan, Viet Nam, Zambia, Zimbabwe.

Other countries with 0.25% countercyclical buffer rate
France
(at 0% as at 31.12.2018)

Other countries with 0.50% countercyclical buffer rate
Bulgaria
(at 0% as at 31.12.2018)

Other countries 1% countercyclical buffer rate
Denmark, Ireland, Lithuania
(31.12.2018: Denmark and Ireland at 0%, Lithuania at 0.50%)

Other countries 1.5% countercyclical buffer rate
Czech Republic, Slovakia
(31.12.2018: Czech Republic at 1%, Slovakia at 1.25%)

Other countries 1.75% countercyclical buffer rate
Iceland
(at 1.25% as at 31.12.2018)

Other countries with 2.5% countercyclical buffer rate
Norway, Sweden
(at 2% as at 31.12.2018)

APPENDIX V – Main features of Capital Resources

Main features of the ordinary shares of the Group

		2019/2018
		Group
1	Issuer	Bank of Cyprus Holdings Public Limited Company
2	Unique identifier	IE00BD5B1Y92
3	Governing law(s) of the instrument	Irish Law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated
7	Instrument type	Ordinary Shares
8	Amount recognised in regulatory capital	€44,619,993
9	Nominal amount of instrument	€44,619,993
9(a)	Issue price	Various
9(b)	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
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[38]
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Non-cumulative 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, instrument type convertible into	N/A
29	If convertible, 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, write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, non-compliant features	N/A

[38] The Company and BOC PCL are currently under a regulatory dividend distribution prohibition and therefore no dividends were declared or paid during years 2019 and 2018.

APPENDIX V – Main features of Capital Resources (continued)

Main features of the AT1 Capital Securities

		2019	2018
		Group	**Group**
1	Issuer	Bank of Cyprus Holdings Public Limited Company	Bank of Cyprus Holdings Public Limited Company
2	Unique identifier	XS1865594870	XS1865594870
3	Governing law(s) of the instrument	English law, except for the subordination and set off provisions which will be governed by the laws of Ireland	English law, except for the subordination and set off provisions which will be governed by the laws of Ireland
	Regulatory treatment		
4	Transitional CRR rules	Additional Tier 1 Capital Securities	Additional Tier 1 Capital Securities
5	Post-transitional CRR rules	Additional Tier 1 Capital Securities	Additional Tier 1 Capital Securities
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated Level	Consolidated Level
7	Instrument type	Additional Tier 1 Capital Securities	Additional Tier 1 Capital Securities
8	Amount recognised in regulatory capital	€220,000,000	€220,000,000
9	Nominal amount of instrument	€220,000,000	€220,000,000
9(a)	Issue price	100	100
9(b)	Redemption price	100	100
10	Accounting classification	Shareholders' Equity	Shareholders' Equity
11	Original date of issuance	19 December 2018	19 December 2018
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	19 December 2023	19 December 2023
16	Subsequent call dates, if applicable	Each day which falls on every fifth anniversary of the first call date of 19 December 2023	Each day which falls on every fifth anniversary of the first call date of 19 December 2023
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	(i) 12.50% semi-annually up to call date of 19 December 2023 (ii) After call date, the interest rate is the 5-year Mid-Swap rate plus a margin of 12.603%	(i) 12.50% semi-annually up to call date of 19 December 2023 (ii) After call date, the interest rate is the 5-year Mid-Swap rate plus a margin of 12.603%
19	Existence of a dividend stopper	N/A	N/A
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	Yes	Yes
31	If write-down, write-down trigger(s)	Group CET1 Ratio less than 5.125%	Group CET1 Ratio less than 5.125%
32	If write-down, full or partial	Partial	Partial
33	If write-down, permanent or temporary	Temporary	Temporary
34	If temporary write-down, write-up mechanism	Yes	Yes
35	Position in subordination hierarchy in liquidation	Unsecured and subordinated and at all times rank (1) junior to Tier 2, any other subordinated obligations and unsubordinated obligations (not ranking pari passu with the Capital Securities) and (2) only senior to share capital (CET1).	Unsecured and subordinated and at all times rank (1) junior to Tier 2, any other subordinated obligations and unsubordinated obligations (not ranking pari passu with the Capital Securities) and (2) only senior to share capital (CET1).
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

APPENDIX V – Main features of Capital Resources (continued)

Main features of the Note

		2019	2018
		Group	**Group**
1	Issuer	Bank of Cyprus Public Company Ltd	Bank of Cyprus Public Company Ltd
2	Unique identifier	XS1551761569	XS1551761569
3	Governing law(s) of the instrument	English law, save for Subordination and Set-off provisions which will be governed by the laws of the Republic of Cyprus.	English law, save for Subordination and Set-off provisions which will be governed by the laws of the Republic of Cyprus.
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital Notes	Tier 2 Capital Notes
5	Post-transitional CRR rules	Tier 2 Capital Notes	Tier 2 Capital Notes
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated & Sub-consolidated & Solo	Consolidated & Sub-consolidated & Solo
7	Instrument type	Tier 2 Capital Notes	Tier 2 Capital Notes
8	Amount recognised in regulatory capital	€189,189,000	€212,000,000
9	Nominal amount of instrument	€250,000,000	€250,000,000
9(a)	Issue price	100	100
9(b)	Redemption price	100	100
10	Accounting classification	Subordinated loan stock	Subordinated loan stock
11	Original date of issuance	19 January 2017	19 January 2017
12	Perpetual or dated	Dated	Dated
13	Original maturity date	19 January 2027	19 January 2027
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	19 January 2022	19 January 2022
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	(i) 9.25% per annum up to call date of 19 January 2022 (ii) After call date, the interest rate is the 5-year Mid-Swap rate plus a margin of 9.176%	(i) 9.25% per annum up to call date of 19 January 2022 (ii) After call date, the interest rate is the 5-year Mid-Swap rate plus a margin of 9.176%
19	Existence of a dividend stopper	N/A	N/A
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	Subordinated to any unsubordinated obligations and any subordinated obligations that rank senior to this Note. Senior to Additional Tier 1 instruments and share capital.	Subordinated to any unsubordinated obligations and any subordinated obligations that rank senior to this Note. Senior to Additional Tier 1 instruments and share capital.
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

Appendix VI- Result of the materiality analysis of the legal entities as at 31 December 2019

Legal entity	Qualitative criterion	% RWAs	% Total income	% Total Assets	Materiality
Bank of Cyprus Public Company Ltd (Cyprus)	Core Business Line	91.91	88.10	94.75	YES
CISCO	Not a critical function, significant business activity or a service/support function	0.06	0.19	0.00	NO
GIC	Not a critical function, significant business activity or a service/support function	0.00	2.69	0.01	NO
EuroLife Ltd	Critical Function	0.00	4.72	5.16	NO
Kermia and Kermia Properties and Investments	Not a critical function, significant business activity or a service/support function	0.00	0.3	0.00	NO
JCC	Not a critical function, significant business activity or a service/support function	0.67	3.49	0.02	YES
Global Balances Fund of Funds Salamis VCIC PCL (formerly Cytrustees Investment Public Company Ltd)	Not a critical function, significant business activity or a service/support function	0.00	0.09	0.00	NO
S.Z. Eliades Leisure Ltd	Not a critical function, significant business activity or a service/support function	0.46	0.26	0.00	NO
Bank of Cyprus Public Company Ltd (Greek branch)	Not a critical function, significant business activity or a service/support function	0.76	0.01	0.00	NO
MC Investments and Asset Management LLC	Not a critical function, significant business activity or a service/support function	0.01	-1.60	0.05	NO
Other various small subsidiaries (mainly Special Purpose Vehicles (SPVs))	Not a critical function, significant business activity or a service/support function	6.13	1.67	0.00	NO

Appendix VII - Specific References to CRR Articles

CRR ref.	High-level summary	Compliance reference
General Provisions		
6	General Principles	Section 3
13	Application of disclosure requirements on a consolidated basis	Section 3
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar III disclosures.	Section 2.2
431 (2)	Disclosure of operational risk information.	Section 4.3
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	The Bank has a dedicated Pillar III policy
431 (4)	Explanation of ratings decisions to SMEs upon request.	Not applicable to the Bank
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information – EBA Guidelines on materiality, proprietary, confidentiality and on disclosure frequency	The Group discloses all minimum requirements set by CRR and no information has been omitted on the basis of materiality, proprietary or confidential
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements and more frequently if necessary.	Section 2.2
Means of disclosures		
434 (1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	All applicable disclosures are contained within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Cross-references to accounting and other disclosures are indicated in the Report
Risk management objectives and policies		
435 (1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Sections 2.4 and 4.1.5 and 4.1.2
435 (1) (b)		Sections 2.4 and 4.1.5 and 4.1.2
435 (1) (c)		Sections 2.4 and 4.1.5 and 4.1.2
435 (1) (d)		Sections 2.4, 4.1.2, 4.1.3, 4.1.5, 4.1.6 and 4.2
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.4.1(b)
435 (1) (f)	Concise risk statement approved by the BoD.	Section 1 and 2.4.6
435 (2)	Information, once a year at a minimum, on governance arrangements.	Section 2.3.2 and Annual Corporate Governance Report 2019

Appendix VII - Specific References to CRR Articles (continued)

CRR ref.	High-level summary	Compliance reference
Risk management objectives and policies		
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2019
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2019
435 (2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Section 2.3.3
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 2.3.5 to 2.3.7
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.8 and Appendix II
Scope of application		
436 (a)	Name of institution.	Section 2.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 3.2.2, 3.2.3 and Appendix I
436 (b) (i)	Fully consolidated;	Section 3.2.2, 3.2.3 and Appendix I
436 (b) (ii)	Proportionally consolidated;	Section 3.2.2, 3.2.3 and Appendix I
436 (b) (iii)	Deducted from own funds;	Section 3.2.2, 3.2.3 and Appendix I
436 (b) (iv)	Neither consolidated nor deducted.	Section 3.2.2, 3.2.3 and Appendix I
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 4.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Section 2.2
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not applicable to the Group
Own funds		
437 (1)	Requirements regarding capital resources table.	Section 5.1 to 5.3
437 (1) (a)		Section 5.1 to 5.3
437 (1) (b)		Section 5.1 to 5.3
437 (1) (c)		Section 5.1 to 5.3
437 (1) (d) (i)		Section 5.1 to 5.3
437 (1) (d) (ii)		Section 5.1 to 5.3
437 (1) (d) (iii)		Section 5.1 to 5.3
437 (1) (e)		Section 5.2 and 5.3
437 (1) (f)		Not applicable to the Group
437 (2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above.	The Group follows the implementation standards. (Section 5)
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 5.5
438 (b)	Result of ICAAP on demand from competent authority.	Not such a request received, not applicable for the Group

Appendix VII - Specific References to CRR Articles (continued)

CRR ref.	High-level summary	Compliance reference
Capital requirements		
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class (8% of risk-weighted exposure).	Section 5.5, 5.5.1 and 5.5.5
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not applicable to the Group
438 (d) (i)		Not applicable to the Group
438 (d) (ii)		Not applicable to the Group
438 (d) (iii)		Not applicable to the Group
438 (d) (iv)		Not applicable to the Group
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 5.5 and 5.5.2
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised Approach, and the advanced measurement approaches as applicable.	Section 5.5.3
Exposure to Counterparty Credit Risk (CCR)		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 6.1.1
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Section 6.1.2
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Section 6.1.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 6.1.4
439 (e)	Derivation of net derivative credit exposure.	Section 6.1.5, 6.1.6 and 6.1.9
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Section 6.1.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Section 6.1.8
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable to the Group
439 (i)	Estimation of alpha, if applicable.	Not applicable to the Group
440 (1) (a)	Geographical distributions of credit exposures	Section 5.4
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 2.2 and 5.4
440 (2)	EBA issue the Regulatory Technical Standards on Countercyclical Capital Buffer	Section 2.2 and 5.4
Indicators of global systemic importance		
441	Indicators of global systemic importance	Not applicable to the Group
Credit risk adjustments		
442 (a)	Definitions for accounting purposes of 'past due' and 'impaired'.	Section 6.2.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.2.1
442 (c)	Exposures post-value adjustments by different types of exposure classes.	Section 6.2.2, 6.2.8 and 6.2.9.1
442 (d)	Exposures post value adjustments by significant geographic areas and material exposure classes and by industry and exposure class.	Section 6.2.3.1
442 (e)	Distribution of exposures by industry	Section 6.2.3.2

Appendix VII - Specific References to CRR Articles (continued)

CRR ref.	High-level summary	Compliance reference
Credit risk adjustments		
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.2.4
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Section 6.2.5, 6.2.13.1,6.2.9.1 and 6.2.9.2
442 (g) (i)		Section 6.2.5, 6.2.8.1, 6.2.8.2, 6.2.9 and 6.2.11.1
442 (g) (ii)		Section 6.2.5, 6.2.8.1, 6.2.8.2, 6.2.9 and 6.2.11.1
442 (g) (iii)		Section 6.2.5, 6.2.8.1, 6.2.8.2, 6.2.9 and 6.2.11.1
442 (h)	Impaired, past due exposures, by geographic area, and amounts of specific and general impairment for each geography.	Section 6.2.8.3 and 6.2.9
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.2.10, 6.2.8.1 and 6.2.8.3
442 (i) (i)		Section 6.2.10, 6.2.8.1 and 6.2.8.3
442 (i) (ii)		Section 6.2.10, 6.2.8.1 and 6.2.8.3
442 (i) (iii)		Section 6.2.10, 6.2.13.1 and 6.2.8.3
442 (i) (iv)		Section 6.2.10, 6.2.8.1 and 6.2.8.3
442 (i) (v)		Section 6.2.10, 6.2.8.1 and 6.2.8.3
442 endnote	Specific credit risk adjustments recorded to income statement.	Section 6.2.8.2
Unencumbered assets		
443	Disclosures on unencumbered assets.	Section 8
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes.	Section 6.3.1
444 (b)	Exposure classes associated with each ECAI.	Section 6.3.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book.	Section 6.3.2
444 (d)	Mapping of external rating to credit quality steps.	Section 6.3.1
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step.	Section 6.3.3
Market risk		
445	Exposure to Market Risk.	Section 5.5.2
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 5.5.3

Appendix VII - Specific References to CRR Articles (continued)

CRR ref.	High-level summary	Compliance reference
Exposure in equities in the Banking book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 6.4
447 (b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	Section 6.4
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 6.4
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 6.4
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Section 6.4
Exposure to interest rate risk on positions in the Banking book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 6.5.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 6.5.2
Exposure to securitisation positions		
449	Exposure to securitisation positions	Section 9
Remuneration disclosures		
450	Remuneration policy.	Section 7
Leverage		
451 (1) (a)	Leverage ratio and how the institution applies Article 499(2) and (3)	Sections 5.6.1 and 5.6.2
451 (1) (b)	Analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 5.6.1,5.6.2 and 5.6.3
451 (1) (c)	Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	Not applicable to the Group
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	Section 5.6
451 (1) (e)		Section 5.6
451 (2)	EBA shall develop implementation standards for points above.	The Group follows the implementation standards.
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	Not applicable to the Group

Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Bank makes use of on-balance sheet and off-balance sheet netting.	Section 6.6
453 (b)	Policies and processes for collateral valuation and management.	Section 6.6 and 6.6.2
453 (c)	Description of types of collateral used by the Bank.	Section 6.6.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 6.6.1
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 6.6.3

Appendix VII - Specific References to CRR Articles (continued)

CRR ref.	High-level summary	Compliance reference
Use of credit risk mitigation techniques		
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 6.6.3
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.2.8
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not applicable to the Group
Use of Internal Market Risk Models		
455	Use of Internal Market Risk Models	Not applicable to the Group

Specific References to EBA guidelines published on 14 December 2016 – version 2 as amended on 4 August 2017

	Compliance Reference	Section
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Section 3.2.2
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements	Section 3.2.3
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Appendix I
EU OV1	Overview of RWAs	Section 5.5
EU INS1	Non-deducted participations in insurance undertakings	Section 5.5.5
EU CRB-B	Total and average net amount of exposures	Section 6.2.2
EU CRB-C	Geographical breakdown of exposures	Section 6.2.3.1
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 6.2.3.2
EU CRB-E	Maturity of exposures	Section 6.2.4
EU CR1-A	Credit quality of exposures by exposure class and instrument	Section 6.2.8.1
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 6.2.8.2
EU CR1-C	Credit quality of exposures by geography	Section 6.2.8.3
EU CR2-A	Changes in the stock of general and specific risk adjustments	Section 6.2.11.3
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Section 6.2.10
EU CR3	CRM techniques – Overview	Section 6.6.3
EU CR4	Standardised Approach – Credit risk exposure and CRM effects	Section 6.6.3
EU CR5	Standardised Approach	Section 6.3.3.3
EU CCR1	Analysis of CCR exposure by approach	Section 6.1.6
EU CCR2	CVA capital charge	Section 6.1.9
EU CCR3	Standardised Approach – CCR exposures by regulatory portofolio and risk	Section 6.1.7
EU CCR5-A	Impact of netting and collateral held on exposure values	Section 6.1.5
EU CCR5-B	Composition of collateral for exposures to CCR	Section 6.1.2
EU CCR8	Exposures to central counterparties	For 2018 and 2019 exposure values were zero
EU MR1	Market risk under the Standardised Approach	Section 5.5.2
IFRS 9-EL	Comparison of institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs	Section 5.7
Guidelines on the disclosure of non performing and forborne exposures issued on 17 December 2018		
Template 1	Credit quality of forborne exposures	Section 6.2.12
Template 2	Quality of forbearance	Section 6.2.12
Template 3	Credit quality of performing and non-performing exposures by past due days	Section 6.2.9
Template 4	Performing and non-performing exposures and related provisions	Section 6.2.9
Template 5	Quality of non-performing exposures by geography	Section 6.2.9
Template 6	Credit quality of loans and advances by industry	Section 6.2.9
Template 7	Collateral valuation – loans and advances	Section 6.2.9
Template 8	Changes in the stock of non-performing loans and advances	Section 6.2.9
Template 9	Collateral obtained by taking possession and execution processes	Section 6.2.9
Template 10	Collateral obtained by taking possession and execution processes – vintage breakdown	Section 6.2.9

Specific References to EBA guidelines published on 14 December 2016 – version 2 as amended on 4 August 2017 (continued)

Guidelines on LCR disclosure to complement the disclosure of liquidity risk management (disclosure of key ratios and figures) under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01)		
Template A	Encumbered and unencumbered assets	Section 8.1
Template B	Collateral received	Section 8.2
Template C	Encumbered assets/collateral received and associated liabilities	Section 8.3

GLOSSARY

A	
ADC	Asset Acquisition and Disposal Committee
ALCO	Asset and Liability Committee
AFS	Available-for-Sale
AT1	Additional Tier 1
AS	Agency Services
ABSs	Asset Backed Securities
AC	Board Audit Committee
ApC	Appeals Committee
ACCs	Additional Credit Claims
ABS	Annual Base Salary
ALMM	Additional Liquidity Monitoring Metrics
AVA	Additional Valuation Adjustments
AGM	Annual General Meeting
B	
Bank, BOC PCL	Bank of Cyprus Public Company Limited
BoD, Board	Board of Directors
BRRD	Bank Recovery and Resolution Directive
C	
CEO	Chief Executive Officer
Company	Bank of Cyprus Holdings Public Limited Company
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive IV
CRO	Group Chief Risk Officer
CBC	Central Bank of Cyprus
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Risk Appraisal Department
CRCU	Credit Risk Control Unit
CRU	Credit Reporting Unit
CET1	Common Equity Tier 1
CIUs	Collective Investment Undertakings
CVA	Credit Valuation Adjustment
CF	Corporate Finance
CB	Commercial Banking
CSA	Credit Support Annex
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
CySEC	Cyprus Securities and Exchange Commission
CRR	Capital Requirements Regulation
CCyB	Countercyclical Capital Buffer
CCB	Capital Conservation Buffer
CRM	Credit Risk Mitigation
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CRMD	Credit Risk Management Department
COVID-19	Coronavirus Disease 2019
CNP	CNP Cyprus Insurance Holdings Ltd
CRDA&P	Credit Risk Data Analysis & Provisions
CC1,CC2,CC3	Credit Committees
CDEA	Cleared Derivatives Execution Agreement
D	
DR	Disaster Recovery
DTA	Deferred Tax Asset
DTC	Deferred Tax Credits
E	
ExCo	Executive Committee
ECB	European Central Bank
EBA	European Banking Authority

GLOSSARY (continued)

E	
ECL	Expected Credit Losses
EEA	European Economic Area
EMTN	Euro Medium Term Note
ECAIs	External Credit Assessment Institutions
ELA	Emergency Liquidity Assistance
EEPE	Effective expected positive exposure
EAD	Exposure at default
EMU	Economic and Monetary Union
EV	Economic Value
EMIR	European Markets Infrastructure Regulation
F	
FX	Foreign Exchange
FVPL	Fair Value through Profit or Loss
F&CP	Financial & Capital Plan
FSE	Financial Sector Entity
FIRP	Fraud Incident Response Plan
G	
GIC	General Insurance of Cyprus
Group	Bank of Cyprus Holdings Public Limited Company
GDP	Gross Domestic Product
GMRAs	Global Master Repurchase Agreements
H	
HRRC	Human Resources & Remuneration Committee
HQLA	High Quality Liquid Assets
I	
IFRS	International Financial Reporting Standards
IT	Information Technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAAP	Internal Liquidity Adequacy Assessment Process
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association, Inc.
IRE	Interest Rate Exposure
K	
KRIs	Key Risk Indicators
KPIs	Key Performance Indicators
L	
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
LSE	London Stock Exchange
LCH	London Clearing House
LCP	Liquidity Contingency Plan
LSD	Legal Services Department
M	
MR	Market Risk Department
MM	Money Market
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MTF	Multilateral Trading Facility
MRR	Minimum Reserve Requirements
MRTs	Material Risk Takers
N	
NCGC	Nominations and Corporate Governance Committee
NPEs	Non-Performing Exposures
NPLs	Non-Performing Loans
NPV	Net Present Value
NSFR	Net Stable Funding Ratio

GLOSSARY (continued)

N	
NII	Net Interest Income
NRS	Non-Rate Sensitive Items
NMDs	Non-Maturing Deposits
O	
OCI	Other Comprehensive Income
ORM	Operational Risk Management
O-SIIs	Other Systemically Important Institutions
P	
PS	Payment and Settlement
PD	Probability of Default
P2R	Pillar II Requirement
P2G	Pillar II Guidance
Plan	Three year plan
Q	
QIS	Quantitative Impact Study
R	
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	Risk Control Self-Assessment
RBr	Retail Brokerage
RB	Retail Banking
RC	Board Risk Committee
RAS	Risk Appetite Statement
RAF	Risk Appetite Framework
RCMS	Risk Compliance Management System
RSCO	Regulatory/Supervisory Coordination Office
RWAs	Risk Weighted Assets
S	
SREP	Supervisory Review and Evaluation Process
SMEs	Small Medium Enterprises
SFTs	Securities Financing Transactions
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
T	
T2	Tier 2
TC	Total Capital
TS	Trading and Sales
TLOF	Total Liabilities and Own Funds
T1	Tier 1
V	
VEP	Voluntary Exit Plan
VaR	Value at Risk

Definitions and explanations on Alternative Performance Measures Disclosures

Allowance for expected loan credit losses	Allowance for expected loan credit losses comprises: (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
Cost to income ratio	Cost to income ratio is calculated as the total staff costs (excluding costs relating to the Voluntary Exit Plan) (on an underlying basis), special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund (excluding other levies) (on an underlying basis) and other operating expenses (excluding 'Advisory and other restructuring costs-organic', any restructuring costs and other operating expenses relating to NPE sales, and provisions for litigation, claims, regulatory and other matters) (on an underlying basis) divided by total income on the underlying basis (as defined below).
Gross loans	Comprises: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale) and (ii) loans and advances to customers measured at FVPL adjusted for the aggregate fair value adjustment. Gross loans are reported before the residual fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired). This applies for loans and advances measured at amortised cost on the statutory basis.
Interest earning assets	Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus investments (excluding equities and mutual funds).
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL, for the reporting year.
Loan credit losses charge (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the loan credit losses (as defined) (annualised based on year to date days) divided by the average gross loans (as defined). The average balance is calculated as the average of the opening balance and the closing balance for the reporting year.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (per the underlying basis) (annualised based on year to date days) divided by the quarterly average interest earning assets. Quarterly average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable.

Definitions and explanations on Alternative Performance Measures Disclosures (continued)

Net loans and advances to customers	Comprises gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as the gross loans (as defined) net of allowance for expected loan credit losses (as defined), divided by customer deposits.
New lending in the Management Report	New lending includes the average YTD change (if positive) for overdraft facilities.
Non-performing exposures (NPEs)	As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions: (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due. (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy. (iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due. (iv) Performing forborne exposures under probation for which additional forbearance measures are extended. (v) Performing forborne exposures under probation that present more than 30 days past due within the probation period. When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing. The NPEs are reported before the deduction of allowance for expected loan credit losses (as defined).
Non-recurring items	Non-recurring items as presented in the 'Unaudited Consolidated Income Statement on the underlying basis' relate to: (i) Advisory and other restructuring costs – organic, (ii) Restructuring costs – Voluntary Exit Plan (VEP), (iii) Provisions/net loss relating to NPE sales, (iv) (Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, (v) Reversal of impairment/(impairment) of deferred tax assets (DTA) and impairment of other tax receivables, and (vi) Profit from discontinued operations (UK) (in 2018 only).
NPE coverage ratio	The NPE coverage ratio is calculated as the allowance for expected credit losses (as defined) over NPEs (as defined).
NPE ratio	The NPE ratio is calculated as the NPEs (as defined) divided by gross loans (as defined).
Operating profit	Operating profit comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters, tax, profit attributable to non-controlling interests and non-recurring items (as defined).

Definitions and explanations on Alternative Performance Measures Disclosures (continued)

Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised (based on year to date days) operating profit (on an underlying basis) (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Profit/(loss) after tax –organic (attributable to the owners of the Company)	Profit/(loss) after tax - organic (attributable to the owners of the Company) is the profit after tax and before non-recurring items (as defined above) (attributable to the owners of the Company), except for the 'Advisory and other restructuring costs - organic'.
Total income	Total income under the underlying basis comprises total of net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income (on the underlying basis). A reconciliation of these amounts between the statutory and the underlying bases is disclosed in the Directors Report under section 'Financial Results on the underlying basis' of the 2019 Consolidated Financial Statements of the Company.

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