Pillar 3 Disclosures 2018

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. The Cypriot economy became more deeply rooted since 2013 and looks even more promising for the future. 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 2018 in page 3.

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 Statement (RAS) 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 2018 and in the Additional Risk and Capital Management Disclosures which form part of the 2018 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 2018.

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 2018.

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

1. **Executive Summary** (continued)

KEY PILLARS	PLAN OF ACTION
1. Materially reduce the level of delinquent loans	• Sustain momentum in restructuring and continue reduction of NPEs • Focus on terminated portfolios (in Recovery Unit) – accelerated consensual foreclosures • Real estate management via Real Estate Management Unit (REMU) • Continue to explore alternative accelerating NPE reduction measures, such as NPE sales, securitisations etc.
2. Further improve the funding structure	• Focus on shape and cost of deposit franchise
3. Maintain an appropriate capital position	• Internally generate capital
4. Focus on core Cyprus market	• Targeted lending in Cyprus into promising sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee income from international business, wealth, and insurance
5. Achieve a lean operating model	• Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time • Post further NPE reduction, the Bank will focus on the need to manage costs
6. Deliver returns	• 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 RAS is disclosed in Section 2.4.6.

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

	31 December 2018[1]	**31 December 2018**	31 December 2017
Key Balance sheet ratios			
NPE ratio	**47%**	**36%**	47%
NPE provisioning coverage ratio	**52%**	**47%**	48%
Leverage ratio[2]	**10.0%**	**10.0%**	10.4%
Cost of risk	**1.2%**	**1.0%**	4.0%
Liquidity Coverage Ratio	**231%**[3]	**231%**	190%
Capital ratios and risk weighted assets[4]			
Common Equity Tier 1 capital ratio (CET1) (transitional)	**15.4%**	**12.1%**	12.7%
CET1 (fully loaded for DTA only)	**15.4%**	**11.9%**	12.2%
Total capital ratio (transitional)	**18.3%**	**14.9%**	14.2%
Risk-Weighted Assets (RWA) (€ million)	**14,016**	**15,373**	17,265
RWAs intensity	**63%**	**70%**	73%

1 **Including the Helix and Velocity portfolios of €1,148 million (NBV) and €6 million (NBV) respectively as non-current assets and disposal groups held for sale (additional information on the Helix and Velocity Portfolios is disclosed in Section 6.2.11)**

2 **Tangible total equity to total assets**

3 **Ignoring the classification of Helix and Velocity portfolios**

4 **Pro forma for Deferred Tax Credits (DTC) and Helix Portfolio**

1. Executive Summary (continued)

- The Common Equity Tier 1 capital (CET1) ratio (transitional basis) stood at 12.1% at 31 December 2018, compared to 12.7% at 31 December 2017. Adjusting for deferred tax assets (DTA), the CET1 ratio on a fully-loaded basis totalled 11.9% at 31 December 2018 (31 December 2017: 12.2%). After taking into account the legislative amendments to convert DTA to Deferred Tax Credit (DTC) (adopted on 1 March 2019) and the project Helix the CET1 ratio was reduced by c. 60 bps. The CET1 increases by 170 bps and 160 bps respectively to 15.4%. During the year 2018, the CET1 ratio was reduced by c.60 bps. The CET1 ratio was negatively affected by the loss for the year, the impairment of the DTA and by the phasing-in of transitional adjustments, mainly DTA and the adoption of IFRS 9 and was positively affected by the reduction in RWAs, mainly due to the disposal of BOC UK.

- As at 31 December 2018, the Total Capital ratio stood at 14.9% (31 December 2017: 14.2%), above the minimum required (12.88%). The Total Capital ratio pro-forma for the DTA conversion to DTC and the project Helix increases to 18.3%. The total capital ratio was positively affected by the issuance of €220 million Additional Tier 1 Capital (AT1) in December 2018.

- Despite the stricter default definition used for RWA purposes applied as of 1 January 2018 following its alignment with the NPE definition and the transitional arrangements of the IFRS 9 implementation which would otherwise increase RWA, RWA substantially decreased mainly from the disposal of BOC UK and to a lesser extent from the on-going deleveraging actions in the form of customer loan restructurings, increased provisioning and debt-for-asset swaps. The RWA intensity decreased from 73% to 70% (63% pro forma for DTC and Helix), reflecting both the decrease in NPE exposures in customer advances and the shift of balances from Balances with other banks to Cash and balances with central banks which have lower risk weighting.

- In November 2018, the Company completed the sale of its wholly owned subsidiary bank in the UK, Bank of Cyprus UK Limited ('BOC UK') and its subsidiary Bank of Cyprus Financial Services Limited following receipt of the necessary regulatory approvals from the Prudential Regulation Authority and the European Central Bank. The transaction has had an overall positive impact on the Group capital ratios of c.70 bps. More information is included in the Directors' Report of the Consolidated Financial Statements of the Company for the year 2018 in page 18.

- The Group continues to be actively exploring alternative avenues to accelerate this reduction. NPEs as defined by the European Banking Authority (EBA) were reduced by €1.3 billion or 14.7% during 2018 to €7.5 billion at 31 December 2018, accounting for 47% of gross loans, compared to 47% at 31 December 2017.

- The provisioning coverage ratio of NPEs stood at 52% pro forma for Helix at 31 December 2018, compared to 48% at 31 December 2017. When taking into account tangible collateral at fair value, NPEs are fully covered.

- Expected credit losses (cost of risk) for 2018, other than the classification of the Helix portfolio as a disposal group held for sale, accounted for 1.0% of gross loans, compared to 4% for 2017.

- At 31 December 2018 the Group Liquidity Coverage Ratio (LCR) stood at 231% (compared to 190% at 31 December 2017) and was in compliance with the minimum regulatory requirement. The Group and the Bank has been in compliance with the LCR including the LCR add-on, which was introduced by the Central Bank of Cyprus (CBC) as a macro-prudential measure, effective from 1 January 2018. The LCR add-on requirement was abolished on 1st January 2019.

1. Executive Summary (continued)

The Group has in place limits to manage concentration risk which can arise, among others, from sector, product, counterparty, currency, collateral and funding source concentration. Appropriate monitoring and reporting processes are in place and are frequently reviewed. There are restrictions on loan concentrations which are imposed by the Cyprus Banking Law, the relevant CBC Directives and the CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's RAS imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of the internal limits over time.

Risk Statement

The Finance Director and the Group Chief Risk Officer have attested in writing that, to the best of their knowledge, the 2018 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 2018 (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 2018 Directors' report in section 'Statement of Directors' Responsibilities' (page 30), which forms part of the 2018 Annual Report of Bank of Cyprus Holdings Group.

2. Introduction

2.1 Corporate Information

Bank of Cyprus Holdings Public Limited Company (the 'Company') was incorporated in the Republic of Ireland on 11 July 2016, as a public limited company number 545903 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 traded on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

2.2 Pillar III Regulatory Framework

Regulatory framework overview

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

The CRR and CRD IV establish the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of Risk Weighted Assets (RWAs) and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely effective by 2019. In addition, the Regulation (EU) 2016/445 of the 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 RWA for credit risk, counterparty risk, market risk and operational risk.
- Pillar II covers the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of a bank's capital adequacy and internal processes.
- Pillar III covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

Future Regulatory Developments

The Group's 2018 year end disclosures comply with all relevant CRD IV and CRR requirements and associated EBA and ECB guidelines and technical standards in force at 31 December 2018 including ECB Guidance to Banks on Non-Performing loans.

2.2 Pillar III Regulatory Framework (continued)

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

- 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. 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.
- In 2016 the European Commission (EC) launched a proposal to amend the Capital Requirement Directive (CRD V), Capital Requirement Regulation (CRR II), Banking Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SMR) Regulation. The Group continues to monitor the developments in this area.
- The BRRD requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. Instruments which qualify for MREL are own funds (CET1, Additional Tier 1 and Tier 2) as well as certain eligible liabilities. MREL is expressed as a percentage of Total Liabilities and Own Funds. Although the precise calibration and ultimate designation of the Group's MREL has not yet been finalised, BOC PCL is monitoring developments in this area very closely.

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.

Minimum Capital Requirements

	2019 Note 1	**2018**	**2017**
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			
Pillar 2 requirement	**3.00**	**3.00**	**3.75**
Buffers			
Capital Conservation Buffer (CCB)– Note 2	2.50	1.88	1.25
Countercyclical Capital Buffer (CCyB) – Note 2			
Other Systematically Important Institutions (O-SII)- Note 4	0.50	-	-
Total minimum requirements CET1	**10.50**	**9.4**	**9.50**
Overall Capital requirement	**14.00**	**12.9**	**13.00**

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 2018 SREP decisions.
2. The CCB was gradually phased-in at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 and was fully implemented on 1 January 2019 at 2.50%.

2.2 Pillar III Regulatory Framework (continued)

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 2018 and 2017 and the six months up to June 2019. The CCyB for the Group has been calculated at 0.02% for the year 2018 (2017: zero) (Section 5.4).

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-SII) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented at 2.0% on 1 January 2022.

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

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) laws and regulations.

Basis and frequency of disclosures

The 2018 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.

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

Verification

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

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

Group Compliance Division had an oversight of the framework and assurance procedures and Group Internal Audit performed a review of the process followed by the Group for the preparation of Pillar 3 Disclosures for 2018.

The Pillar 3 report pre its submission to the Board is reviewed and approved by the Executive Committee. The Board, through the Risk and Audit Committees scrutinises and approves the Pillar 3 report. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the disclosures. Further controls and processes about the preparation of periodic reporting are disclosed in the Directors' report of 2018 Annual Report (page 26).

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.

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

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

As at 31 December 2018 the Board comprised of twelve Directors: the Group Chairman who is considered independent on an on-going basis, two Executive Directors and nine Non-executive Directors, eight of whom independent. Two of the Directors were appointed on 23 July 2018 and on 13 August 2018 respectively bringing the total number of female Directors on the Board to four. In August 2018, the Board extended the appointment of the Group CEO until 31 December 2020, while at the same time the Chairman made known his decision to step down at the next AGM. In February 2019 Mr. Arapoglou was appointed to the Board subject to ECB consent with the intention that following his election to the Board at the next AGM, he will be considered as a candidate for the Chair. In the meantime Mr Spanos resigned from the Board on 21 January 2019, while on 4 March 2019 the CEO, who is an executive director, gave notice of his resignation to the Board. The NCGC will launch the process of identifying suitable candidates for relevant appointment to the Board.

2.3.2 Other Directorships

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

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

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

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

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

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

Full biographies can be accessed online and in the Annual Corporate Governance Report 2018 which is included in the Annual Financial Report 2018 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 2018 four female directors were members of the Board (33%). Nationality, gender, age, specialised skills and other relevant qualities are all taken into consideration in order to maintain an appropriate range of balance of skills, experience and background on the Board.

Following review in 2018, 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, information technology, 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 2018 and is available at www.bankofcyprus.com (Investor Relations).

2.3.4 The Board

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

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

2.3.5 Board Risk Committee (RC)

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

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

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

The RC currently comprises 4 Non-executive directors, three of whom are independent. During 2018 the RC held 17 meetings (2017: 19 meetings).

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

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

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

2.3.6 Board Audit Committee (AC)

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

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

2.3.6 Board Audit Committee (AC) (continued)

The AC comprises of 4 independent Non-executive directors. During 2018 the AC held 13 meetings (2017: 11 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

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

Further information on the Group Board Committees, their composition, number of meetings, their activities and terms of reference are contained in the Annual Corporate Governance Report for 2018 which is included in the Annual Financial Report 2018.

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

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 Risk Management Framework

The Group's management and BoD are satisfied that the Risk Management Framework is appropriate given the risk profile of the Group and its strategy. 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 2018 Annual Financial Report.

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

The Board signs a liquidity and capital adequacy statements on an annual basis as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) and International Capital Adequacy Assessment Process (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.

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

RMD derives its authority from the BoD, via the RC. GRMD 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 on the basis of 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 2018 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 2018 and in the Additional Risk and Capital Management Disclosures included in the 2018 Annual Financial Report.

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

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

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

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

2.4.2 Risk Inventory (continued)

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 become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal and other proceedings against the Group, including conduct issuer, which in the event that are not properly dealt with, the Group will be exposed. Additional information on Pending litigation, claims, regulatory and other matters is disclosed in Note 40 of the Consolidated Financial Statements of the Company for 2018.

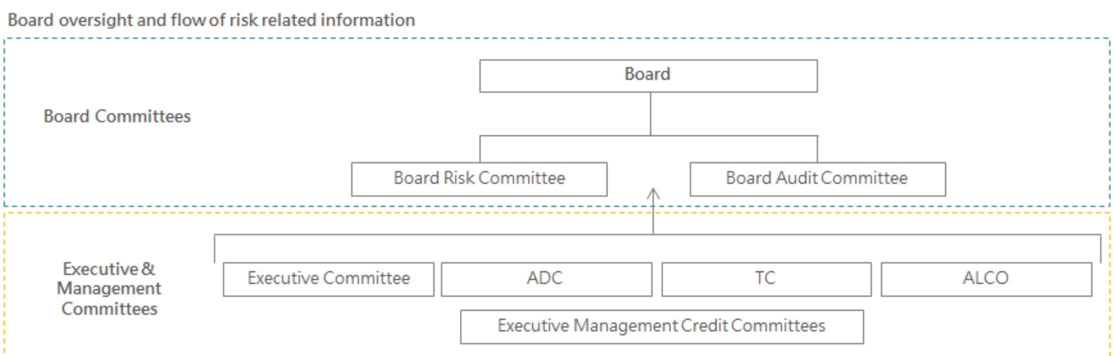
2.4.3 Risk Management Governance

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 by various executive and management Committees:

- The Group's Executive Committee (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



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.

2.4.3 Risk Management Governance (continued)

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 and the GCRO participation in these committees ensures both that the topics are appropriately presented and that Risk Management's position is clearly articulated. Topics regularly covered include:

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

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

2.4.3 Risk Management Governance (continued)

Senior Management

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

Chief Executive Officer (CEO)

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

Group Chief Risk Officer (GCRO)

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

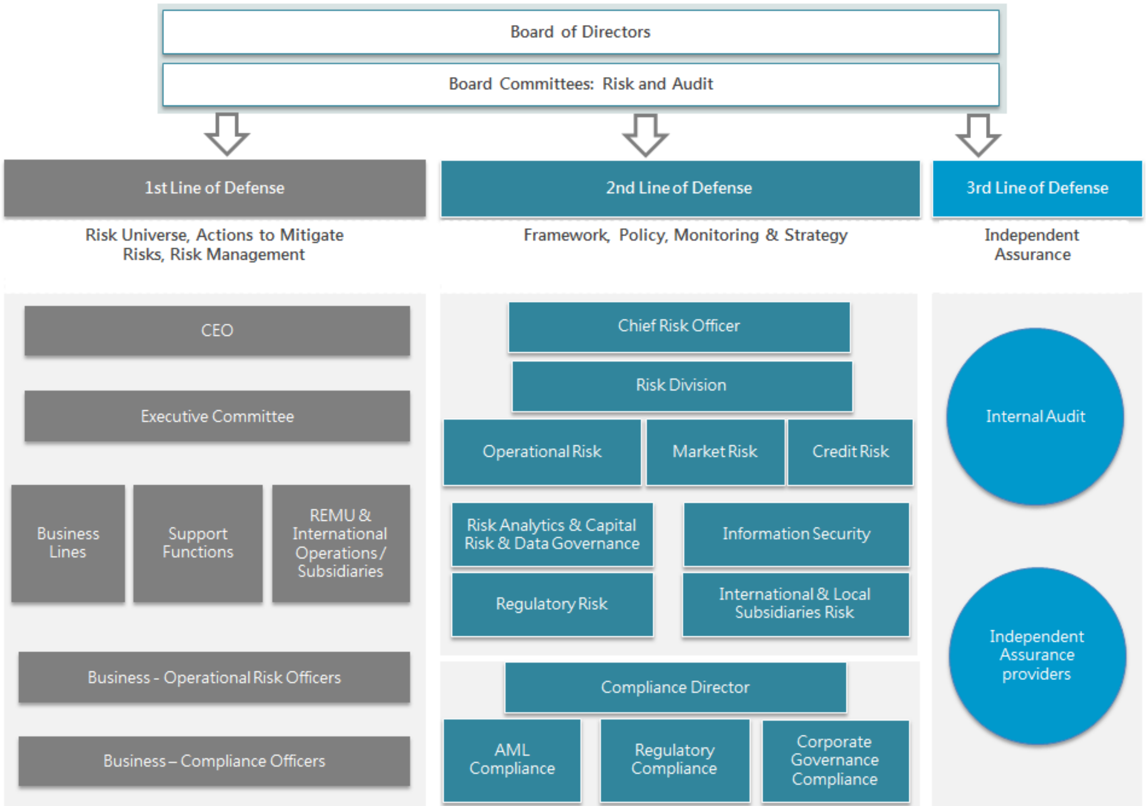
- Preparing and recommending the Group's risk appetite to the Board through the RC.
- Developing, operating and maintaining a comprehensive risk management framework to monitor and manage the risk profile of the Group against the approved risk appetite and providing accurate and timely reporting on that.
- Providing regular briefings and guidance to the Group Executive and other Group Committees to ensure that they are aware of the over-arching risk management framework and that they have a clear understanding of their accountabilities for risk and control.
- Informing the RC on a monthly basis on the aggregate risk profile of the Group.
- Participating and reporting (as appropriate) in the Group's ExCo, the ADC (holds veto power), the ALCO (holds veto power and the right to escalate to the RC), the OpCo and the Credit Committee 3 (CC3) (the highest executive credit committee as an observer with veto power). His representatives (Credit Risk Assessment Department) are observers in other credit committees with equal power of veto.
- Participating directly or through the managers delegated to act on his behalf (Manager Risk Division Operations, International Risk Management & Other Subsidiaries Manager, Market Risk Manager, Manager ORM, Manager Information Security) to the following subsidiary committees:
  a. General Insurance of Cyprus (GIC) AC & RC and ALCO
  b. EuroLife Risk Committee and ALCO
  c. BoC Asset Management Company BoD and Audit & Risk Committee
- Overseeing the effectiveness of the implementation of the Group's RMD policies.
- Reviewing and recommending appropriate limits for all identified risks.
- Ensuring the implementation of the Information Security Policy and Program.
- Ensuring objectivity and independence of the GRMD.
- Acquiring resources with the right skills and competences and continually assessing of those.
- Ensuring that the GRMD staff receive on-going training.
- The preparation and delivery of induction training for the newly appointed members of the BoD.

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)



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 as cascaded from the RAS. • Issues identification, recording, escalation and management.	Consist of the Risk Management and Compliance units 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	Group 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.

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.

2.4.4 Risk Management Division

The RMD division is structured so as to:

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

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

- The provision of tools and methodologies for risk management to the business units.
- The promotion of risk awareness through the engagement of business units in the identification, measurement and mitigation of risks as appropriate.
- The reporting of losses from risks identified to Executive Management and the Regulatory Authorities.
- The collection and monitoring of Key Risk Indicators (KRIs).
- The identification of risks at Group level in cases where these risks are not managed by a specific business unit and to make sure that actions mitigating risks are implemented.
- The provision of a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Group (risk appetite, stress testing framework).

2.4.4 **Risk Management Division** (continued)

- The setting of policies in line with the strategic and business objectives.
- The management of the information security framework.

Furthermore, RMD independence is ensured through:

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

It is noted that the incumbent GCRO has held this position since October 2013. During 2018, 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 has focused on the implementation of a firm-wide risk culture through the following:

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

2.4.5 **Risk Culture** (continued)

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

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

As RMD continues its efforts to establish a strong risk culture across the Group, in line with industry on-going practices, RMD undertakes an annual 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 Statement (RAS)

Introduction

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

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

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

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

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.

Key mitigating actions

- 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.

2.4.6 Risk Appetite Statement (RAS) (continued)

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.

Key mitigating actions
- 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.
- Thorough risk assessment and credit sanctioning procedures to ensure that lending is in line with the Bank's risk appetite.
- Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight.
- Risk Division monitors credit performance and adherence to credit risk policies and guidelines.

Key Risk Indicators
A number of key risk indicators are in place to monitor this risk such as the NPE ratio, NPE coverage, provisioning charge, various limits on bond exposures etc.

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.

Key mitigating actions
- No trading books.
- No equity holdings (apart from small run-down legacy book).
- 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 on both Net Interest Income and Economic Value of Equity.
- Monthly monitoring of property risk and comparison with KRI.
- 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 and diverse 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.

The RAS provide for adherence to regulatory requirements and set specific limits for asset encumbrance, funding sources, LCR and NSFR ratios. Further information and the Funding & Liquidity RAS limits are disclosed in Section 4.2.3.

2.4.6 Risk Appetite Statement (RAS) (continued)

Key mitigating actions
The Group maintains liquid assets of adequate quality and quantity in order, not only to meet regulatory limits but also internal stress testing requirements, very comfortably.

This is evidenced through the below:
- Liquidity buffer comprising mainly of balances with Central Banks instantly accessible (74% as at 31 December 2018)
- Sizeable surpluses in all regulatory and internal liquidity ratios
- Loans to deposits ratio 65% as at 31 December 2018
- LCR > 200% (as at 31 December 2018)/regulatory limit: 100%
- NSFR 119% (as at 31 December 2018)
- Close monitoring of daily flows – net customer flows equal to €1.8 bn in 2018
- Daily internal stress testing – total surplus of Combined Stress Scenario equal to €1.9 bn as at 31 December 2018
- Updated Liquidity Contingency Plan, tested annually – successful testing in March 2019

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 if there is high concentration in the said sector. The RAS therefore primarily sets name and sector concentration limits aiming to ensure that uneven distribution of exposures to particular sectors are avoided.

Key mitigating actions
- Concentration Risk Policy and related guidelines aligned with the Risk Appetite Statement.
- Exposures are monitored on a monthly basis to prevent both an excessive concentration of risk and single name concentrations
- Portfolio controls on certain industry sectors and collaterals to reflect risk appetite.

Key Risk Indicators
Sector and name Concentration Limits are in place.

Operational Risk

The risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people and systems, or from external events. The RAS thus, sets limits on aggregate operational losses which are then broken down to lower limits across sub-categories of operational risk including, among others, fraud, legal, compliance, reputational and money laundering.

Key mitigating actions
Operational risk is managed across the Group through an operational risk framework and operational risk policies/methodologies, which are reviewed on an annual basis or more frequently whenever deemed necessary. Tools and processes under this framework include, among other:
- A Risk and Control Self-Assessment (RCSA) process
- A Risk Assessment scoring methodology matrix based on Impact and Likelihood defined scales
- Rigorous monitoring of risk mitigation action implementation plans
- Loss/Incident recording and analysis
- Established Key Risk Indicators (KRIs) and Key Fraud Indicators (KFIs)
- Adverse scenario analysis and Operational Risk stress testing

2.4.6 Risk Appetite Statement (RAS) (continued)

- Software systems: 3 different systems deployed – an operational risk database, a Fraud Risk Management System and a Business Continuity Management system.
- Insurance mitigation and management
- Disaster Recovery

Key Risk Indicators & Key Fraud Indicators

- Key Risk Indicators identified across various business lines, especially for high or important risks.
- Trigger levels set for several KRIs (where applicable), while in other cases monitoring is performed through trending observation.
- Established Key Fraud Indicators – some linked to scenarios

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.

Key Mitigating Actions

- Invested in enhanced cyber security controls to protect against external threats and the better detect breaches.
- Worked and will continue working on increase its ability to combat data misuse /leakage.

The RAS, which is currently going through an extensive revision, 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.
- GCRO's participation in strategy discussion sessions at Executive Management level.

This process, which results in the identification of risks and associated mitigating actions (see further analysis in Section 2.4.7), 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.

Going forward, RMD will further improve the risk setting process by cascading the RAS into business line RASs which will reflect their own business plans whilst at the same time ensuring compliance with the overall risk appetite of the Group.

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 GCRO takes place for consideration and further action.

2.4.6 Risk Appetite Statement (RAS) (continued)

Reporting, Monitoring and Escalation

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

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

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

Position as at December 2018

During 2018 the Group intensified further its efforts to move closer to its risk appetite but continues to operate outside of its risk appetite in areas such as:

- RWAs intensity remains 70% above RAS (<65%).
- Asset quality with significant legacy issue continues to persist as an issue as the level of Non Performing Exposures (NPEs) is not yet within the Group's risk appetite. However, since the peak in 2014 the stock of NPEs has been reduced significantly (ca. €10 billion pro forma for Helix Project).
- Earnings continue to be volatile.
- 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.
- Operational risk losses.
- Cyber and information security risks that are in the process of being mitigated.

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

2.4.7 Business Lines and Risk Profile

The Bank consists of 5 key business lines in Cyprus:

(i) Consumer and Small Medium Enterprise (SME) Banking,
(ii) Corporate Banking,
(iii) International Banking (including Wealth & Markets Division (IB, W&M)),
(iv) Restructuring and Recoveries Division (RRD), and
(v) 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 2018 of Annual Financial Report (page 15).

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

- Consumer/Retail – all personal customers and small businesses with facilities from the Bank of up to €260 thousand, excluding professional property loans;
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Bank in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million;
- 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;

2.4.7 Business Lines and Risk Profile (continued)

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

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/dangerous 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 enters 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.

2.4.7 Business Lines and Risk Profile (continued)

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 Reporting & Control (CRR&C) department is responsible for reviewing approved credit applications and monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics.

The 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

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.

Legal Risk

The Group is also exposed to Legal risk. This refers to the possibility of the operations and conditions of the Bank to be disrupted or adversely affected due to lawsuits, adverse judgements or unforceable 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. Such risk may arise when adverse court judgements on lawsuits regarding convertible bonds materialise against the Bank on the grounds that it did not comply with the provisions of the MiFID Law.

Key mitigating actions:

- Procedures in place to ensure effective and prompt management of Legal risk.
- Ongoing review and assessment of the Legal framework and regulatory developments.
- Review by the Legal Services Department (LSD) of new products/advertisements/internal policies and manual contracts, engagement letters with external counterparties, acquisition/disposal agreements, etc.
- Participation of the Chief Legal Officer in Bank’s committees and various steering committees, thus ensuring that the Bank is kept informed and updated of the Group’s exposure to this respect.
- Frequent reporting of pending litigations and latest developments in a number of Board and management committees.

2.4.7 Business Lines and Risk Profile (continued)

- Automated software system both for the filing of requests from Divisions, as well as for the registration of all litigation against the Group.
- All legal cases also recorded in the Operational Loss Database system and the Bank uses the data provided in these cases to identify the cause of action to the various groups of lawsuits, in order to amend procedures where needed, to avoid to the extent possible, future recurrence, as well as, to plan actions to dismiss the lawsuits and safeguard the Bank's interests.
- External Legal counsel engaged for the representation of the Group before legal forums, as well as, for obtaining legal opinion on issues/areas of Law which are not within LSD's specialisation/expertise.
- In 2018, an external consultant was assigned to perform an independent review of all the legal cases and assist in data cleansing and further clustering of legal cases and in the development of a more sophisticated model for the assignment of probability of loss to litigation cases.
- Prudent approach followed for provisioning purposes.

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
Loan book	• Asset quality • Impact on profitability • Sector concentration • Conduct risk • Impact on provisions	• Maintain prudent underwriting and client on-boarding standards • Maintain strict adherence to policies and procedures including reporting and escalation
NPE reduction	• Non-viable solutions to customers leading to re-defaults and escalating costs • Conduct risk • Impact on provisions	• Targets have been set and monitoring process in place • Tighter monitoring of early arrears and significant customers • Use successful past experience
Macro environment deterioration	• Impact on property prices, cost of risk, sovereign spreads and asset quality	• Appropriate hedging • Reduce property related risk

2.4.8 Risk Management Process and Policies

Further information on business overview is disclosed in the Directors' report (page 17) in 2018 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 is drawn up and maintained by the Group which is required to update it at least annually or after a material change to the legal or organisational structure, the Group's business or financial situation (which could have a material effect on the Recovery Plan) or when the competent authority requires more frequent update.

2.4.9 **Recovery Plan** (continued)

The Group's Recovery Plan:

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

The 2018 Recovery Plan was submitted to the ECB in September 2018.

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.

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

a) Counterparty credit risk (borrowers, issuers and interbank) – change in their probability to default, loss given default and assuming migration between risk grades
b) Collateral valuation/coverage - drop in prices of property and other collateral
c) Drop in real estate prices and effect on own properties
d) Concentration risk – impact from default of largest counterparty(ies)
e) 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) Deferred tax asset

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

2.4.10.2 Stress Testing Coverage

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

2.4.10.3 Severity

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

2.4.10.4 Regulatory Considerations

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

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

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

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.

2.4.10.5 Purpose (continued)

- 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 2018 Stress Test

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

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

1. The exercise was based on data as at 31st December 2017.
2. The requirements of the exercise were adjusted to include changes for provision calculation based on IFRS 9.
3. Static balance sheet approach.
4. No curing of IFRS 9 stage 3 exposures.
5. EBA-defined macro-parameters were used.

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

Other business and risk type specific stress tests

The MR performs additional stress tests beyond those referred to above, which include the following:

- Monthly stress testing for interest rate risk (2% shock on NII and Economic Value (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. The process takes into consideration:
- assessment of risks additional to the Pillar I risks;
- the effectiveness of risk management processes;
- stress testing results;
- strategy and business plans.

Based on the above parameters, the Group determines additional capital required to supplement regulatory capital levels. The ICAAP is embedded in the Group's business and organisational processes and is seen as an integral component of the Group's overall control system, strategic, capital and operations management. The role of the ICAAP is to:
- analyse, assess and quantify the Group's risks;
- explain how the Group monitors and mitigates those risks;
- ensure that the Group has sound risk management systems;
- establish the current and future capital needs for the risks identified;
- test the absorption power of the Group's capital under both stress testing and reverse stress testing;
- enable management to review/revise its strategy to ensure its viability at all times and
- enable the regulator (ECB and CBC) to assess the Group's internal capital adequacy assessment process.

The Group's ICAAP report for year 2017 was approved by the BoD and was submitted to the SSM in April 2018. Currently, the Group is preparing the ICAAP report for the year 2018, which is due for submission to the SSM by the end of April 2019.

The Group also undertakes a quarterly review of its ICAAP results considering the latest actual performance. During the quarterly review, the Group's risk profile and risk management policies and processes are also reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). Given completion of the full ICAAP report in April 2018, two quarterly reviews have taken place in the third and fourth quarter of 2018 covering the period up to end of June 2018 and the period up to end of September 2018, respectively.

The Board signs a capital adequacy statement on an annual basis as part of the ICAAP. The Pillar II add-on capital requirement as per the ICAAP report was 1.9%.

2.4.11.2 Pillar II and SREP

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

The minimum Pillar I total capital requirement is 8.00% and may be met, in addition to the 4.50% CET1 requirement, with up to 1.50% by Additional Tier 1 capital and with up to 2.00% by Tier 2 capital.

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

2.4.11.2 Pillar II and SREP (continued)

The Group's minimum phased-in CET1 capital ratio for 2018 was 9.375% comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the Capital Conservation Buffer (CCB) of 1.875% applicable as from 1 January 2018. The Group's minimum phased-in CET1 capital ratio requirement for 2017 was 9.50%, comprising of a 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the CCB of 1.25%. The ECB had also provided non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Ratio requirement for 2018 was 12.875%, comprising of 8.00% Pillar I requirement (of which up to 1.50% can be in the form of Additional Tier 1 (AT1) capital and up to 2.00% in the form of Tier 2 capital), a 3.00% Pillar II requirement (in the form of CET1) and the CCB of 1.875% applicable as from 1 January 2018. The overall Total Capital Ratio requirement for 2017 was 13.00%, comprising of a Pillar I requirement of 8.00%, a Pillar II requirement of 3.75% and the CCB of 1.25% applicable for 2017.

Following the annual SREP performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased-in CET1 capital ratio and Total capital ratio remain unchanged when ignoring the phasing-in of the CCB and the O-SII Buffer. The Group's phased-in CET1 capital ratio requirement will be 10.5%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% and the O-SII Buffer of 0.5%. The Group's Total capital ratio requirement will be 14.0%, comprising of a 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% and the O-SII Buffer of 0.5%. The new SREP requirements will be effective as from 1 April 2019. The Group CET1 ratio remains above these requirements.

Following the 2018 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 Common Equity Tier 1 capital.

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

Following the final 2018 and 2017 SREP decisions the variable pay is capped at 10% of consolidated net revenues.

3. Scope of Application

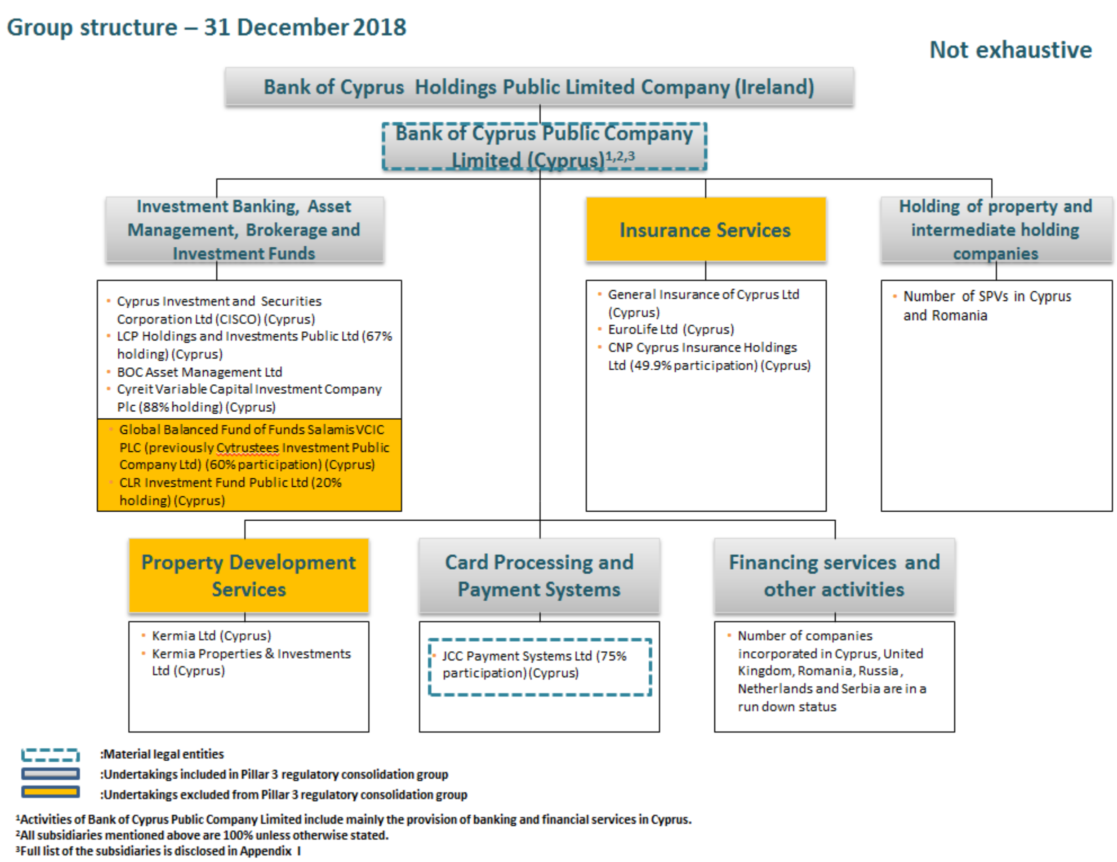
Differences on the basis of consolidation for financial reporting and prudential purposes

The data included in this Report may be different than the respective data of the Consolidated Financial Statements of the Company for 2018, 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 2018 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 2018. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of regulatory capital requirements.

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

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 criteria are also met.

Quantitative criteria:

- Contribution to the RWA 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
- 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 2018 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 JCC have been identified as material entities as at 31 December 2018.

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 2018 and 2017 with the Balance Sheet prepared for prudential purposes.

	Ref[1]	2018	2017
		€000	€000
Total equity per Consolidated Financial Statements of the Company for 2018	**a**	**2,367,328**	**2,616,708**
Regulatory deductions:			
Deconsolidation of insurance and other entities	**b**	(202,340)	(208,346)
Minority interest adjustment to comply with regulatory requirements		(25,998)	(31,150)
Intangible assets	**c**	(43,364)	(34,252)
Unrealised gains of Available-for-sale (AFS) instruments subject to transitional arrangements		-	(10,063)
Of which: Unrealised gains-equity securities	*Section 6.4*	-	*(6,499)*
Additional Valuation Adjustment (AVA)[2]		(1,293)	(1,050)
Deferred Tax Asset deduction (DTA) deduction, direct and indirect holdings of financial sector entities and prudential charge relating to specific credits and other		(285,139)	(100,953)
Equity instruments transferred to AT1		(220,000)	**-**
IFRS 9 transitional arrangements		304,793	**-**
Reserves arising from revaluation of properties and other non CET1 eligible reserves		(29,987)	(46,742)
Total Common Equity Tier 1 (CET1)		**1,864,000**	**2,184,152**
Additional Tier 1 capital		**220,000**	**-**
Total Tier 1 capital		**2,084,000**	**2,184,152**
Tier 2			
Property revaluation reserve and other unrealised gains		-	46,742
Regulatory deductions		-	(37,393)
Tier 2 instruments			
Tier 2 instruments as per Consolidated Financial Statements of the Company		*270,930*	*302,288*
Less: Accrued interest, issue cost and other		*(20,930)*	*(18,485)*
Less: Amount allocated to qualifying own funds deduction (minority interest) - transitional		*(38,000)*	*(26,978)*
Tier 2 recognised in own funds		*212,000*	*256,825*
Total Tier 2 capital		**212,000**	**266,174**
Total own funds		**2,296,000**	**2,450,326**

No restrictions apply on 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 (2018: €29,987 thousand, 2017: €46,742 thousand) is not allowed to be included in CET1 capital and it has therefore been included in Tier 2 capital. The amount of fixed assets property revaluation reserve which is included in Tier 2 capital is subject to transitional provisions and it was fully phased-out in 2018.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of deferred tax assets into deferred tax credits for regulatory capital purposes, under the CRR. The law amendment increases CET 1 by c. 170 bps on a transitional basis as at 31 December 2018. Further information are disclosed in Note 56.1 of the Consolidated Financial Statements of the Company for 2018.

[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	Deconsoli-dation 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		1,530,388	(3,375)	1,527,013
Investment properties		24,475	(19,099)	5,376
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**

[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
2017		**€000**	**€000**	**€000**
Assets				
Cash and balances with central banks		3,393,934	(4)	3,393,930
Loans and advances to banks		1,192,633	(9,679)	1,182,954
Derivative financial assets		18,027	-	18,027
Investments		830,483	(140,646)	689,837
Investments pledged as collateral		290,129	-	290,129
Loans and advances to customers		14,602,454	1,982	14,604,436
Life insurance business assets attributable to policyholders		429,890	(429,890)	-
Prepayments, accrued income and other assets		226,105	(70,209)	155,896
Stock of property		1,641,422	(4,751)	1,636,671
Investment properties		19,646	(15,234)	4,412
Property and equipment		279,814	(29,277)	250,537
Intangible assets	c	165,952	(131,700)	34,252
Investments in associates and joint ventures		118,113	(118,111)	2
Deferred tax assets		383,498	-	383,498
Non-current assets held for sale		6,500	-	6,500
Investments in Group undertakings		-	138,725	138,725
Total assets		**23,598,600**	**(808,794)**	**22,789,806**
Liabilities				
Deposits by banks		495,308	(734)	494,574
Funding from central banks		930,000	-	930,000
Repurchase agreements		257,322	-	257,322
Derivative financial liabilities		50,892	-	50,892
Customer deposits		17,849,919	57,141	17,907,060
Insurance liabilities		605,448	(605,448)	-
Accruals, deferred income and other liabilities		306,227	(25,229)	280,998
Pending litigation, claims, regulatory and other matters		138,375	-	138,375
Subordinated loan stock		302,288	-	302,288
Deferred tax liabilities		46,113	(20,266)	25,847
Total liabilities		**20,981,892**	**(594,536)**	**20,387,356**
Equity				
Share capital		44,620	-	44,620
Share premium		2,794,358	-	2,794,358
Capital reduction reserve		-	-	-
Revaluation and other reserves		273,708	(106,346)	167,362
Accumulated losses		(527,128)	(102,000)	(629,128)
Equity attributable to the owners of the Company	b	**2,585,558**	**(208,346)**	**2,377,212**
Non-controlling interests		**31,150**	**(5,912)**	**25,238**
Total equity	a	**2,616,708**	**(214,258)**	**2,402,450**
Total liabilities and equity		**23,598,600**	**(808,794)**	**22,789,806**

[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

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	188,759	188,759	-	-	-	-
Stock of property	1,530,388	1,527,014	1,527,014	-	-	-	-
Investment properties	24,475	5,376	5,376	-	-	-	-
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	2	2	-	-	-	-
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	-	-	-	-
Investments in group undertakings	-	136,500	107,984	-	-	-	28,516
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**

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

2017	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	3,393,934	3,393,930	3,393,930	-	-	-	-
Loans and advances to banks	1,192,633	1,182,954	1,182,954	-	-	-	-
Derivative financial assets	18,027	18,027	-	18,027	-	-	-
Investments	830,483	689,837	687,769	-	-	2,068	-
Investments pledged as collateral	290,129	290,129	290,129	290,129	-	-	-
Loans and advances to customers	14,602,454	14,604,436	14,604,436	-	-	-	-
Life insurance business assets attributable to policyholders	429,890	-	-	-	-	-	-
Prepayments, accrued income and other assets	226,105	155,896	155,896	-	-	-	-
Stock of property	1,641,422	1,636,671	1,636,671	-	-	-	-
Investment properties	19,646	4,412	4,412	-	-	-	-
Property and equipment	279,814	250,537	250,537	-	-	-	-
Intangible assets	165,952	34,252	-	-	-	-	34,252
Investments in Group undertakings, associates and joint ventures	118,113	138,727	134,137	-	-	-	4,590
Deferred tax assets	383,498	383,498	220,864	-	-	-	162,634
Non-current assets held for sale	6,500	6,500	6,500	-	-	-	-
Total assets	**23,598,600**	**22,789,806**	**22,568,235**	**308,156**	**-**	**2,068**	**201,476**

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

2017	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Deposits by banks	495,308	494,574	-	-	-	-	494,574
Funding from central banks	930,000	930,000	-	-	-	-	930,000
Repurchase agreements	257,322	257,322	-	257,322	-	-	-
Derivative financial liabilities	50,892	50,892	-	50,892	-	-	-
Customer deposits	17,849,919	17,907,060	-	-	-	-	17,907,060
Insurance liabilities	605,448	-	-	-	-	-	-
Accruals, deferred income and other liabilities	306,227	280,998	50,425	-	-	-	230,573
Pending litigation, claims, regulatory and other matters	138,375	138,375	-	-	-	-	138,375
Deferred tax liabilities	46,113	25,847	-	-	-	-	25,847
Subordinated loan stock	302,288	302,288	-	-	-	-	302,288
Total liabilities	**20,981,892**	**20,387,356**	**50,425**	**308,214**	**-**	**-**	**20,028,717**

The difference between the carrying values reported in the Consolidated Financial Statements of the Company for 2018 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 2018 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

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 RWA scope	18,812,595	-	-	-	-
Exposure amounts considered for regulatory purposes	**24,101,962**	**21,750,757**	**52,864**	**-**	**797**

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)

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

''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 RWA purposes. These amounts relate to the difference between the IFRS 9 transitional arrangement under article 473(a) of the CRR (€304,793 thousand, most of it allocated on on-balance sheet exposures) which decreases the specific credit risk adjustments deducted for RWA purposes and the Prudential charge relating to specific credits (€120,256 thousand, allocated exclusively on on-balance sheet exposures) which increases the specific credit risk adjustments deducted for RWA 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 counterparty credit risk 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 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.

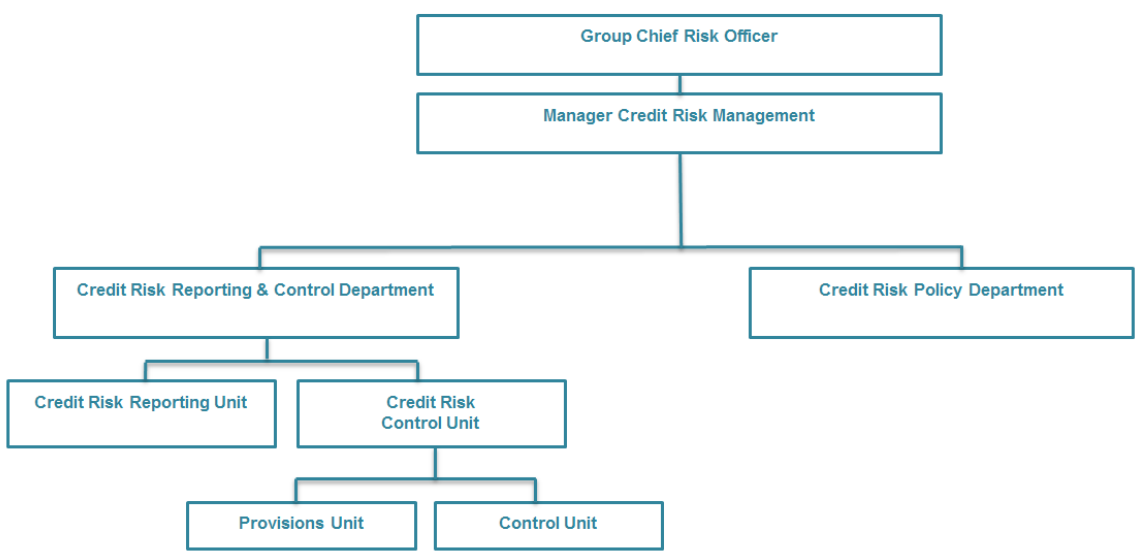
The Credit Risk Management function covers a wide range of activities, which commences at the stage of the assessment of credit risk, continues at the stage of credit risk identification and measurement through reporting and provisions respectively, and ending up at the workout and collection stage.

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 CRR&C department 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 directors'/guarantors' account behaviour, the management of the enterprise and sectoral risks, as well as the liquidity and capital structure of the business.

Shipping exposures (Scorecard-Moody's Risk Analyst)
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.

4.1.2 Credit Risk Policy

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

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

The key elements of the Group's CRP processes are:
- The implementation of prudent credit risk assessments with a primary focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. Furthermore, strict credit criteria (such as 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 CRSA department.
- Frequent review of credit approval limits.

4.1.3 Credit Approval Limits and Structure

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

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

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

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

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

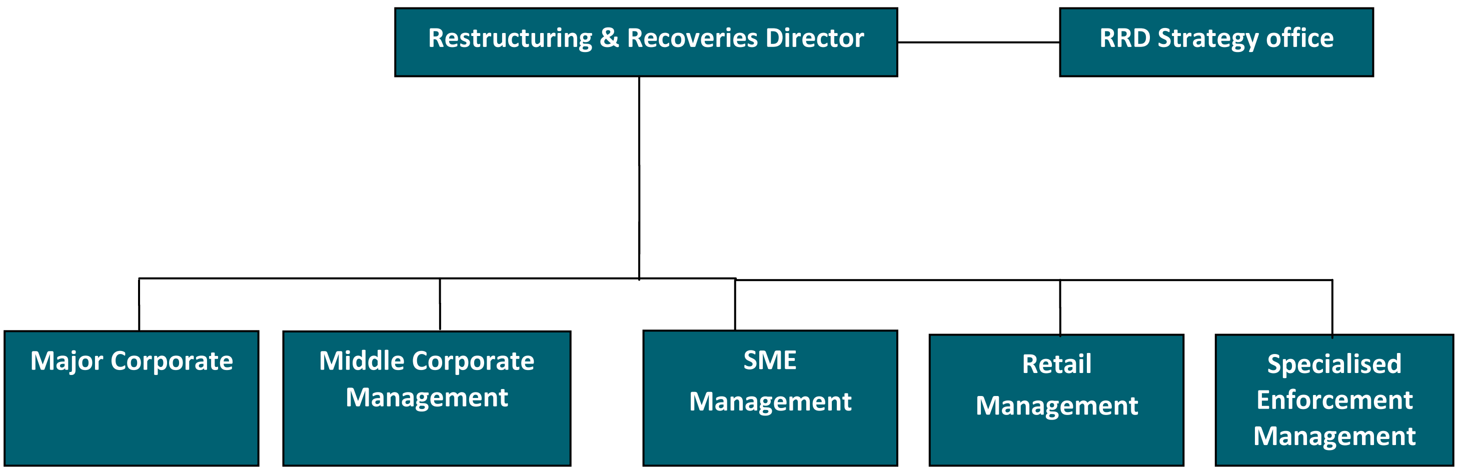
Efficient management, monitoring and control of customer advances

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

4.1.3 Credit Approval Limits and Structure (continued)

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

RRD Structure



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

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.

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

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

- Arrears/Excesses – monitored daily
- Non-performing exposures – monitored daily
- Restructuring activity – monitored daily
- 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 Reporting Unit is responsible for the monitoring of credit quality. The main roles and activities of the Credit Risk Reporting Unit, 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.

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. Counterparty Risk 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.

4.1.5 Credit Risk with Correspondent Banks and Countries (continued)

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

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

- *Treasury transactions*: relate to investments in bonds, 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.

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.*

as well as the assessment of 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 and the country's Moody's Investors Service rating outlook.

4.1.5 Credit Risk with Correspondent Banks and Countries (continued)

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 GCRO, ALCO and/or RC, depending on the size of the violation. The allocation of Group limits to the various treasury units is done based on their needs and their revised counterparty limits. The remaining limits are allocated to Cyprus.

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

4.1.6 Policies for Credit Risk Mitigation

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

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

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

4.1.6 Policies for Credit Risk Mitigation (continued)

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

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.

High 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

4.1.6 Policies for Credit Risk Mitigation (continued)

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

- Current sector size in the Bank's portfolio
- Bank strategy for specific sector financing (e.g. marinas, casinos, shipping, energy, financing of assets transferred to the Bank)
- Empirical data based on observations and experience

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

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

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

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

For customer exposures over €3 million, mortgaged properties must be revalued every 3 years (this is a 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, 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:

4.1.6 Policies for Credit Risk Mitigation (continued)

- – 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.
- – Assessment authorities perform ad-hoc/random checks of various approval authorities examining compliance and proper usage of credit limits, which it then reports to senior management.
- 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.

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

4.2 Market Risk Management

Market risk (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 GCRO and is responsible for measuring and monitoring the following risks at Group level:
- Interest Rate Risk (Section 4.2.1)
- Currency Risk (Section 4.2.2)
- Liquidity Risk and Funding (Section 4.2.3)
- Credit Risk with Correspondent Banks and Countries (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 Group ALCO. GCRO and Market Risk Manager participate to the ALCO meetings with voting rights. All MR related papers are reviewed by the GCRO before being submitted to ALCO. Papers submitted are either approved by ALCO or recommended for approval to the RC or to the BoD as necessary.

4.2.1 Interest Rate Risk

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

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

4.2.1 Interest Rate Risk (continued)

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.

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 Net Interest Income (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. 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 2018, the total EV effect for a 200 bps increase/decrease in the yield curves in all currencies was minus €144.6 million/€225.8 million (-7.7% and +12.1% of CET1 capital respectively) (2017: minus €83.2 million (-3.9% 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.

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

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.

2018	Intraday	Overnight
	€ million	**€ million**
Cyprus	**20**	**20 (10 per currency)**
Total	**20**	**20**
2017		
Cyprus	20	20 (10 per currency)
United Kingdom	3	1.5
Total	23	21.5

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 2018 and 2017 (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)

2018	**Change in foreign exhange rate**	**Impact on profits/(loss) after tax**	**Impact on equity**
	%	**€000**	**€000**
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**	**-**
2017			
US Dollar	+10	179	-
Russian Rouble	+25	7	(702)
Romanian Lei	+10	(419)	53
Swiss Franc	+20	19	-
British Pound	+20	30	803
Japanese Yen	+10	(17)	-
Other currencies	+10	20	-
US Dollar	-10	(146)	-
Russian Rouble	-25	(4)	421
Romanian Lei	-10	343	(43)
Swiss Franc	-20	(12)	-
British Pound	-20	(20)	(536)
Japanese Yen	-10	14	-
Other currencies	-10	(16)	-

4.2.3 Liquidity Risk and Funding

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

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

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

Liquidity is monitored and managed on an ongoing basis through:

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

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

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted/continuous operations of the Group's activities. 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 a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, MM placements up to the stress horizon, available ECB credit line and market value net of haircut of eligible unencumbered/available bonds. Most of these are 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. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the 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 Executive Committee 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.

Group Treasury prepares a liquidity report which is submitted to the ALCO on a monthly basis. The report indicates the liquidity position of the Group, data on monthly customer flows, as well as other important developments related to liquidity.

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

The Group prepares on an annual basis its report on ILAAP. In 2018, the 2017 ILAAP took place, which was submitted to the SSM in April 2018. The ILAAP for 2018 will be submitted to the SSM in April 2019 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.

4.2.3 Liquidity Risk and Funding (continued)

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
- GCRO
- Group Treasurer

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

Group Internal Audit 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.

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 2018, considerable increase in liquid assets was observed, mainly due to increase in customer deposits leading LCR at high levels.

The Group LCR was as follows as at 31 December 2018 and 2017:

Group LCR	**2018 %**	2017 %
31 December	**231**	190
Average ratio[7]	**213**	120
Highest ratio	**231**	190
Lowest ratio	**197**	58

The LCR of the Bank amounted to 231% as at 31 December 2018 (31 December 2017: 188%).

[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 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.

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

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

a) Credit deterioration of the bank's credit quality.
During the actual acute stress test period experienced in 2013, additional independent amounts had to be placed by the Bank (reflecting the increased credit risk of the bank as perceived by counterparties). The potential outflow takes into account the percentage increase of independent amounts experienced in 2013 as well as the current outstanding derivatives in terms of notional, the type of derivative and the currency pair in the case of FX swaps.
b) Adverse market movements affecting the mark to market.
The potential negative impact on the mark to market of derivatives and the underlying collateral of repos is calculated in the case of adverse market movements. The methodology followed is based on 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. 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. The minimum requirement of NSFR will be 100%. At 31 December 2018 the Group's NSFR, on the basis of the Basel III standards, stood at 119% (compared to 111% at 31 December 2017).

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

Scope of consolidation: **Consolidated** **€ million**		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on:		**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					3,403	4,203	4,914	5,201
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	5,868	6,160	6,634	5,458	449	467	501	380
3	Stable deposits	3,792	3,990	4,290	4,237	190	199	215	212
4	Less stable deposits	2,077	2,171	2,344	1,221	260	268	286	169
5	Unsecured wholesale funding	3,946	4,143	4,069	3,962	2,001	2,160	2,117	2,039
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3,946	4,143	4,069	3,962	2,001	2,160	2,117	2,039
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	558	489	452	515	167	145	126	181
11	Outflows related to derivative exposures and other collateral requirements	117	107	87	137	117	107	87	136
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	440	382	365	378	51	38	39	44
14	Other contractual funding obligations	11	10	8	34	11	10	8	34
15	Other contingent funding obligations	2,597	2,641	2,712	2,540	260	264	269	254
16	TOTAL CASH OUTFLOWS					2,888	3,046	3,021	2,888
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	1,157	806	593	405	1,063	713	497	358
19	Other cash inflows	1,141	1,122	1,086	1,085	229	227	220	230
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	2,298	1,928	1,679	1,490	1,292	940	717	588
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	2,298	1,928	1,679	1,490	1,292	940	717	588
21	LIQUIDITY BUFFER					3,403	4,203	4,914	5,201
22	TOTAL NET CASH OUTFLOWS					1,596	2,105	2,304	2,299
23	LCR (%)					214%	200%	213%	226%

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

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

4.2.3 Liquidity Risk and Funding (continued)

As at 31 December 2018, the Group is in compliance with its regulatory liquidity requirement with respect to the LCR.

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR and which became effective on 1 January 2018. The objective of the measure has been to ensure that there was a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than the ones defined in the Commission Delegated Regulation (EU) 2015/61 as well as additional liquidity requirements in the form of outflow rates on other items that are not subject to any outflow rates as per the Regulation. The measure has been implemented in two stages. The first stage required stricter outflow and inflow rates which were applicable from 1 January 2018 until 30 June 2018. The second stage required more relaxed outflow and inflow rates compared to the initial ones, and was applicable from 1 July 2018 until 31 December 2018. Specifically, there was a reduction of 50% of the LCR add-on rates on 1 July 2018. The additional liquidity requirement was implemented up until 31 December 2018 and then abolished by the CBC. As at 31 December 2018, BOC PCL was in compliance with the LCR add-on requirement.

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

RAS for Liquidity Risk and Funding

The Bank's risk appetite on Liquidity risk is summarised as follows:

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

The following table shows the liquidity position of the Bank, as per the Risk Appetite, as at 31 December 2018:

Risk Type	Risk Appetite	Metric/Qualitative Requirement	RAS Limit/Requirement	Trigger Limit	31/12/2018	Red Amber Green (RAG)
Liquidity	Very limited appetite for liquidity risk & compliance with regulatory and internal limits	Number of breaches	Zero breaches	n/a	As at 01/01/18 all local regulatory ratios have been abolished. New LCR add-on applicable since January 2018 and abolished on 1 January 2019. As at 31 December 2018 the Bank was in compliance	
Liquidity	Sufficient liquidity to meet liabilities under both normal and stressed conditions	Three month stress test under the combined scenario	In the medium term have enough liquids to survive a three month stress test, under the combined scenario	n/a	€1.860 million	
Liquidity	No reliance on emergency funding in the medium term	Amount of emergency funding	Emergency funding = 0	n/a	nil	
Liquidity	Adequate liquid assets mostly comprised of Liquid assets as per the LCR definitions	LCR	LCR ≥ 115%, NSFR> 102% and meet other regulatory requirements as set from time to time	LCR:115% NSFR:102%	LCR:231% NSFR:119%	
Liquidity	Bond investments to be of high liquidity and low capital usage	% of bond portfolio	75% of bond investments to be of high liquidity and low capital usage for regulatory purposes	80%	All bonds are High Quality Liquid Assets (HQLA) for LCR purposes	

4.2.3 Liquidity Risk and Funding (continued)

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

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

The table below outlines the Risk Appetite Ratios as at 31 December 2018 relevant to Funding:

Risk Type	Risk Appetite	Metric/Qualitative Requirement	RAS Limit/Requirement	Trigger Limit	31/12/2018	RAG
Funding	Loan to deposits ratio	Loan to deposits ratio	<110%	100%	65%	•
Funding	Confidence sensitive deposits from non-residents to be monitored	IBU deposits/Total CY deposits	Trend should not be increasing	n/a	22%	•
Funding	Asset encumbrance	% of encumbrance of balance sheet	<than 30% of balance sheet in the medium term	30%	15%	•
Funding	Diversification of funding sources	Establish EMTN programme, securitisation and covered bond issuance capabilities and diversification by tenor	As per metric	n/a	See below	•
Funding	Funding sources limits	Funding sources as a % of total liabilities	1. EMTN senior funding ≤ 12.5%. 2. Securitisation ≤7.5% 3. Covered bond issuance ≤ 12.5% 4. Third party repos and ECB (normal not ELA) ≤10%	n/a	All zero except for Repos 1%	•
Funding	Subsidiaries funding	All subsidiaries to be self-funded	n/a	n/a	All self funded	•

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

4.2.3 Liquidity Risk and Funding (continued)

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.

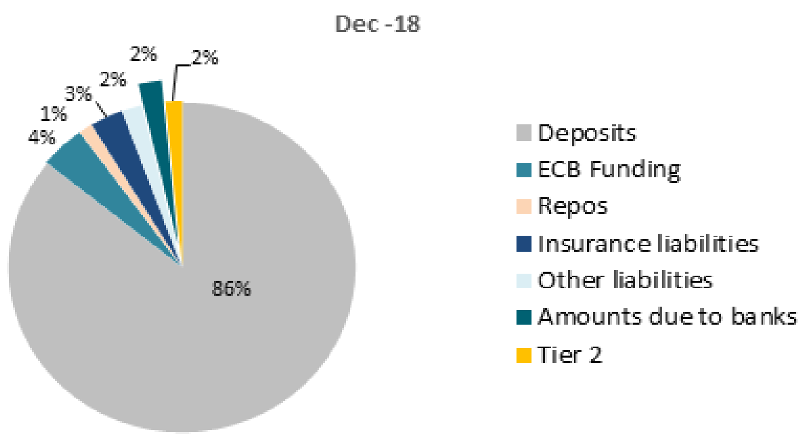
Current State of Funding and Funding sources

As at 31 December 2018, the Group had available liquids[8] of €5.80 billion compared to €3.90 billion at the end of 2017. The increase is primarily due to the increase of the Group's deposit base. The issue of €220 million unsecured and Junior Subordinated AT1 in December 2018 contributed to the increase of liquids. As at 31 December 2018, ECB funding was at €830 million from the 4-year Targeted Longer Term Refinancing Operations (TLTRO II).

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

As presented in the chart below, as at 31 December 2018 the Group's liabilities were composed of: 86% customer deposits (2017: 85%) and 4% ECB funding (2017: 4%). The level of central bank funding as at 31 December 2018 amounted to €0.83 billion (2017: €0.93 billion), comprising all of ECB funding. The ECB funding of €0.83 billion (2017: €0.93 billion) is all from TLTRO II (2017: €0.10 billion funding from weekly Main Refinancing Operations (MRO) and €0.83 billion from TLTRO II).

Dec 2018

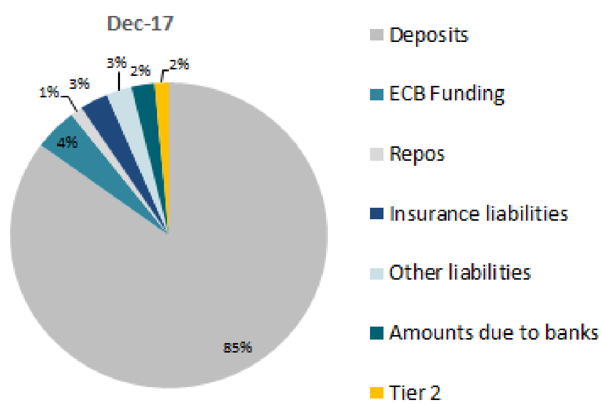


[8] Available liquids comprise cash, balances at CBC (overnight and available on demand), interbank balances (overnight and available on demand) and other CBC and interbank balances with maturity up to 30 days.

4.2.3 Liquidity Risk and Funding (continued)

Current State of Funding and Funding sources

Dec 2017



The credit ratings of the Republic of Cyprus by S&P and Fitch reached investment grade in autumn 2018. As a result, the Cyprus Government Bonds are now eligible collateral for Eurosystem monetary operations.

Currently, the Bank is participating in the TLTRO II of the ECB for an amount of €830 million using 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.

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 Group has a very small trading book (only €3.78 million or 0.02% of total assets) primarily belonging to certain subsidiaries, who are holding this portfolio as part of their normal business. Most of these subsidiaries are not included in the consolidation for prudential purposes. The Group uses mostly quoted prices to value this book (Level 1), end of day closing prices from Blumberg and other stock exchanges. At the end of every quarter MR reviews the major movements. Any holdings whose values had a significant change are reviewed and verified from the prices listed on the Stock Exchange sites.

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.

4.2.4 Securities Price Risk (continued)

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.

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

	Change in index	Impact on profit/(loss) before tax	Impact on equity
2018	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+25**	**574**	**997**
Athens Exchange	**+25**	**95**	**-**
Other stock exchanges and non listed	**+20**	**1,007**	**1,695**
Cyprus Stock Exchange	**-25**	**(574)**	**(997)**
Athens Exchange	**-25**	**(95)**	**-**
Other stock exchanges and non listed	**-20**	**(1,007)**	**(1,695)**
2017			
Cyprus Stock Exchange	+25	1,477	1,288
Athens Exchange	+25	-	99
Other stock exchanges and non-listed	+20	1,144	4,206
Cyprus Stock Exchange	-25	(1,483)	(1,282)
Athens Exchange	-25	(5)	(93)
Other stock exchanges and non-listed	-20	(1,390)	(3,960)

Debt Securities Price Risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers change and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2018 was A1 (2017: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2018 was Aa1 (2017: Aa1).

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

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 profit/(loss) before tax	Impact on equity
2018	**%**	**€000**	**€000**
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.

	Impact on profit/(loss) before tax	**Impact on equity**
Change in market prices	**€000**	**€000**
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)**
2017		
+3% for A3 and above rated bonds	1,385	13,038
+10% for below A3 rated bonds	607	45,667
-3% for A3 and above rated bonds	(1,385)	(13,038)
-10% for below A3 rated bonds	(607)	(45,667)

4.2.5 **Property Risk**

The Bank's KRI on properties (excluding own properties) was set at €2 billion since March 2017 to align it with the expected increase in property exposures, as a mean to address its asset quality issue in a more effective way. The KRI on properties is viewed as a trigger point for review.

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

The carrying value and analysis by type and by geographical breakdown is disclosed in the Consolidated Financial Statements of the Company for 2018 (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:

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

4.3.1 Definition and Objectives (continued)

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.

ORMD Structure

4.3.2 Management and Control of Operational Risk

ORMD employs specialised tools and methodologies to identify, assess, mitigate and monitor operational risk within the Group. These specialised tools and methodologies assist business risk owners and the ORMD to address any control gaps. 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 2018, 239 loss events with gross loss equal to or over €1,000 were recorded, compared to 282 in 2017.

4.3.2 Management and Control of Operational Risk (continued)

Risk Appetite and Adverse scenario analysis

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.

During 2018, the Bank, after adopting the EBA methodological note on stress testing, performed the ICAAP exercise projecting the impact on the profit/loss and capital requirements of potential future losses arising from conduct risk and other operational risks for the period 1 January 2018 to 31 December 2020, taking into account historical data (2013-2017) and projections (2018-2020).

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

Risk Control Self-Assessment (RCSA)

A RCSA methodology is established across the Bank. The methodology follows a three-phase process: (i) Preparation; (ii) Workshop; and (iii) Reporting and Follow-up. It is a team exercise, which enables/empowers the business unit management and employees to: (i) identify the inherent and residual risks to the achievement of their objectives, (ii) assess and manage 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.

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.

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.

4.3.2 Management and Control of Operational Risk (continued)

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.

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
- 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.

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.

4.3.2 Management and Control of Operational Risk (continued)

Management of Litigation risk

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

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

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

The participation and reporting of legal risk by the Chief Legal Officer in a number of Board and Management committees and in particular of all pending litigation against the Group ensures that the Bank is kept informed and updated of the Group's exposure in this respect. Such committees and groups include the Provisions Committee, the RC and AC, the BoD, the Regulatory/Supervisory Coordination Office (RSCO), the Executive Committee 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 2018 the Group considers that none of these matters is material, either individually or in aggregate. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

4.3.2 Management and Control of Operational Risk (continued)

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

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, the management considers that the said claims as well as other pending litigation, claims and regulatory matters are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

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

	31 December 2018	31 December 2017
	€000	€000
Pending litigation or claims	**74,372**	62,646
Regulatory matters	**29,569**	70,672
Other matters	**13,010**	5,057
	116,951	138,375

Additional information on pending litigations, claims, regulatory and other matters is provided in Note 40 of the Consolidated Financial Statements of the Company for 2018.

Major developments relating to ORM during 2018

No significant changes took place in the organisational structure of the ORM Department during 2018.

During the year, enhancements were implemented on the operational risk management system (Risk Compliance Management System(RCMS), which involved – inter alia – (i) the introduction of various automated alerts, (ii) the revision of COREP templates in accordance with the latest ECB supervisory reporting requirements, (iii) the enhancement of action implementation monitoring by restricting access to revise target dates, (iv) report automation with regards to action implementation monitoring per action owner and risk owner.

Phase I of the Fraud Risk Management System was successfully implemented towards the end of 2017, while planning and coordination for the implementation of Phase II (Cards & ATMs) has been completed within 2018. Phase II is expected to be implemented within November 2019.

Within 2018 the 2nd cycle of RCSAs was completed for 116 departments out of the 117 planned. At the same time the 3rd cycle was initiated. RCSAs were 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.

As all staff should undergo training on Operational Risk on an on-going basis, the option of e-learning has been deployed. E-learning sessions were offered in 2018 to all staff on Business Continuity Management and Conduct Risk. An e-learning session on Operational Risk (basic principles, framework and tools) will also be made available to all staff by the end of the first half of 2019.

A separate Cyber Insurance coverage was bound as of 14th July 2017 that covers risks from Cyber Security threats leading to breaches of confidential information, computer and system failures, business interruption, cyber extortion and emerging third party claims against the Group. The 'Cyber Insurance' content was updated with the new Cybershield product coverages following the Cyber insurance policy renewal 2018-2019.

4.3.3 Capital Calculation for Operational Risk

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

4.3.4 Reporting

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

5. Own Funds and Leverage disclosures

5.1 CRD IV Regulatory Capital

The tables below disclose the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2018 and 2017.

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**
	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	(122,058)	-	(122,058)
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)	(103,634)[9]	(25,909)	(129,543)
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	(59,447)	(7,825)	(67,272)
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	*(28,146)*	-	*(28,146)*
Of which: Deferred tax assets arising from temporary differences	*(31,301)*	*(7,825)*	*(39,126)*
IFRS 9 transitional arrangements	304,793	(304,793)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(54,990)**	**(338,527)**	**(393,517)**
Common Equity Tier 1 (CET1) capital	**1,864,000**	**(338,527)**	**1,525,473**
Additional Tier 1 (AT1) capital	**220,000**	**-**	**220,000**
Tier 1 capital (T1=CET1+AT1)	**2,084,000**	**(338,527)**	**1,745,473**
Tier 2 (T2) capital			
Tier 2 instruments	212,000	30,405	242,405
Tier 2 (T2) capital	**212,000**	**30,405**	**242,405**
Total capital (TC=T1+T2)	**2,296,000**	**(308,122)**	**1,987,878**
Risk weighted assets			
Credit risk	13,832,589	(336,652)	13,495,937
Market risk	2,182	-	2,182
Operational risk	1,538,588	-	1,538,588
Total risk weighted assets	**15,373,359**	**(336,652)**	**15,036,707**
Capital ratios			
Common Equity Tier 1 (CET1)	**12.1%**	**(2.0%)**	**10.1%**
Tier 1	**13.6%**	**(2.0%)**	**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	172,229	-	172,229
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	***5.73%***	***(4.61%)***	***1.12%***

[9] The DTA adjustments relate to Deferred Tax Assets totalling €302 million (2017: €384 million) and recognised on tax losses totalling €2.4 billion (2017: €3.1 billion) and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%.

5.1 CRD IV Regulatory Capital (continued)

	Group		
	Transitional position	**Transitional impact**	**Fully loaded**
	2017	**2017**	**2017**
	€000	**€000**	**€000**
Capital instruments and the related share premium	2,838,978	-	2,838,978
Retained earnings	(629,128)	-	(629,128)
Accumulated other comprehensive income (OCI) and other reserves	167,362	-	167,362
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2,377,212**	**-**	**2,377,212**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(34,252)	-	(34,252)
Unrealised gains of AFS instruments subject to transitional arrangements	(10,063)	10,063	-
Additional Valuation Adjustment (AVA)	(1,050)	-	(1,050)
CET1 eligible reserves, transferred to Tier 2 (T2)	(46,742)	-	(46,742)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(92,989)[10]	(61,993)	(154,982)
Direct and indirect holdings of financial sector entities where the institution has a significant investment (amount above 10% threshold)	-	-	-
Amount exceeding the 15% threshold	(7,964)	(33,294)	(41,258)
Of which: Direct and indirect holdings of financial sector entities where the institution has a significant investment	*(3,376)*	*(11,297)*	*(14,673)*
Of which: Deferred tax assets arising from temporary differences	*(4,588)*	*(21,997)*	*(26,585)*
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(193,060)**	**(85,224)**	**(278,284)**
Common Equity Tier 1 (CET1) capital	**2,184,152**	**(85,224)**	**2,098,928**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1+AT1)	**2,184,152**	**(85,224)**	**2,098,928**
Tier 2 (T2) capital			
Unrealised gains and other reserves	9,349	(9,349)	-
Tier 2 instruments (Tier 2 Capital Notes and Tier 2 Capital Loan)	256,825	(4,085)	252,740
Tier 2 (T2) capital	**266,174**	**(13,434)**	**252,740**
Total capital (TC=T1+T2)	**2,450,326**	**(98,658)**	**2,351,668**
Risk weighted assets			
Credit risk	15,538,637	(73,479)	15,465,158
Market risk	4,731	-	4,731
Operational risk[11]	1,722,063	-	1,722,063
Total risk weighted assets	**17,265,431**	**(73,479)**	**17,191,952**
Capital ratios			
Common Equity Tier 1 (CET1)	**12.7%**	**(0.5%)**	**12.2%**
Tier 1	**12.7%**	**(0.5%)**	**12.2%**
Total capital	**14.2%**	**(0.5%)**	**13.7%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold) subject to 250% risk weight	126,122	-	126,122
Deferred tax assets (amount below 10% threshold) subject to 250% risk weight	228,511	-	228,511
Capital Ratios			
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)	**5.75%**	**3.25%**	**9.00%**
Of which:			
Capital Conservation Buffer (CCB)	*1.25%*	*1.25%*	*2.50%*
Other Systematically Important Institution (O-SII) buffer	*0%*	*2.00%*	*2.00%*
Countercyclical buffer	*0%*	*0%*	*0%*
Systemic risk buffer	*0%*	*0%*	*0%*
Common Equity Tier 1 available to meet buffers	*6.9%*	*(3.7%)*	*3.2%*

During the year ended 31 December 2018, the CET1 was negatively affected by the phased-in of transitional adjustments, mainly deferred tax asset and the adoption of IFRS 9, the reduction in value of the DTA and the loss from Helix recognised during the period.

[10] The DTA adjustments relate to Deferred Tax Assets totalling €302 million (2017: €384 million) and recognised on tax losses totalling €2.4 billion (2017: €3.1 billion) and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%.
[11] Operational Risk RWA of 2017 have been slightly restated (by c. €5 million) following a change in the mapping of income from property management in 2018 to the CRR Business Lines.

5.1 CRD IV Regulatory Capital (continued)

The RWA were negatively affected by the change in the default definition. According to the EBA guidelines that govern the CRR default definition, issued in January 2017, the default definition will gradually evolve to align with the NPE definition by 1 January 2021. The Group, in line with regulatory discussions, early adopted changes that almost aligned the EBA CRR definition with the NPE definition as from 1 January 2018. The RWAs were positively affected by the Group's ongoing efforts for RWAs optimisation.

As a result of the above, the CET1 ratio decreased by 60 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 2018 and 2017 is reported within the AVA line in the tables above.

For regulatory capital purposes, the Group is also subject to a prudential filter for unrealised gains and losses measured at fair value, in accordance with the CRR Article 35 and Articles 14 and 15 of the EU Regulation 2016/445. The relevant provisions of the EU Regulation 2016/445 were fully phased-in in 2018. For 2017, this was deductible from CET1 capital and the amount for 2017 is reported within the 'Unrealised gains of AFS instruments subject to transitional provisions' line in the tables above. According to the EU Regulation 2016/445, credit institutions:

- Should remove from their calculation of CET1 items, 20% during the year 2017 of the unrealised gains measured at fair value (fully phased-in from 2018)
- Should include in the calculation of CET1 items, 80% during the year 2017 of the unrealised losses measured at fair value (fully phased-in from 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 2018 of €104,477 thousand were deducted from CET1 capital.
- Intangible assets, which include mainly computer software were deducted from CET1 capital. The amount deducted in 2018 and 2017 is reported within the 'Intangible assets' line in the tables above.
- In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess DTA of 10% of CET1 is deducted from CET1 capital and the amount of less than 10% is risk-weighted at 250%. Following the application of the provisions of the EU Regulation 2016/445, the phase-in period in respect of the deductible amount of Deferred Tax Assets reduced from 10 to 5 years with effect as from the reporting of 31 December 2016.
- The Group's Insurance business is deconsolidated for regulatory capital purposes and replaced by the amount of the Group's investment in insurance entities. In line with the CRR provisions (Articles 47 and 48) and subject to the transitional arrangements, the excess of 10% of CET1 is deducted from 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, during 2018 the Group deducted from CET1 a prudential charge relating to specific credits. The deduction amounted to c.€120 million as at 31 December 2018.

5.1 CRD IV Regulatory Capital (continued)

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

There are no deductions from the Additional Tier 1 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 Deferred Tax Assets and of direct and indirect holdings of financial sector entities where the institution has a significant investment that is not deducted from CET1 capital it is risk-weighted at 250%.

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

IFRS 9 Financial Instruments

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.

The Group has not restated comparative information for 2017 for financial instruments within the scope of IFRS 9. Additionally, the recognition and measurement of credit losses under IFRS 9 differs from that under IAS 39. Therefore, the comparative information for 2017, which is reported under IAS 39 is not comparable to the information presented for 2018, which is reported under IFRS 9.

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 (2017: 446,200 thousand) number of shares at nominal value of €0.10 each. The movement of the share capital for the years 2018 and 2017 is shown on the table below:

	2018		2017	
	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	**446,200**	**44,620**	8,922,945	892,294
Cancellation of shares due to reorganisation	**-**	**-**	(8,922,945)	(892,294)
Issue of shares	**-**	**-**	446,200	44,620
31 December	**446,200**	**44,620**	446,200	44,620

All issued ordinary shares carry the same rights.

5.1 CRD IV Regulatory Capital (continued)

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 2018.

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

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 2018, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (31 December 2017: 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 2018). The cost of acquisition of these shares was €21,463 thousand (31 December 2017: €21,463 thousand).

Share premium reserve
2018
The Annual General Meeting 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.

2017
Following the reorganisation of the Group on 18 January 2017 the Company became the sole shareholder of BOC PCL and consequently the new parent of the Group. The share premium reserve was created in an amount equal to the difference between the nominal value of the shares issued following the reorganisation and pursuant to the terms of the scheme of arrangement and the net asset value of BOC PCL.

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. 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 AT1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. 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 was listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market on 24 December 2018.

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 Tier 2 instruments. As at 31 December 2017 the Group did not have AT1 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). The coupon is at 12.50% and the Company may elect to cancel any interest payment for an unlimited period, and a non cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. AT1 maturity 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 MTF market. 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.

In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under BOC PCL's EMTN Programme. The Note was priced at par with a coupon of 9.25% payable in January, yearly. The Note matures on 19 January 2027. BOC PCL has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The Note is listed on the Luxembourg Stock Exchange's Euro 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 BOC group has the right to redeem the subordinated loan stock. Interest on subordinated loan stock is included in 'Interest expense' in the consolidated income statement.

5.3 Full terms and conditions of Capital Resources

The full terms and conditions of the Group CET1 instruments (ordinary shares), AT1 and Tier 2 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.

As at 31 December 2017 the Group did not have AT1 instruments.

AT1 instruments

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

The full terms and conditions of the AT1 are presented in Appendix V.

Tier 2 instruments

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

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

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. Types of exposures that do not give rise to CCyB requirement have not been included.

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 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 2018 and 2017 and the six months up to June 2019.

Cyprus shows a significant decrease in the exposures that give rise to CCyB requirement due to increased provisioning and loan settlements. United Kingdom shows a significant decrease due to the disposal of BOC UK. Despite the decrease in the United Kingdom exposures, due to the new CCyB rate imposed on exposures in United Kingdom, a minor countercyclical capital requirement of 0.02% has been created.

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 2018	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	13,636,291	503	995,525	80	995,605	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[12]	516,192	-	32,520	94	32,614	3.07	0.00
Other countries[12]	40	-	2	-	2	0.00	0.50
Other countries[12]	34	-	1	-	1	0.00	1.00
Other countries[12]	249	-	13	-	13	0.00	1.25
Other countries[12]	38,445	-	408	-	408	0.04	2.00
Total	**14,672,664**	**503**	**1,063,854**	**174**	**1,064,028**	**100.00**	

31 December 2017							
Breakdown by country:							
Cyprus	14,526,046	3,544	1,081,118	284	1,081,402	88.99	0.00
United Kingdom	1,747,008	-	80,032	-	80,032	6.58	0.00
Greece	217,139	-	17,983	-	17,983	1.48	0.00
Other countries[12]	564,430	296	35,557	95	35,652	2.93	0.00
Other countries[12]	198	-	7	-	7	0.00	0.50
Other countries[12]	116	-	9	-	9	0.00	1.25
Other countries[12]	17,141	-	295	-	295	0.02	2.00
Total	**17,072,078**	**3,840**	**1,215,001**	**379**	**1,215,380**	**100.00**	

[12] 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

	2018	2017
Total risk exposure €000	**15,373,359**	17,265,431
Institution specific CCyB rate %	**0.02**	0.00
Institution specific CCyB requirement €000	**3,075**	0

Operational Risk RWA of 2017 have been slightly restated (by c. €5 million) following a change in the mapping of income from property management in 2018 to the CRR Business Lines affecting "Total risk exposure €000" of 2017.

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

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

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

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

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

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

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

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

As of 1 January 2018 the RWA 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 RWA and capital requirements. The IFRS 9 transitional basis effect will be phased out by 1 January 2023.

EU OV1 Overview of RWA

		RWAs		**Minimum capital requirements**
		Dec 18	**Sept 18**	**Dec 18**
		€000	**€000**	**€000**
1	Credit risk (excluding CCR)	13,237,594	13,390,619	1,059,008
2	*Of which the Standardised Approach*	*13,237,594*	*13,390,619*	*1,059,008*
6	CCR	22,859	37,244	1,829
7	*Of which mark to market*	*13,996*	*22,781*	*1,120*
11	*Of which risk exposure amount for contributions to the default fund of a CCP*	-	-	-
12	*Of which CVA*	*8,863*	*14,463*	*709*
13	Settlement risk	-	-	-
19	Market risk	2,182	2,195	175
20	*Of which the Standardised Approach*	*2,182*	*2,195*	*175*
22	Large exposures	-	-	-
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)	572,136	560,518	45,771
29	**Total**	**15,373,359**	**15,712,639**	**1,229,870**

The relatively small decrease in RWA observed in line 2 relates to balance sheet movements in treasury assets and other non-customer advances assets. The decrease in Counterparty Credit Risk (CCR) RWA observed in line 6 is the result of most of the derivative transactions being cleared through Qualifying Central Counterparties (QCCPs) and the increased credit risk mitigation against these transactions. Further analyses for both lines 2 and 6 can be viewed in subsequent tables which provide detailed analyses in their movements. The decrease noted in operational risk (line 23) is mainly driven by the lower operating income of the Bank in 2018 versus 2017. The reduction noted in line 27 is mainly caused by the lower CET1 capital and the impairment of the DTA which was recorded in the fourth quarter of 2018.

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

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

EU OV1 Overview of RWA

		RWAs		Minimum capital requirements
		Dec 17	**Sept 17**	**Dec 17**
		€000	**€000**	**€000**
1	Credit risk (excluding CCR)	14,640,711	14,489,330	1,171,257
2	*Of which the Standardised Approach*	*14,640,711*	*14,489,330*	*1,171,257*
6	CCR	41,013	45,795	3,281
7	*Of which mark to market*	*21,788*	*22,657*	*1,743*
11	*Of which risk exposure amount for contributions to the default fund of a CCP*	-	-	-
12	*Of which CVA*	*19,225*	*23,138*	*1,538*
13	Settlement risk	-	-	-
19	Market risk	4,731	4,935	378
20	*Of which the Standardised Approach*	*4,731*	*4,935*	*378*
22	Large exposures	-	-	-
23	Operational risk	1,722,063	1,888,975	137,765
24	*Of which basic indicator approach*	-	-	-
25	*Of which Standardised Approach*	*1,722,063*	*1,888,975*	*137,765*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	856,913	843,598	68,553
29	**Total**	**17,265,431**	**17,272,633**	**1,381,234**

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

Operational Risk RWA for 2017 have been slightly restated (by c. €5 million) following a change in the mapping of income from property management in 2018 to the CRR Business Lines affecting “Total” of 2017.

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 RWA 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 RWA and capital requirements. The IFRS 9 transitional basis effect will be phased out by 1 January 2023.

Further analysis on the exposure allocation giving rise to the capital requirements at Exposure Portfolio level is available in Section 6.2.2 and analysis on the RWA intensity in Section 6.6.3.

Exposure Portfolio	**2018**	2017
	€000	€000
Central governments or central banks	**26,659**	-
Regional governments or local authorities	**56**	61
Public sector entities	**1**	-
Multilateral Development Banks	**-**	-
International Organisations	**-**	-
Institutions	**15,328**	26,481
Corporates	**241,352**	294,992
Retail	**78,985**	117,603
Secured by mortgages on immovable property	**86,172**	113,813
Exposures in default	**295,647**	255,564
Items associated with particularly high risk	**162,587**	202,381
Covered bonds	**1,132**	801
Collective Investments Undertakings (CIU)	**14**	4
Equity	**20,338**	26,087
Other items	**177,628**	203,766
Total Capital Requirement for Credit Risk	**1,105,899**	**1,241,553**

The movement in capital requirements in exposure class "Central governments and central banks" derives from the reclassification of the DTA capital requirements from "Other Items", the 2017 comparative being €44,172 thousand. The traditional exposure classes, namely "Corporates", "Retail", "Secured by mortgages on immovable property", "Exposures in default", and "Items associated with particularly high risk", in which customer advances are allocated have multiple impacts. The disposal of BOC UK in the year resulted in a material decrease in capital requirements in exposure classes "Corporates", "Retail" and "Secured by mortgages on immovable property" which were the main exposure classes customer advances from BOC UK were classified in. The alignment of the default definition used in the RWA calculation with the NPE definition on 1 January 2018, gave rise to the capital requirements in "Exposures in default" from the redistribution of the exposures from lower risk exposure classes ("Corporates", "Retail" and "Secured by mortgages on immovable property"). The on-going deleveraging actions in the form of customer loan restructurings, increased provisioning, debt-for-asset swaps have contained the original impact in the "Exposures in default" and they decreased the capital requirements in "Items associated with particularly high risk". On the other hand, debt-for-asset swaps resulted in the increase in capital requirements in "Other Items", albeit the net impact of the debt-for-asset swaps was an overall decrease in the capital requirements. The increase in "Other Items" from debt-for-asset swaps was contained by the reclassification of the DTA capital requirements to exposure class "Central governments and central banks" noted above.

5.5.2 Market Risk

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

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.

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

The movement between 2017 and 2018 RWA and corresponding capital requirements in equity risk is the result of the reclassification of equity securities from the trading book to the banking book.

EU MR1 Market Risk under Standardised Approach

2018		**RWAs**	**Capital requirements**
		€000	**€000**
	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**
2017			
	Outright products		
2	Equity risk (general and specific)	3,544	284
3	Foreign exchange risk	-	-
9	**Total Capital Requirement for Market Risk**	**3,544**	**284**

The table above does not include the minimum capital requirement for Market Risk arising from Collective Investment Undertakings (CIUs) of €95 thousand (2017: €94 thousand) and RWA of €1,176 thousand (2017: €1,187 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 €123,087 thousand (2017: €137,765 thousand).

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**

2017[13]	
Corporate finance (CF)	113
Trading and Sales (TS)	5,672
Retail Brokerage (RBr)	82
Commercial Banking (CB)	99,267
Retail Banking (RB)	20,201
Payment and Settlement (PS)	12,008
Agency Services (AS)	316
Asset Management (AM)	106
Total Capital Requirement for Operational Risk	**137,765**

[13] Operational Risk RWA of 2017 have been slightly restated (by c. €5 million) following a change in the mapping of income from property management in 2018 to the CRR Business Lines.

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).

	2018	2017
	€000	€000
CVA Capital Requirement	**709**	1,538

The decrease in the capital requirements relates to a decrease in derivative exposure values from their clearing through QCCPs.

5.5.5 EU INS1 Non - deducted participations in insurance undertakings

	Carrying amount	Carrying amount
	2018	2017
	€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)	**91,094**	117,871
Total RWAs	**227,734**	294,678

5.6 Leverage

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

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

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

As a result, two leverage ratios are calculated.

As at 31 December 2018, the leverage ratio of the Group was 9.45% (2017: 9.28%) on a transitional basis and 7.97% (2017: 8.87%) using a fully phased-in definition of Tier 1. This ratio is well above the 3% limit.

The leverage ratio results are analysed in Section 5.6.2 below.

5.6 **Leverage** (continued)

This internal leverage ratio is very conservative compared to the required minimum ratio set by Basel QIS which is set at 3% and is monitored at least quarterly by ExCo and by RC. Under the current CRR there is no preset 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.

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

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

5.6.1 Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	Application amounts	
	2018	2017
	€000	€000
Total assets as per published financial statements	**22,075,271**	**23,598,600**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(787,181)	(808,794)
Total assets as per regulatory consolidation	**21,288,090**	**22,789,806**
Adjustments for derivative financial instruments	(22,270)	(6,799)
Adjustments for SFTs	20,372	32,807
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	763,959	829,141
Asset amount deducted – Tier 1 capital – transitional definition	(180,015)	(100,953)
Other adjustments	-	3,543
Prudential charge relating to specific credits	(120,256)	-
IFRS 9 transitional adjustment on on-balance sheet exposures under article 473a of the CRR	302,418	-
Leverage ratio exposure	**22,052,298**	**23,547,545**

The disposal of BOC UK, increased provisioning and further deleveraging actions were the main factor behind the decrease in the leverage ratio exposure. These actions are reflected in both on-balance sheet values and off-balance sheet items. The increased asset amount deducted from capital is mainly driven by increased DTA deductions and the IFRS 9 impact on the basis of transitional arrangements. The IFRS 9 transitional adjustment under article 473(a) of the CRR which came into effect as of 1 January 2018 and has an increasing effect on the total leverage ratio exposure was partially reversed by other own funds reductions concerning Prudential charge relating to specific credits.

5.6.2 Leverage Ratio Common Disclosure

	CRR leverage ratio exposures	
On-balance sheet exposures (excluding derivatives and SFTs)	**2018**	2017
	€000	€000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**21,445,498**	22,775,322
Asset amounts deducted in determining Tier 1 capital	**(180,015)**	(100,953)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**21,265,483**	22,674,369
Derivative exposures		
Replacement cost associated with derivatives transactions net of eligible cash variation margin received	**-**	737
Add-on amounts for PFE associated with derivatives transactions	**2,484**	10,491
Total derivative exposures	**2,484**	11,228
Securities financing transaction exposures		
SFT exposure	**20,372**	32,807
Total securities financing transaction exposures	**20,372**	32,807
Off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**2,869,465**	3,030,650
Adjustments for conversion to credit equivalent amounts	**(2,105,506)**	(2,201,509)
Total off-balance sheet exposures	**763,959**	829,141
Capital and Total Exposures		
Tier 1 capital	**2,084,000**	2,184,152
Total Exposures	**22,052,298**	23,547,545
Leverage Ratios		
End of quarter leverage ratio	**9.45%**	9.28%

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)

	CRR Leverage ratio exposures	
	2018	2017
	€000	€000
Total on-balance sheet exposures (excluding derivatives, SFTs and amounts deducted from capital), of which:	**21,265,483**	**22,674,369**
Trading Book exposures	**797**	**3,543**
Banking Book exposures, of which:	**21,264,686**	**22,670,826**
Exposures treated as sovereigns	5,791,754	4,183,076
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	20,604	45,596
Institutions including covered bonds	707,521	1,263,317
Secured by mortgages of immovable properties	2,928,916	4,022,351
Retail exposures	1,566,836	2,257,806
Corporates	2,942,116	5,278,998
Exposures in default	3,298,955	2,950,450
Other exposures (e.g. equity, items associated with regulatory high risk and other non-credit obligation assets)	4,007,984	2,669,232

The movement between 2017 and 2018 RWA and corresponding capital requirements in trading book exposures is the result of the reclassification of equity securities from the trading book to the banking book. For detailed analyses on the movements on banking book exposures, refer to Section 6.2 below which provides extensive information on movements between the various exposure classes.

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

		31/12/18	30/09/2018	30/06/2018	31/03/2018
		€000	€000	€000	€000
1	Common Equity Tier 1 (CET1) capital	**1,864,000**	1,865,988	2,017,756	2,053,973
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,559,207**	1,544,249	1,696,017	1,760,640
3	Tier 1 capital	**2,084,000**	1,865,988	2,017,756	2,053,973
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,779,207**	1,544,249	1,696,017	1,760,640
5	Total capital	**2,296,000**	2,104,979	2,284,535	2,324,473
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,991,207**	1,783,240	1,962,796	2,031,140
	Risk-weighted assets				
7	Total risk-weighted assets	**15,373,359**	15,712,638	17,193,734	17,763,611
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**15,036,707**	15,353,048	16,832,809	17,432,773
	Capital ratios				
9	CET1 (as a percentage of risk exposure amount)	**12.1%**	11.9%	11.7%	11.6%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**10.4%**	10.1%	10.1%	10.1%
11	Tier 1 (as a percentage of risk exposure amount)	**13.6%**	11.9%	11.7%	11.6%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**11.8%**	10.1%	10.1%	10.1%
13	Total capital (as a percentage of risk exposure amount)	**14.9%**	13.4%	13.3%	13.1%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**13.2%**	11.6%	11.7%	11.7%
	Leverage ratio				
15	Leverage ratio total exposure measure	**22,052,298**	22,072,321	23,715,702	23,506,698
16	Leverage ratio	**9.5%**	8.5%	8.5%	8.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**8.0%**	6.8%	7.0%	7.3%

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.

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)

RWA decreased during the year due to the on-going deleveraging actions in the form of customer loans, restructurings, increased provisioning and debt-for-asset swaps have contained the overall movement in RWAs. The decrease observed between 30/6/2018 and 30/9/2018 was mainly driven from the disposal of BOC UK. Furthermore, the shift of non-customer loans advances balances between balance sheet items carrying higher risk to balance sheet items carrying lower risk, for example from "Loans and advances to banks" to Balances with central banks, provided further decrease in RWA.

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.

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 Tier 1 capital base or the Bank's Tier 1 capital base, in case it is lower. Afterwards, an internal scoring system is applied that considers qualitative and quantitative factors such as:

- Asset Risk
- Capital adequacy
- Profitability
- Liquidity
- Market share
- Ownership strength
- 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). Limits for derivative transactions are assigned to counterparties with a CSA agreement in place. Allocated derivative limits with counterparties that have not signed a CSA can be also 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), which amounts to €750 million.

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

6.1.1 Internal Capital and Credit Limits for Counterparty Credit Exposures (continued)

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

6.1.2 Policies for Securing Collateral and Establishing Credit Reserves

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

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 2018, the Group had signed the CSA part of the ISDA Master Agreement with 28 counterparties (2017: 27 counterparties) and Global Master Repurchase Agreements (GMRAs) with 4 counterparties (2017: 4 counterparties). During 2018, an agreement had been signed with a QCCP. As at 31 December 2018, CSA part of the Group maintained exposures with 14 counterparties (2017: 12 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 (2017: 13 counterparties) for CSAs and 4 of the counterparties (2017: 4 counterparties) for GMRAs, as at 31 December:

	2018	2017
	€000	€000
Total Positive	**12,220**	13,170
Total Negative	**(42,631)**	(59,845)
Total	**(30,411)**	(46,675)

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

2018	**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	**12,020**	**200**	**-**	**27,947**	**-**	**14,684**
Total	**12,020**	**200**	**-**	**27,947**	**-**	**14,684**
2017						
Cash	-	13,170	-	44,824	-	15,021
Total	-	13,170	-	44,824	-	15,021

Higher fair values of the outstanding derivative transactions since last reporting date, translate into lower posted amount in the case of derivatives.

6.1.3 Policies with Respect to Wrong-Way Risk Exposures

Wrong way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Group's derivative transactions) have an adverse impact on the Probability of Default (PD) of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of CSAs for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk resulting in a total accounting CVA charge equal to only €321 thousand (2017: €146 thousand) and a net credit exposure from Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements of €1,069 thousand (2017: €175 thousand).

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

As at 31 December 2018, 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 2018, 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	2018	2017
	€000	€000
Cyprus and Group	**24,734**	18,012

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	2018	2017
	€000	€000
Cyprus and Group	**13,289**	13,345

Net derivative credit exposure	2018	2017
	€000	€000
Cyprus and Group	**1,069**	175

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 2018 was €12,220 thousand (2017: €13,170 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
2018	**€000**	**€000**	**€000**	**€000**	**€000**
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**

2017					
Derivatives	18,012	4,667	13,345	13,170	175
SFTs	37,257	-	37,257	-	37,257
Cross-product netting	-	-	-	-	-
Total	55,269	4,667	50,602	13,170	37,432

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)
- 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.

	2018	2017
	€000	€000
Institutions	**27,693**	48,163
Corporates	**389**	321
Retail	**4**	-
Total	**28,086**	48,484

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

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.

During 2018 the bank started clearing derivatives through a QCCP. These derivatives do not have any exposure value due to high credit risk mitigation completely covering the exposure amounts which resulted in a material decrease in exposure values to "Institutions".

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

	Notional	Replacement cost/current market value	Potential future credit exposure	Effective expected positive exposure (EEPE)	Multiplier	Exposure at Default (EAD) post Credit Risk Mitigation (CRM)	RWA
2018	**€000**	**€000**	**€000**	**€000**		**€000**	**€000**
Mark to market		13,289	13,975			2,484	1,195
Financial collateral comprehensive method (for SFTs)						25,601	12,801
Total							**13,996**
2017							
Mark to market		13,345	10,491			11,227	5,045
Financial collateral comprehensive method (for SFTs)						37,257	16,743
Total							**21,788**

The decrease in the RWA in derivative transactions under the mark-to-market method stems from decreased exposure values due to increased credit risk mitigation. The decrease in the SFT RWA 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 (business attributed according to the Standardised Approach). 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
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
2018		**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
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**
2017														
6	Institutions	-	-	-	-	8,461	39,702	-	-	-	-	-	48,163	7,628
7	Corporates	-	-	-	-	-	-	-	-	321	-	-	321	321
11	**Total**	**-**	**-**	**-**	**-**	**8,461**	**39,702**	**-**	**-**	**321**	**-**	**-**	**48,484**	**7,949**

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 credit risk mitigation 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. The bank has only derivative transactions 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 are analysed in the table below:

Type of derivative	**Hedged against**				**Total**
2018	**Bond**	**Net Assets**	**Balance Sheet**	**Interest Rate Risk**	
Notional Amounts	**€000**	**€000**	**€000**	**€000**	**€000**
Interest Rate Swap	1,016,083	-	57,652	-	1,073,735
Interest Rate Floor	-	-	-	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 Floor	-	-	-	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**

2017					
Notional Amounts					
Interest Rate Swap	1,171,424	-	69,136	-	1,240,560
Interest Rate Option	-	-	-	-	-
Exchange Rate Forward	-	-	95,670	-	95,670
Exchange Rate Swap	-	-	1,434,864	-	1,434,864
Exchange Rate Option	-	-	396	-	396
Total Notional amounts	**1,171,424**	**-**	**1,600,066**	**-**	**2,771,490**
Exposure Values					
Interest Rate Swap	17,694	-	-	-	17,694
Interest Rate Option	-	-	-	-	-
Exchange Rate Forward	-	-	511	-	511
Exchange Rate Swap	-	-	5,628	-	5,628
Exchange Rate Option	-	-	3	-	3
Total Exposure values	**17,694**	**-**	**6,142**	**-**	**23,836**

Derivative exposures both in notional amount and exposure value terms have remained stable except for the interest rate floor which was entered in 2018 to hedge against interest rate risk.

6.1.9 Regulatory CVA charge for capital calculation

The table below provides a summary of the exposure subject to CVA regulatory calculations. All rows that are not relevant to the institution's activities or methods applied are not included.

EU CCR2 - CVA capital charge

2018		**Exposure value**	**RWA**
		€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**

2017			
4	All portfolios subject to the standardised method	48,484	19,220
5	**Total subject to the CVA capital charge**	48,484	19,220

The decrease in the exposure value is the result of a decrease in both derivative transactions (2018: €2,484 thousand, 2017: €11,227 thousand) and SFTs (2018: €25,601 thousand, 2017: €37,257 thousand). For SFT the transaction values as at 31 December 2018 have decreased compared to 31 December 2017. The decrease in the derivative transaction exposures values was the result of their clearing through a QCCP and increased credit risk mitigation against them.

6.2 Group's Exposure to Credit Risk and Expected Credit Losses (ECL)

The following sections provide an analysis of past due and credit impaired loans, exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors) and expected credit losses (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 non-performing exposure (NPE) definition as per EBA standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans have expected credit losses (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, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original 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 2018.

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 2018.

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:

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 2018.

6.2.2 Total and average amount of net exposures

Total and average amount of net exposures for 2018 and 2017 by exposure class are presented below. Exposure classes that are not relevant to the Group's activities are not included.

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

EU CRB-B Total and average net amount of exposures

	Net exposures at 31 December 2018	**Average net exposures 2018**
	€000	**€000**
Central governments or central banks	5,411,509	4,787,215
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	110,593	119,455
Other exposures	2,403,839	2,348,180
Total Standardised Approach	***24,101,176***	***24,814,380***
Total	**24,101,176**	**24,814,380**

6.2.2 Total and average amount of net exposures (continued)

EU CRB-B Total and average net amount of exposures

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

The change in the net exposures in exposure classes “Central governments or central banks” and “Institutions” resulted mainly from an increase of balance sheet exposures in “Balances with central banks” and a decrease in “Loans and advances to banks” respectively. The increase in net exposures in exposure classes “Regional governments or local authorities”, “Public sector entities”, “Multilateral development banks” and “International organisations” is the result of increased investment in debt securities issued by such organisations. “Covered bond” net exposures which are of low risk show a gradual increase over time due to increased investments in such debt securities. The traditional exposure classes, namely “Corporates”, “Retail”, “Secured by mortgages on immovable property”, “Exposures in default” and “Items associated with particularly high risk”, in which customer advances are allocated have multiple impacts. The disposal of BOC UK in the year resulted in a material decrease in the net exposures in exposure classes “Corporates”, “Retail” and “Secured by mortgages on immovable property” which were the main exposure classes customer advances from BOC UK were classified in. The alignment of the default definition used in the RWA calculation with the NPE definition on 1 January 2018 resulted in increased net exposures in “Exposures in default” from the redistribution of the exposures from lower risk exposure classes (“Corporates”, ”Retail” and “Secured by mortgages on immovable property”). The on-going deleveraging actions in the form of customer loan restructurings, increased provisioning, debt-for-asset swaps have contained the original impact in the “Exposures in default” and they decreased the net exposures in “Items associated with particularly high risk”. On the other hand, debt-for-asset swaps resulted in the increase in capital requirements in “Other Items”, albeit the net impact of the debt-for-asset swaps was an overall decrease in the overall net exposures.

6.2.2 **Total and average amount of net exposures** (continued)

Net exposures, mainly in exposure classes "Exposures in default" and "Items associated with particularly high risk", have been affected by the implementation of the IFRS 9 transitional arrangements under article 473(a) of the CRR 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 2018 the transitional adjustment was €304,793 thousand. The amount will be fully phased out in a predefined by the CRR manner until 1 January 2023.

6.2.3.1 Breakdown of exposures by geographical areas and exposure classes

The net value of exposures as at 31 December 2018 and 2017 is presented below. Exposure classes that are not relevant to the Group's activities are not included.

The net value relates to amounts post value adjustments but before the application of credit conversion factors. 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".

EU CRB-C Geographical breakdown of exposures

2018	EU countries	Cyprus	United Kingdom	France	Greece	Other EU countries[14]	Other geographical areas	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	1,073,036	699,370	13,068	269,379	12,367	78,852	4,338,473	**5,411,509**
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	110,593	110,045	-	-	381	167	-	**110,593**
Other exposures	2,393,530	2,201,978	57,996	-	120,431	13,125	10,309	**2,403,839**
Total Standardised Approach	***18,875,634***	***17,327,606***	***421,217***	***310,263***	***261,198***	***555,350***	***5,225,542***	***24,101,176***
Total	**18,875,634**	**17,327,606**	**421,217**	**310,263**	**261,198**	**555,350**	**5,225,542**	**24,101,176**

[14] 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

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

The material decrease in "EU Countries" net values is mainly attributed to both the disposal of BOC UK which decreased materially all United Kingdom net values across all exposure classes and the change in exposure class "Central governments or central banks" from the movement in "Balances with central banks" from the Cyprus Central Bank to the European Central Bank which is considered a supranational entity and it is included in "Other geographical areas". The alignment of the default definition applied for RWA purposes with the NPE definition on 1 January 2018 gave rise to the net values in exposure class "Exposures in default" in Cyprus. Despite the increase in the "Exposures in default" and excluding the disposal of BOC UK, the exposure classes comprising customer advances ("Corporates", "Retail", "Secured by mortgages on immovable property", "Exposures in default" and "Items associated with particularly high risk") present an overall decrease in net values across all countries since 2017 due to deleveraging actions and increased provisioning. "Other geographical areas" present an increase in net values in exposure classes "Regional governments or local authorities", "Multilateral development banks", "International organisations" and "Covered bonds" from an increased investments in debt securities issued by such entities. Other than the disposal of BOC UK, the decrease in exposure class "Institutions" across all geographical areas is the result of decreased "Loans and advances to banks".

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

6.2.3.2 Concentration of exposures by industry and exposure classes

The net exposures by industry and exposure classes as at 31 December 2018 and 2017 are presented below. The net exposures relate to amounts post value adjustments but before the application of credit conversion factors. "Other services" include exposures to private individuals, activities of extraterritorial 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 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.

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

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

	Manufacturing	Construction	Wholesale and retail trade	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	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	-	5,411,509	-	-	**5,411,509**
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	-	-	-	1,502,089	-	**2,403,839**
Other	1,606	-	24	8,859	2	110	-	1	233,418	375,499	154	**619,673**
Total Standardised Approach	***665,000***	***1,939,639***	***2,040,000***	***326,267***	***1,292,598***	***2,122,536***	***604,227***	***251,802***	***5,645,396***	***8,390,567***	***823,144***	***24,101,176***
Total	**665,000**	**1,939,639**	**2,040,000**	**326,267**	**1,292,598**	**2,122,536**	**604,227**	**251,802**	**5,645,396**	**8,390,567**	**823,144**	**24,101,176**

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

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

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

The disposal of BOC UK is the main driver behind the overall decreases in the net values of industries "Construction", "Accommodation and food services", and "Real estate activities" and to a lesser extent for the overall decreases in all other industries. The net exposures to industry "Public administration and defense compulsory social security" increased due to the increase in Balances with central banks. The "Exposures in default" present an increase in net values across all industries due to the alignment of the default definition used for RWA purposes with the NPE definition as of 1 January 2018. Material decreases are observed in real estate industries, "Construction" and "Real estate activities" in exposure class "Items associated with particularly high risk" mainly from debt-for-asset swaps and increased provisioning. Other than the disposal of BOC UK, the decrease in exposure class "Institutions" is the result of decreased "Loans and advances to banks".

The contribution from the industry "Human health services and social work activities" fell below the 1% materiality threshold and was included in industry "Other" in 31 December 2018 table. Exposures to industry "Administrative and support services" exceed the materiality threshold as at 31 December 2018 and they were included to the 31 December 2018 table.

6.2.4 Net exposures by residual maturity and exposure classes

The net exposures by residual maturity and exposure classes as at 31 December 2018 and 2017 are presented below. The net exposures relate to amounts post value adjustments but before the application of credit conversion factors. Exposures for which the counterparty has a choice of when an amount is repaid (e.g. current accounts) have been assigned to column "On demand". Exposures for which there is no stated maturity (e.g. tangible assets) have been assigned to column "No stated maturity".

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

EU CRB–E Maturity of exposures

2018	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	252,402	133,103	5,411,509
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	-	-	-	-	2,403,839	2,403,839
Other	12,550	19,145	286,321	190,892	110,765	619,673
Total Standardised Approach	***3,508,312***	***7,212,365***	***2,660,082***	***8,049,089***	***2,671,328***	***24,101,176***
Total	**3,508,312**	**7,212,365**	**2,660,082**	**8,049,089**	**2,671,328**	**24,101,176**

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

EU CRB–E Maturity of exposures

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

There is an overall increase in net values in exposure class "Central governments or central banks" due to the increase in ''Balances with central banks''. "Balances with central banks" was also the key driver for the shift of net values from "On demand" to "<=1 year". The disposal of BOC UK decreased all net values across all maturity bands and all exposure classes especially "Corporates", "Retail" and "Secured by mortgages on immovable property". The overall decrease in exposure classes "Corporates", "Retail" and "Secured by mortgages on immovable property" was further driven by the alignment of the default definition used for RWA purposes with the NPE definition as of 1 January 2018 which created a shift of exposures from these classes to exposure class "Exposures in default". The increase in exposure class "Exposures in default" was contained by the increase in debt-for-asset swaps together with increased provisioning and restructurings which also explain the changes observed in the net value of exposures across all maturity bands for exposure class "Items associated with particularly high risk". The increase in debt-for-asset swaps resulted to an increase in the "No stated maturity" band. Other than the disposal of BOC UK, the decrease in exposure class "Institutions" across all maturity bands is the result of decreased "Loans and advances to banks".

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		
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**

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

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

6.2.6 Impaired and Past Due Exposures before Credit Risk Mitigation and after applying credit conversion factors by Geographic Area[16]

2018	Stage 2		Stage 3	Total
	> 1 dpd and < 90 dpd	> 90 dpd		
	€000	€000	€000	€000
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**

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

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

The following table presents customer loans and advances splitted by residency of the counterparty. The table is presented using figures per the Consolidated Financial Statements of the Company for 2018.

2018	Loans and advances [17]	Allowance for ECL	Carrying value
	€000	€000	€000
Cyprus	**11,971,474**	**1,668,138**	**10,303,336**
Greece	**63,956**	**8,167**	**55,789**
United Kingdom	**331,726**	**72,120**	**259,606**
Netherlands	**866**	**43**	**823**
Romania	**65,141**	**35,674**	**29,467**
Russia	**166,154**	**86,068**	**80,086**
Ukraine	**9,420**	**2,692**	**6,728**
Other	**217,202**	**31,251**	**185,951**
Total	**12,825,939**	**1,904,153**	**10,921,786**

[16] Country of residence of the obligor.

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

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

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

6.2.8 Exposures covered by Eligible Financial Collateral and Credit Protection

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

Exposure Portfolio	Financial collateral	On-balance sheet netting	Guarantees	Other funded Credit Protection	Total
2018	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	**-**
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**

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

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

Exposure Portfolio	Financial collateral	On-balance sheet netting	Guarantees	Other funded Credit Protection	Total
2017	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	**-**
Corporates	131,184	71,896	15,807	1,002	**219,889**
Exposures in default	20,699	5,485	3,760	436	**30,380**
Institutions	13,397	26	-	-	**13,423**
Items associated with particularly high risk	74,181	43,866	820	-	**118,867**
Public sector entities	512	4,063	-	-	**4,575**
Regional governments or local authorities	1,003	13,227	43,898	-	**58,128**
Retail	161,003	112,072	9,196	464	**282,735**
Secured by mortgages on immovable property	26,830	84,969	14,349	94	**126,242**
Total	**428,809**	**335,604**	**87,830**	**1,996**	**854,239**

"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, €24,799 thousand (2017: €12,608 thousand) all of which are allocated in exposure portfolio "Institutions". The increase in "Financial collateral" and the corresponding decrease in "On-balance sheet netting" in 2018 is the result of previously cash deposits included in "On-balance sheet netting" used as cash collateral. 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.

6.2.9.1 Credit quality of exposures by exposure class and instrument

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

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

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

	a	b	c	d	e	f	g
31 December 2018	**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	-	5,412,797	1,288	-	-	1,287	5,411,509
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	-	2,403,897	58	-	-	58	2,403,839
Other	2,554	622,587	5,466	-	2,772	2,307	619,675
Total Standardised Approach	***12,946,098***	***19,897,559***	***8,795,345***	-	***5,488,489***	***(61,217)***	***24,048,312***
Total	**12,946,098**	**19,897,559**	**8,795,345**	-	**5,488,489**	**(61,217)**	**24,048,312**
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

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

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

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

The alignment of the default definition used for RWA purposes with the NPE definition as of 1 January 2018 resulted in a material reclassification of exposures from "Non-defaulted exposures" to "Defaulted exposures" across all classes. The overall increase in the "Defaulted exposures" was contained from customer loans restructurings and loan repayments. The disposal of BOC UK decreased further the "Non-defaulted exposures" especially in exposure classes "Corporates", "Retail" and "Secured by mortgages on immovable property". The change in the net exposures in exposure classes "Central governments or central banks" and "Institutions" resulted mainly from an increase of balance sheet exposures in "Balances with central banks" and a decrease in "Loans and advances to banks" respectively. "Items associated with particularly high risk" present an overall decrease in net values due to deleveraging actions such as debt-for-asset swaps, and increased provisioning. Column (e) shows a material increase since 2017 due to the implementation of the IFRS 9 as of 1 January 2018.

6.2.9.2 Credit quality of exposures by industry

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

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

	a	b	c	d	e	f	g
31 December 2018	**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	5,649,157	6,938	-	2,973	3,863	5,645,396
Other services	4,361,742	6,778,465	2,802,501	-	1,778,821	(142,339)	8,337,706
Other	540,390	633,770	351,016	-	174,899	(82,338)	823,144
Total	**12,946,098**	**19,897,559**	**8,795,345**	**-**	**5,488,489**	**(61,217)**	**24,048,312**

6.2.9.2 **Credit quality of exposures by industry** (continued)

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

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

The alignment of the default definition used for RWA purposes with the NPE definition as of 1 January 2018 resulted in a material reclassification of exposures from ”Non-defaulted exposures” to “Defaulted exposures” across all industries especially in “Wholesale and retail trade”, “Professional, scientific and technical activities” and “Other services”. The overall increase in the “Defaulted exposures” was contained from customer loans restructurings and loan repayments. The disposal of BOC UK impact was mainly in “Non-defaulted exposures” in industries “Real estate activities” and to a lesser extent in “Public administration and defense, compulsory social security” and “Other services”. Further decreases in industries “Construction” and “Real estate activities” resulted mainly from the debt-for-asset swaps. The material increase observed in non-defaulted industry “Public administration and defense, compulsory social security” and material decrease in “Other services” resulted mainly from the increase in “Balances with central banks” and the decrease in “Loans and advances to banks”. Column (e) shows a material increase since 2017 due to the change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment).

The contribution from the industry “Human health services and social work activities” fell below the 1% materiality threshold and was included in industry “Other” in 31 December 2018 table. Exposures to industry “Administrative and support services” exceed the materiality threshold as at 31 December 2018 and they were included to the 31 December 2018 table.

6.2.9.3 Credit quality of exposures by geography

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

	a	b	c	d	e	f	g
31 December 2018	**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**	**14,796,225**	**8,604,429**	-	**5,411,507**	**14,155**	**18,842,904**
Cyprus	11,887,096	13,439,008	7,998,908	-	4,995,187	130,334	17,327,196
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[19]	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**	**19,897,559**	**8,795,345**	**-**	**5,488,489**	**(61,217)**	**24,048,312**

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

6.2.9.3 Credit quality of exposures by geography (continued)

EU CR1-C Credit quality of exposures by geography

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

The alignment of the default definition applied for RWA purposes with the NPE definition on 1 January 2018 resulted in a material reclassification of "Non-defaulted exposures" in Cyprus to "Defaulted exposures". Additionally, the movement in "Balances with central banks" from the CBC to the ECB which is considered a supranational entity and it is included in "Other geographical areas" resulted in a reclassification of exposures from Cyprus to Other geographical areas. The increase in Other geographical areas was also contributed by increased "Balances with central banks" compared to 2017 and increased investments in debt securities issued by "Regional governments or local authorities", "Multilateral development banks", "International organisations" and "Covered bonds" in other geographical areas. The disposal of BOC UK was the main driver for the decrease in exposures to United Kingdom especially "Non-defaulted exposures". Column (e) shows a material increase since 2017 due to the change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment).

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

6.2.10 EU CR1-D Ageing of past-due exposures

31 December 2018	Gross carrying values					
	≤ 30 days	>30 days ≤ 60 days	>60 days ≤ 90 days	>90 days ≤ 180 days	>180 days ≤ 1 year	> 1 year
	€000	€000	€000	€000	€000	€000
				(A)	(B)	(C)
Loans and advances to customers[21]	489,133	101,705	77,744	120,615	217,343	2,946,967
Loans and advances to customers classified as held for sale[21]	35,878	65,185	41,994	56,411	175,380	2,140,639
Debt securities	-	-	-	-	-	-
Total exposures	**525,011**	**166,890**	**119,738**	**177,026**	**392,723**	**5,087,606**

31 December 2017						
Loans and advances to customers[21]	579,867	167,199	115,133	150,824	325,107	5,864,683
Debt securities	-	-	-	-	-	-
Total exposures	**579,867**	**167,199**	**115,133**	**150,824**	**325,107**	**5,864,683**

The loans and advances to customers in arrear for more than 90 days (i.e. columns A, B and C in the table above) were reduced by €0.7 billion (11%). The decrease is mainly due to write offs and debt for asset swaps.

[21] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans. This adjustment has decreased the gross balance of loans and advances to customers.

6.2.11 Non-performing 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 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.

Additional details on the definition of NPEs are disclosed in Note 2.19.2 of the Consolidated Financial Statements of the Company for 2018.

During 2018, the Group has reached an agreement for the sale of a portfolio (the ‘Portfolio’) of loans and advances to customers (known as ‘Project Helix’, or the ‘Transaction’). The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the ‘CyCAC’) by BOC PCL. The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC, together with its consolidated subsidiaries 'Apollo', the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio.

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

In December 2018, the BOC PCL entered into an agreement with APS Delta s.r.o, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a gross book value of €33 million as at 31 December 2018 (known as Project Velocity).

Both portfolios have been classified as disposal groups held for sale as at 31 December 2018. Further analysis of the loans and advances to customers’ portfolios which are included in these disposal groups are disclosed in Note 46.7 of the Consolidated Financial Statements of the Company for 2018.

The tables below are presented using figures per the Consolidated Financial Statements of the Company for 2018 and 2017 including loans and advances to customers at amortised cost classified as held for sale and loans and advances to customers measured at FVPL.

6.2.11 **Non-performing exposures** (continued)

EU CR1-E Non-performing and forborne exposures

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment, accumulated negative fair value adjustments due to credit risk and provisions				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
2018	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Debt securities	**1,366,173**	**-**	**-**	**-**	**-**	**-**	**-**	**1,430**	**-**	**-**	**-**	**-**	**-**
Loans and advances													
Central banks	**4,456,768**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Credit institutions	**473,263**	**-**	**-**	**-**	**-**	**-**	**-**	**731**	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers[22]	**13,158,131**	**47,524**	**1,103,180**	**4,768,316**	**4,768,316**	**4,607,409**	**2,534,368**	**154,267**	**31,594**	**2,082,078**	**821,184**	**2,456,743**	**2,455,859**
Loans and advances to customers classified as held for sale[22]	**2,851,113**	**5,888**	**54,232**	**2,749,301**	**2,749,301**	**2,749,301**	**1,437,851**	**50,914**	**28,285**	**1,646,091**	**797,692**	**991,924**	**620,995**
Off-balance-sheet	**2,842,535**	**n/a[23]**	**11,555**	**326,155**	**326,155**	**n/a[23]**	**8,774**	**3,904**	**-**	**23,781**	**-**	**28,855**	**10,039**

2017													
Debt securities	964,969	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances													
Central banks	3,250,029	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	1,192,633	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	18,754,715	69,967	1,949,760	8,803,716	7,223,764	5,519,836	4,734,716	163,565	67,670	3,988,696	1,703,858	4,373,050	4,513,476
Off-balance-sheet	3,039,340	n/a[23]	19,910	429,267	310,298	n/a[23]	17,090	3,121	15	48,866	772	57,322	14,465

The decrease of €2.7 billion in loans and advances to customers is the net result of: 1) restructuring activity, mainly net of €1.0 billion (includes a net impact of €1.7 billion of IFRS 9 grossing up) write offs and debt for asset swap (€0.5 billion), 2) new loan originations (€2.2 billion), and 3) the sale of BOC UK (€1.6 billion gross carrying amount 31 December 2017) and 4) repayment and other movements.

The decrease in non-performing exposures of €1.3 billion is mainly due to restructuring activity, net write offs of €1.0 billion (includes a net impact of €1.7 billion of IFRS 9 grossing up), debt for asset swap (€0.3 billion), curing and transfer to performing exposures and repayments (€0.7 billion) and inflows (€0.6 billion).

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

[23] Per EBA guidelines no disclosure is required.

6.2.11 **Non-performing exposures** (continued)

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

31 December 2018	Gross carrying amount/Nominal amount										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						
	Performing			Non-Performing							Performing exposures	Non-performing exposures					
		Not past due or past due ≤30 day	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			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
Loans and advances[24]	€000	€000	€000	€000	€000	€000	€000	€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	3,681	-	-	-	-	-	-
Credit institutions	473,263	473,263	-	-	-	-	-	-	-	-	731	-	-	-	-	-	-
Other financial corporations	146,572	146,452	120	21,338	6,199	47	132	2,969	11,991	21,338	4,907	8,471	1,688	9	39	1,797	4,938
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	82,874	864,983	206,303	9,857	22,582	169,205	457,036
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	62,805	1,208,624	100,685	15,922	33,117	414,348	644,552
	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**	**154,998**	**2,082,078**	**308,676**	**25,788**	**55,738**	**585,350**	**1,106,526**
Loans and advances to customers classified as held for sale [24]	101,812	95,924	5,888	2,749,301	376,870	56,411	175,380	513,079	1,627,560	2,749,301	50,914	1,646,091	183,810	30,129	100,061	285,803	1,046,288
Debt securities																	
Central banks	13,068	13,068	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	866,852	866,852	-	-	-	-	-	-	-	-	1,420	-	-	-	-	-	-
Credit institutions	261,043	261,043	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Other financial corporations	218,687	218,687	-	-	-	-	-	-	-	-	8	-	-	-	-	-	-
Non-financial corporations	6,523	6,523	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-
	1,366,173	**1,366,173**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,430**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet exposures																	
General governments	13,410			-						-	-	-					
Credit institutions	61,888			-						-	-	-					
Other financial corporations	31,727			1,754						1,754	27	-					
Non-financial corporations	1,717,915			306,335						306,335	3,420	23,421					
Households	691,440			18,066						18,066	457	360					
	2,516,380			**326,155**						**326,155**	**3,904**	**23,781**					
Total	**17,304,211**	**14,734,419**	**53,412**	**7,843,772**	**1,860,261**	**177,026**	**392,723**	**1,723,250**	**3,364,356**	**7,843,772**	**211,246**	**3,751,950**	**492,486**	**55,917**	**155,799**	**871,153**	**2,152,814**

[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 of Laiki Bank in 2013 and originates credit impaired loans.

6.2.11 Non-performing exposures (continued)

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

31 December 2017	Gross carrying amount/Nominal amount										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						
	Performing			Non-Performing							Performing exposures	Non-performing exposures					
		Not past due or past due ≤30 day	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			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
Loans and advances[25]	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central banks	3,250,029	3,250,029	-	-	-	-	-	-		-	-	-	-	-	-	-	
General governments	86,162	86,162	-	2,618	628	-	101	1,889		2,359	970	1,128	132	-	66	930	
Credit institutions	1,192,633	1,192,633	-	-	-	-	-	-		-	-	-	-	-	-	-	
Other financial corporations	122,360	122,316	44	264,809	180,875	140	2,284	81,510		144,707	1,541	95,696	45,826	72	1,424	48,374	
Non-financial corporations	5,399,200	5,374,687	24,513	5,187,722	1,514,888	62,953	121,717	3,488,164		4,330,286	98,255	2,604,430	361,846	27,319	45,560	2,169,705	
Households	4,343,277	4,297,867	45,410	3,348,567	766,711	87,731	201,005	2,293,120		2,746,412	62,799	1,287,442	93,150	22,631	57,543	1,114,118	
	14,393,661	14,323,694	69,967	8,803,716	2,463,102	150,824	325,107	5,864,683		7,223,764	163,565	3,988,696	500,954	50,022	104,593	3,333,127	
Debt securities																	
Central banks	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	
General governments	818,747	818,747	-	-	-	-	-	-		-	-	-	-	-	-	-	
Credit institutions	125,721	125,721	-	-	-	-	-	-		-	-	-	-	-	-	-	
Other financial corporations	20,501	20,501	-	-	-	-	-	-		-	-	-	-	-	-	-	
Non-financial corporations	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	
	964,969	964,969	-	-	-	-	-	-		-	-	-	-	-	-	-	
Off balance sheet exposures																	
Central banks	-			-						-	-	-					
General governments	13,660			-						-	7	-					
Credit institutions	98,506			-						-	-	-					
Other financial corporations	35,490			4,874						3,207	8	142					
Non-financial corporations	1,791,427			391,107						285,180	2,791	46,472					
Households	670,990			33,286						21,911	315	2,252					
	2,610,073			429,267						310,298	3,121	48,866					
Total	**17,968,703**	**15,288,663**	**69,967**	**9,232,983**	**2,463,102**	**150,824**	**325,107**	**5,864,683**		**7,534,062**	**166,686**	**4,037,562**	**500,954**	**50,022**	**104,593**	**3,333,127**	

[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

6.2.11 **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[26]														
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[26]	**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**

[26] 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.

6.2.11 Non-performing exposures (continued)

Changes in the stock of non-performing exposures

The table below discloses the movements (inflows and outflows) of NPEs:

	Gross carrying amount
	€000
Initial stock of non-performing loans and advances to customers	**8,803,716**
Inflows to non-performing portfolios	576,644
Inflows due to accrued interest and other adjustments	590,286
Outflows from non-performing portfolios	
Outflow to performing portfolio	(511,981)
Outflow due to loan repayment, partial or total	(578,919)
Outflow due to collateral liquidation	(3,628)
Outflow due to taking possession of collateral	(300,950)
Outflow due to sale of instruments	-
Outflow due to loans and advances classified as held for sale (projects Helix and Velocity)	(2,749,301)
Outflow due to write-off (includes a net impact of €1.7 billion of IFRS 9 grossing up)	(991,844)
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)	**4,768,316**

6.2.11 **Non-performing exposures** (continued)

Collateral obtained by taking possession

The table below discloses the total collateral obtained by taking possession from NPEs by type and by time since date of foreclosure:

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 impairment	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Collateral obtained by taking possession classified as Property Plant and Equipment	-	-	-	-								
Collateral obtained by taking possession other than classified as Property Plant and Equipment												
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**

6.2.11 **Non-performing exposures** (continued)

Collateral valuation – loans and advances

	Loans and advances to customers	Performing		Non performing								
			Of which past due > 30 days		Unlikely to pay that are not past due or past due ≤90 days	Past due > 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
31 December 2018	**€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
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
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

[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

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

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

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

31 December 2018	Contractual value defaulted exposures €000
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**

31 December 2017	
Opening balance	13,412,707
Loans and debt securities that have defaulted or impaired during the year	1,150,874
Returned to non-defaulted status	(434,721)
Amounts written off	(970,509)
Other changes	(797,849)
Closing balance	**12,360,502**

The increase in the gross carrying value of defaulted exposures resulted from the alignment of the default definition used for RWA purposes with the NPE definition as of 1 January 2018. The alignment affected both "Loans and debt securities that have defaulted or impaired during the year" and "Returned to non-defaulted status". Other changes relate to normal movements in the balances such as accrued interest, repayments and withdrawals.

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.

6.2.13 Credit Risk Adjustments

6.2.13.1 Expected Credit Losses (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 2018.

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 2018.

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 thee Company for 2018.

6.2.13.2 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 2018.

	2018	2017
	€000	€000
Net gains on derecognition of loans and advances to customers measured at amortised cost	**27,825**	173,443

Credit losses to cover credit risk on loans and advances to customers		
Impairment loss net of reversals on loans and advances to customers	**512,956**	938,511
Recoveries of loans and advances to customers previously written off	**(140,735)**	-
Changes in expected cash flows	**(37,756)**	-
Financial guarantees and commitments	**(5,382)**	14,987
	329,083	953,498

Credit losses/(gains) of other financial instruments		
Amortised cost debt securities	**(1,011)**	-
FVOCI debt securities	**(274)**	-
Available-for-sale equity securities	**-**	63
Loans and advances to banks	**711**	7,775
Loans and advances to central banks	**(5,872)**	-
Other financial assets	**8,056**	(1,379)
	1,610	6,459

6.2.13.3 Changes in the accumulated specific and general credit risk adjustment

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

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

	2018		2017	
	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*	**3,452,850**	**-**	**3,552,241**	-
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 2018	**5,461,449**	**-**	**3,552,241**	**-**
Increases due to amounts set aside for estimated loan losses during the year	1,494,385	-	1,461,299	-
Decreases due to amounts reversed for estimated loan losses during the year	(981,429)	-	(523,360)	-
Decreases due to amounts taken against accumulated credit risk adjustments	(2,666,113)	-	(970,509)	-
Impact of exchange rate differences	(6,506)	-	69,992	-
Business combinations, including acquisitions and disposals of subsidiaries	(3,594)	-	(12,792)	-
Interest accrued on impaired loans and advances	164,437	-	(99,359)	-
Collection of loans and advances previously written off	-	-	6,264	-
Discontinued operations	(624)	-	-	-
31 December	**3,462,005**	**-**	**3,483,776**	**-**
Recoveries on credit risk adjustments recorded directly to the income statement	140,735	-	-	-
Specific credit risk adjustments directly recorded to the income statement	37,756	-	-	-

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

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 €27,685 thousand (31 December 2017: €51,987 thousand).

6.2.14 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower 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. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

Exposures with forbearance measures are those facilities for which the Group has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

For an account to qualify for rescheduling it must meet certain criteria including that the client’s business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower’s financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Forborne exposures are referred to as rescheduled loans and advances to customers in the Consolidated Financial Statements for 2018 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 2018.

6.2.14 **Forbearance** (continued)

Credit quality of exposures with forbearance measures

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 exposures with forbearance measures	
	Performing exposures	Non-performing exposures	Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: on non-performing exposures with forbearance measures
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances[29]								
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

[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.

6.2.14 **Forbearance** (continued)

Credit quality of exposures with forbearance measures

31 December 2017	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 exposures with forbearance measures	
	Performing exposures	Non-performing exposures			On performing forborne exposures	On non-performing forborne exposures		Of which: 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	1,905	2,358	2,358	2,358	306	1,061	1,305	1,296
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	21,665	180,836	71,615	35,775	722	40,532	109,062	98,547
Non-financial corporations	1,174,265	2,851,028	2,111,201	1,683,616	46,715	1,181,589	2,564,777	1,517,228
Households	751,925	1,700,494	1,148,380	492,650	19,927	480,676	1,838,332	1,155,386
	1,949,760	4,734,716	3,333,554	2,214,399	67,670	1,703,858	4,513,476	2,772,457
Debt securities	-	-	-	-	-	-	-	-
Loans commitments given	19,910	17,090	10,481	3,391	15	772	14,465	-
Total	1,969,670	4,751,806	3,344,035	2,217,790	67,685	1,704,630	4,527,941	2,772,457

[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.

6.2.14 **Forbearance** (continued)

Quality of forbearance

The table below does not include loans and advances to customers classified as disposal groups held for sale.

31 December 2018	Gross carrying amount of exposures with forbearance measures
	€000
Loans and advances to customers that have been forborne more than twice	**872,382**
Non-performing forborne loans and advances to customers that failed to meet the non-performing exit criteria	**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 2018 and 2017, 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 credit conversion factors.

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

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

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

	1	2	3	4	5	6	Uniform Regulatory Treatment	Total
2018	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,265,683	11,560	232	133,103	-	-	931	**5,411,509**
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 (CIU)	-	-	-	-	-	-	172	**172**
Equity	-	-	-	-	-	-	110,593	**110,593**
Other items	-	-	-	-	-	-	2,403,839	**2,403,839**
Total	**6,245,826**	**67,282**	**2,319**	**160,296**	**846**	**38,461**	**17,586,146**	**24,101,176**

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

6.3.3.2 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
2018	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,304,038	11,560	232	133,103	-	-	931	**5,449,864**
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	-	-	-	-	-	-	110,593	**110,593**
Other items	-	-	-	-	-	-	2,403,839	**2,403,839**
Total	**6,295,458**	**67,282**	**2,319**	**160,309**	**846**	**38,461**	**17,536,501**	**24,101,176**

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

6.3.3.3 Breakdown of exposures by asset class and risk weight under the Standardised Approach

The table below presents the breakdown of exposures under the Standardised Approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to the standardised approach). The exposures are disclosed post credit conversion factors and post credit risk mitigation techniques.

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

EU CR5 Standardised Approach

December 2018		**Risk weight**										**Total**	**Of which unrated[32]**
Exposure classes	**0%**	**4%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Deducted**		
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	5,304,909	11,560	232	-	-	-	-	-	-	133,103	-	5,449,804	931
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	-	95,751	-	110,593	110,592
Other items	153,715	-		37,224	-	-	-	2,212,900	-	-	212,033	2,615,872	2,615,872
Total	**5,801,990**	**11,560**	**141,761**	**564,055**	**2,235,078**	**706,248**	**1,388,908**	**7,907,821**	**2,106,688**	**228,854**	**212,033**	**21,304,996**	**14,948,057**

[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 2017	Risk weight										Total	Of which unrated[33]
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	4,162,575	-	-	-	-	-	-	-	-	-	**4,162,575**	-
Regional government or local authorities	-	-	3,835	-	-	-	-	-	-	-	**3,835**	-
Public sector entities	23,836	-	6	-	-	-	-	-	-	-	**23,842**	-
Multilateral development banks	9,058	-	-	-	-	-	-	-	-	-	**9,058**	9,058
International organisations	11,443	-	-	-	-	-	-	-	-	-	**11,443**	11,443
Institutions	2,524	-	1,103,571	-	69,387	-	12,507	42,078	-	-	**1,230,067**	-
Corporates	-	-	-	-	-	-	3,738,286	670	-	-	**3,738,956**	3,738,956
Retail	-	-	-	-	-	2,073,945	-	-	-	-	**2,073,945**	2,073,945
Secured by mortgages on immovable property	-	-	-	3,209,947	737,131	-	121	-	-	-	**3,947,199**	3,947,199
Exposures in default	-	-	-	-	-	-	2,542,167	434,921	-	-	**2,977,088**	2,977,088
Higher-risk categories	-	-	-	-	-	-	-	1,686,506	-	-	**1,686,506**	1,686,506
Covered bonds	-	100,136	-	-	-	-	-	-	-	-	**100,136**	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	47	-	-	-	**47**	47
Equity	-	-	-	-	-	-	21,338	-	121,902	-	**143,240**	143,240
Other items	143,901	-	56,603	-	-	-	1,983,594	-	220,863	206,943	**2,611,904**	2,611,904
Total	**4,353,337**	**100,136**	**1,164,015**	**3,209,947**	**806,518**	**2,073,945**	**8,298,060**	**2,164,175**	**342,765**	**206,943**	**22,719,841**	**17,199,386**

The disposal of BOC UK resulted in a material decrease across all exposure classes and risk weights with material impacts in the 0%, 35%, 100% and to a lesser extent in risk weight 75%. The decrease in 0% RW due to the disposal of BOC UK Limited was offset by the increase in "Balances with central banks" resulting in the overall net increase in 0% RW in exposure class "Central governments or central banks". The alignment of the default definition applied for RWA purposes with the NPE definition on 1 January 2018 resulted in the shift of exposures from exposure classes "Corporates", "Retail" and "Secured by mortgages on immovable property" to "Exposures in default" across all corresponding risk weights. The overall increase in risk weights 100% and 150% in exposure class "Exposures in default" resulted from the default-NPE alignment as of 1 January 2018. The initial increase was contained from customer loans restructurings and loan repayments.

The implementation of article 114 paragraph 6(a) resulted in exposures to central governments or central banks previously risk weighted at 0% to be risk weighted at 4%.

[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, prevailing borrowing cost level, country GDP growth rate. In addition, valuation is based on business plans and cash flow projections of the company along with the prevailing net debt position of the company. In cases where cash flow projections are not available prevailing industry multiples are utilised for valuation purposes (e.g. P/E ratio, P/B ratio, EV/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 2018.

At 1 January 2018 the Group irrevocably made the election to classify its equity investments, previously classified as AFS, as equity investments at FVOCI on the basis that these are not held for trading. Further information is disclosed in Note 21 of the Consolidated Financial Statements of the Company for 2018.

Equity instruments are not subject to impairment under IFRS 9.

The carrying value of the Group's equity securities in the Banking Book at 31 December 2018 was €11,534 thousand and it was equal to their fair value (2017: €31,717 thousand), analysed as follows:

	2018	2017
	€000	€000
Listed on the CSE	**110**	9,695
Listed on other stock exchanges	**-**	546
Other unlisted	**11,424**	21,476
Total	**11,534**	31,717

During the year 2018 an amount of €5,458 thousand of equity investments measured at FVOCI has been disposed as part of the Group's strategy to dispose of its non-core assets. The cumulative gain transferred to retained earnings amounts to €173 thousand. There were no other transfers from OCI to retained earnings during the year.

The net realised gain from disposals of AFS equity securities during 2017 amounted €58,368 thousand and was included in the Consolidated Income Statement. In addition, the Group recorded an impairment reversal on AFS equity securities of €63 thousand and was also included in the Consolidated Income Statement of 2017.

Regulatory treatment for capital purposes

	2018	2017
	€000	€000
AFS Revaluation Reserve – Equity Securities	**-**	8,124
Less: Unrealised gains – transitional provisions*	**-**	(1,625)
Amount recognised in CET1 (Section 3.1)	**-**	6,499

*According to the EU Regulation 2016/445, credit institutions should remove from their calculation of CET1 items, 20% during the year 2017 of the unrealised gains measured at fair value. Fully loaded from 2018.

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

Banks are subject to interest rate risk because of significant interest rate changes over time and because their business may involve activities that produce exposures subject to maturity mismatch (e.g long term maturity assets being funded by short term maturity liabilities) and rate reference mismatch (e.g fixed rate assets being funded by variable rate liabilities). 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 – economic value measure

In addition to the above two types of measures (earnings and EV measure), interest rate risk for EUR (which consists 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 or dynamic balances in line with the bank's financial plan, depending on the interest rate shock 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 (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 that no interest rate cost can be charged are decreasing.
2. early withdrawal models of deposits (due to the stability of these accounts).

It is noted that the Bank may at its discretion allow its customers to prepay their loans. However, in the case of loan prepayments, penalty charges can apply for fixed rate loans, to cover any associated cost.

Treatment of Non-Maturing Deposits

Non-Maturing Deposits (NMDs) are liabilities which are free to be withdrawn at any time since they have no contractual agreed maturity date. Historically, NMDs prove to be stable, even when market rates change. Any interest rate paid on these deposits is usually lower than that paid on other sources of funding. The core[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).

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.

[34] Core deposits are the proportion of stable n<Ds which are unlikely to reprice even under significant changes in interest rates.

6.5.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

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 70%. 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 currencies correspond to the bulk of the Bank's balance sheet items are indicated below:

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, Long UP/DN: 1 day: 0 bps & 360 mons: +/- 50 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, Long UP/DN: 1 day: 0 bps & 360 mons: +/- 60 bps.

6.5.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

The above shocks were calculated using analysis of historical interest rates.

6.5.2 Impact of Downward and Upward Rate Shocks

The ALCO recommends the policy and limits on the maximum allowable interest rate risk in the banking book, for each banking unit and/or currency, which are then approved by the BoD though its RC. The exposure is described below.

6.5.2.1 On Earnings

The maximum loss limit applies for the Year 1 impact on NII. The limit is set as a percentage of the Group capital and as a percentage of Group NII.

The table below indicates how the NII of the Group, over a one-year period, will be affected assuming parallel and non-parallel interest rate changes in the market interest rates of the main currencies:

2018	Euro	US Dollar	Total
	€000	€000	€000
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)

2017	Euro	US Dollar	British Pound	Other currencies	Total
	€000	€000	€000	€000	€000
Scenario 1: +1.6% for RUB, +0.6% for EUR, USD, GBP, +0.4% for CHF, +0.2% for JPY and +0.6% for all other currencies	24,280	190	13,720	605	38,795
Scenario 2: -1.74% for RUB, -0.6% for EUR, USD, GBP, -0.3% from CHF, -0.2% for JPY and -0.6% for all other currencies	(28,459)	(1,428)	(2,749)	(1,333)	(33,969)

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 2018 amounted to minus €144.6 million as a result of a 200 bps increase in market interest rates and to €225.8 million as a result of a 200bps decrease in market interest rates (-7.7% and +12.1% of Group Tier 1 capital, calculated in accordance with CBC rules). As at the end of December 2017, the change of the EV amounted to minus €83.23 million (-3.9% of Group Tier 1 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 change in the methodology to align the Bank's practices with the new EBA guidelines.

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

2018	**Cyprus**	**United Kingdom**	**Total**
Change in economic value (€000): +200 bps	**(144,578)**	**-**	**(144,578)**
Change in economic value (€000): -200 bps	**225,806**	**-**	**225,806**
Change on CET1 (%)	**-7.7%/+12.1%**	**-**	**-7.7%/+12.1%**

2017			
Change in economic value (€000): +200 bps	(88,152)	4,918	(83,234)
Change in economic value (€000):-200 bps	257,403	(4,918)	252,485
Change on CET1 (%)	-4.1%/+12.0%	+/-3.45%	-3.9%/+11.8%

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**

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

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.

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 RWA 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 RWA by way of decreasing the exposure amount to be risk weighted. It recognises the balances of deposit accounts which have been flagged as eligible and for which withdrawal is only allowed after internal approval as at the reference date.

Detailed analyses on both Netting and Set-off are presented in Section 6.2.8 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 all the facilities of a customer provided that these facilities are specific and the owner provides its consent.

6.6.1.1 Legal Pledge of Cash Deposit (Cash Collateral)

Pledged deposits (blocked funds) including any interest, are considered as the highest level of security. When the currency of the facility is the same as the currency of the deposit, then the facility must be covered by 105% by cash collateral; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage.

6.6.1.2 Government Guarantees

Guarantees issued by sovereigns are usually governed by the respective law of the country that issues the guarantee and they should be signed by an authorised representative of the government issuing the guarantee.

6.6.1.3 Bank Guarantees

These include guarantees issued by local and foreign banks. Bank guarantees are accepted in line with the various Group limits set by the MR 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.

6.6.1.6 Personal/Corporate Guarantees (continued)

For example, guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as provide various documents depending on the case e.g. proof of income tax clearance, VAT statements, business plans, building permits. Although the guarantor's income is not taken into account in calculating the repayment ability of the borrower (except for spouses), they are assessed for creditworthiness and may be rejected for any negative financial or other reason. In addition, all guarantors must be evaluated through the credit scoring (individuals) or other evaluation processes (Borrower rating/Financial Index for legal entities) that are issued from time to time, using relevant assets and liabilities statements which must be at least in time with the revision of the customer's facilities. In order for the Group to accept the guarantees, the guarantors should be solvent.

The Group does not have credit derivatives.

6.6.1.7 Fixed Charges

For assets owned by companies, the charge is registered on specific new or existing fixed assets, other than real estate property, of the company. It gives the Bank priority on the charged items over all other creditors including preferential creditors. The ownership, possession and condition of these assets should be verified and where appropriate insurance policies on these assets should be assigned in favour of the Bank.

6.6.1.8 Floating Charges on Bank Assets

This type of security can only be offered by a limited liability company which registers a charge on all of its assets (present and future), without restrictions, in favour of the Group. The Group must ensure that these assets are adequately insured and the insurance policies are assigned to the Group. The charge gives the Group the right to appoint a receiver in order to manage the company and therefore gives the Group the following advantages:

(a) Priority access to the company's assets in case of dissolution (except over preferential creditors or creditors that hold specific charges on the various assets of the company e.g. mortgages) and
(b) Quick sale of mortgage property owned by the company.

6.6.1.9 Assignment of Life Insurance Policies

The original beneficiary assigns to the Group all (a) indemnities from the insurance company in case of death of the beneficiary or (b) proceeds from liquidation/termination of investment/endowment policies. Insurance policies can be Term, Life or Investment/Endowment. The life insurance policy should be by insurance companies approved by the Group as eligible life insurance policy providers.

The assignment of life insurance policies is a lending condition in the following cases:

(a) Long term facilities, e.g. housing loans.
(b) Unavailability of tangible collateral.
(c) The primary collateral offered is considered illiquid.
(d) There is dependence on a single individual for the repayment of the customer's facility (including the shareholders-company relationship).

6.6.1.10 Assignment of General Insurance Policies

Insurance protection on a mortgaged property is a key factor for the reduction of credit risk. It also directly affects the capital adequacy and asset quality. Therefore, it is mandatory for all mortgaged property to be properly and adequately secured against fire, earthquake and other risks and that the rights of the policy are assigned to the Bank. Other General Insurance policies may include buildings, content, motor, personal accident, public liability, etc.

6.6.1.11 Assignment of Receivables

The original beneficiary assigns the receivables to the Group without notification to the paying party. It is a weaker form of collateral unless the Group can notify the debtor of the assignment. Their eligibility depends on:

(a) The degree of trust and confidence the Bank has in the assignor.
(b) The legal assignability of the receivables.
(c) The clear and unambiguous definability of the receivables and their value.
(d) The receivables being free from third-party rights.

6.6.1.12 Pledge on Marketable Securities (Shares, Debt Securities, etc.)

Due to its high market volatility and dependency on the prevailing economic conditions, the pledge on marketable securities should be avoided and be accepted only in special cases after careful evaluation. Where the pledge is justified, the market value should be closely monitored to adhere to the Group's requirements. Credit Risk Management in co-operation with MR sets the minimum haircut to be applied to such pledged securities.

6.6.2 Collateral Valuation Policy

It is essential that collaterals offered to the Group as security are valued at the point of credit origination and also monitored at regular intervals. This ensures that the value of the collateral is still adequate to cover the facilities granted by the Group and that they can be taken into account for capital adequacy purposes.

6.6.2.1 Mortgages (Legal Charge on Property)

Valuation Frequency/Monitoring

New Lending

New Lending Amount	**No. of Valuations**
2018 and 2017	
Lending < €3 million	1
Lending > €3 million	2

For new lending over €3 million, in case there is a discrepancy greater that 20% between the two valuations then a third valuation should be performed.

When an application is evaluated for new lending with property offered as collateral, the valuations are carried out by an external independent valuer.

In all cases, the lower of the market value and the purchase value (based on the sales contract) is used.

Revision of Facilities
Properties mortgaged to the Group and held as security are to be monitored at regular intervals, according to the table below, to ensure that the value of the property is still adequate to cover the facilities given by the Group.

6.6.2.1 Mortgages (Legal Charge on Property) (continued)

For the purpose of monitoring the property values, the Group uses the appropriate property price indices.

Amount of Customer Facilities	**Official Valuation Period**
	Commercial and Residential Properties
Below €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**	
2018 and 2017	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**
2018 and 2017	
At the time of termination (irrespective of amount)	6 months
Properties securing already terminated accounts	Monitored using appropriate indices, as per paragraph “Revision of Facilities” above.

6.6.2.2 Assignment of Sale of Contract

Sales contracts do not have a recoverable amount but indirectly acquire value in the following cases:

(a) When there is a developer guarantee for the buyer’s loan and the project is financed and mortgaged within the same bank.
(b) When accompanied by a bank guarantee or letter of allocation (within the Group).

6.6.2.3 Fixed and Floating Charges

In order to calculate the value of the fixed or floating charge, then the last audited financial statements/item certificate must not be older than 18 months.

For the calculation of the sale value for the assets included in the fixed and/or floating charge, the percentages are included within regulatory directives.

6.6.2.4 Personal/Corporate Guarantees

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

6.6.2.5 Government Guarantees

The recoverable amount is equal to a variable % of the guarantee amount (plus interest from the date that the guarantee is provided), which varies depending on the risk rating of the country offering the guarantee. In addition government guarantees must be within the approved country limits.

6.6.2.6 Bank Guarantees

100% of the guarantee value at origination plus interest, where applicable from the date of issue.

6.6.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.)

When listed shares are taken as collateral, the Bank should also ensure:

- Such shares are listed on recognised exchanges where access via its own brokers is feasible.
- That these shares are adequately liquid and the Bank will be able to have an exit route without undue risks on its position.
- That no undue concentration exists on any listed share that the Bank holds as collateral.
- BOC shares listed on recognised stock exchanges are generally not accepted as collateral, unless approved by the appropriate sanctioning authority.

Recoverable Amounts	**Listed**	**Non Listed**
Shares (Cyprus and abroad)	75% 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 Cyprus Real Estate Alternative Investment Fund	50% of net asset value	n/a

6.6.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc.) (continued)

The recoverable amount is based on the current market value of the securities. For shares listed on the CSE, the market value is updated on a daily basis automatically based on the latest closing price. For shares traded in other recognised stock exchanges, the market value should be updated manually on a daily basis by the responsible unit/branch. For non-listed shares, the recoverable amount is calculated manually based on 50% of the net worth of the company based on recent audited accounts (not older than 18 months).

For monitoring purposes, the appropriate action should be taken by the responsible officer as follows:

LTV increase	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.

6.6.2.8 Assignment of Life Insurance Policies

Term life insurance policies have no recoverable amount.

For endowment (investment) life insurance policies, the recoverable amount is 100% of the latest surrender value. This should take into account any possible expenses associated with redeeming the policy.

6.6.2.9 Other Collateral Types

- Pledge on goods (0%).
- Assignment of receivables (0%).
- Positive/Negative pledge (0%).
- Vehicles under 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.

6.6.2.10 Shipping Mortgages

Shipping collateral is considered a specialised collateral. Valuations need to be based on acceptable valuation sources such as recognised shipbroking firms. Since there is no international recognised body for shipping valuations (equivalent to RICS), it is important to receive estimates from recognised firms with long-standing experience and acceptance by the market. Revaluations are conducted at least on annual basis.

Age of vessel	Recoverable Amount
Up to 20 years	70% of market value
Over 20 years	100% of scrap value

6.6.3 Concentrations within Credit Risk Mitigation

The Group has a material concentration of property collateral. Further analysis on fair value of collateral and credit enhancements held by the Group is presented in Note 46 of the Consolidated Financial Statements of the Company for 2018.

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.

RWA density is a synthetic metric on the riskiness of each portfolio.

All rows and columns that are not relevant to the Group’s activities are not included in the table below.

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2018	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	5,411,449	60	5,449,804	-	333,243	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	110,593	-	110,593	-	254,220	229.9%
Other items	2,403,839	-	2,403,839	-	2,220,345	92.4%
Total	**21,204,157**	**2,844,155**	**20,579,291**	**485,587**	**13,809,730**	**65.6%**

6.6.3 Concentrations within Credit Risk Mitigation (continued)

EU CR4 Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2017	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
	€000	€000	€000	€000	€000	%
Central governments or central banks	4,078,677	89	4,162,575	-	-	0.0%
Regional government or local authorities	61,596	12,961	3,545	290	767	20.0%
Public sector entities	27,898	590	23,835	7	1	0.0%
Multilateral development banks	9,058	-	9,058	-	-	0.0%
International organisations	11,443	-	11,443	-	-	0.0%
Institutions	1,158,910	61,514	1,163,100	18,803	309,468	26.2%
Corporates	3,614,036	1,417,842	3,440,145	298,490	3,687,153	98.6%
Retail	2,267,261	963,319	2,018,338	55,607	1,470,032	70.9%
Secured by mortgages on immovable property	4,036,794	60,191	3,915,969	31,230	1,422,667	36.0%
Exposures in default	2,953,194	212,400	2,925,634	51,454	3,194,550	107.3%
Higher-risk categories	1,700,990	251,319	1,598,448	88,058	2,529,759	150.0%
Covered bonds	100,136	-	100,136	-	10,014	10.0%
Collective investment undertakings (CIUs)	47	-	47	-	47	100.0%
Equity	143,240	-	143,240	-	326,093	227.7%
Other items	2,404,961	-	2,404,961	-	2,547,073	105.9%
Total	**22,568,241**	**2,980,225**	**21,920,474**	**543,939**	**15,497,624**	**69.0%**

The overall decrease in the RWA density resulted mainly from the increase in exposure values included in “Central governments or central banks” that carry a 0% risk weight. Additionally, the RWA density and the slight decreases in the RWA density at individual class level is observed for “Institutions” from improved ratings and decreases in residual maturities, “Secured by mortgages on immovable property” from increased exposures secured by residential real estate rather than commercial real estate, “Exposures in default” from increased provisioning that drives the average risk weight down and “Equity” from the decreased amounts that take a 250% risk weight.

6.6.3 Concentrations within Credit Risk Mitigation (continued)

The table below presents the exposure value 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

2018	**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	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	-
2017					
Total loans	949,410	13,653,044	11,617,518	91,284	-
Total debt securities	864,833	100,136	100,136	-	-
Total exposures	**1,799,624**	**13,753,180**	**11,717,654**	**91,284**	**-**
Of which defaulted	245,440	3,372,643	2,928,009	37,186	-

Exposures in unsecured debt securities have increased from 2017 to 2018 (from a total €850 million in 2017 to a total €1,223 million in 2018). The increase of €373 million during 2018 is mainly the net result of various purchases of sovereign and regional government debt securities and sales of supranational and Cyprus Government Bonds. Additional purchases of covered bonds, also took place, hence the increase in the exposure in secured debt securities from a total of €100 million in 2017 to a total of €142 million in 2018.

Unsecured and secured exposures have decreased significantly during the year mainly due to the classification of Helix portfolio into held for sale and disposal of BOC UK.

7. Remuneration Policy and Practices

The Group Remuneration Policy captures provisions from the CSE's Code, the UK Code in line with the Bank's decision to comply with the UK Code 2016 as of 4 October 2016 and relevant Directives of the CBC. The Group Remuneration Policy aims to align the remuneration of directors, Executive Management, officers and staff with the business strategy, objectives and long-term interests of the Group. It is consistent with the effective management of risks and does not encourage excessive risk-taking.

7.1 Human Resources and Remuneration Committee (HRRC)

7.1.1 The Role of the HRRC

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

The role of the HRRC is:

- To ensure that the Group is equipped with the human capital 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.
- 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 to the CEO or Deputy Chief Executive Officer and Chief Operating Officer (D-CEO), General Managers of major subsidiaries (EuroLife, GIC) and other employees whose total annual remuneration exceeds €120 thousand:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, (including salary, pension policy or any additional provident fund, contributions, option plans and other types of compensation), recommended by the CEO or D-CEO.

7.1.1 The Role of the HRRC (continued)

- **Divisional Directors and other staff that report to Board Committees (RMD, Internal Audit, Compliance):** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, the HRRC reviews and approves their remuneration packages, recommended by the Chairmen of Risk and Audit Committees respectively (in consultation with CEO and Group Human Resources (HR).

- 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 appointment of a new independent non-executive director to the BoD and the Committee on 23 July 2018 the HRRC comprised of four independent non-executive members, until the resignation of its chairperson on 21 January 2019.

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 10 meetings at Group level during 2018. The HRRC reviewed and approved the Group's Remuneration Policy. Additionally, the Committee reviewed the 2018 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 Bank of Cyprus 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):** 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:
  - **Performance Related Increases (Pay Movement within same Grade's Pay Range)**
    Under normal circumstances, performance related increases - within the approved budget - should be granted to employees once per year, as a percentage increase to monthly gross salary, following the announcement of Group annual results and available budget amount.
    The exact salary increases cannot be defined in a static manner and will depend on budget availability. The amount of the increase will also be associated with the three elements that influence salary decisions, i.e. Annual Base Salary (ABS) comparative ratio, performance appraisal score and potential.
  - **Pay Movement across different pay ranges**
    Under normal circumstances, in cases where an employee moves to a higher grade during the course of the year, the move to a higher grade may be accompanied by a pay increase, especially in cases where the upgraded employee's current salary (before the upgrade) is below the limits of the pay range of his/her new grade.
    The exact level of base salary increase will be determined by the employee's base pay positioning versus the pay ranges of the current as well as the new position. These pay increases will be implemented once a year subject to certain conditions (e.g. minimum time at new position etc).

7.2.2 Variable Remuneration

Variable remuneration refers to the additional discretionary remuneration paid to an individual as an incentive for increased productivity and competitiveness. It is based on the performance of the specific individual, the overall performance of the business unit the individual belongs to, the Group's consolidated financial results the prevailing economic market conditions. Variable remuneration might include instruments such as cash bonus schemes, stock option schemes and stock schemes, at the discretion of the Bank.

Variable remuneration should reflect a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description. The assessment of the performance is set in a multi-year framework in order to ensure that the process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes into account the underlying business cycle of the Group and its business risks.

7.2.2 Variable Remuneration (continued)

Variable remuneration aims to:

(a) 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 2018 and 2017. In line with the final 2018 and 2017 SREP decisions, the variable pay is capped at 10% of consolidated net revenues.

In case the Group benefits from government intervention, then all restrictions that derive from the relevant legislation will apply.

7.2.3 Long-Term Incentive Plans (e.g. Performance Shares or Share Option Plans)

The 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 Annual General Meeting (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 2018 and 2017.

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 are 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 28 August 2018 approved the same levels of remuneration as those approved at the AGM on 29 August 2017.

Non-Executive Directors are not eligible for variable remuneration or participation to a share option scheme.

7.3.2 Executive Directors

Remuneration Policy
The HRRC sets the remuneration of executive directors, and reviews their employment contracts (unless they are members of the senior management team and their terms of employment are based on the provisions of the collective agreement).

Contracts of Employment
The remuneration (salary and bonus) of executive directors is set out in their employment contracts which can have a maximum duration of five years, unless any of the executive directors is an appointed member of the senior management team, in which case the terms of employment are based on the provisions of the collective agreement in place.

The employment contract of the CEO was extended to 31 December 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.

The Group at present does not grant guaranteed variable remuneration or discretionary pension payments.

Service Termination Agreements
The service contract of the CEO includes a clause for termination, by service of six months' notice to that effect upon the executive director, without cause but at its sole discretion. In such a case the Bank shall have the right to pay the director, in lieu of notice for immediate termination.

The terms of employment of D-CEO are based on the provisions of the collective agreement in place, as with the rest of the employees, which provides for notice of termination (by the Bank) or compensation based on years of service (1 month's salary for the first completed year of service plus 0,5 monthly salary for every completed year of service thereafter) and a four month prior written notice by the Executive Director in the event of a voluntary resignation.

Bonus
No bonuses were recommended by the BoD for executive directors for the year 2018.

Retirement Benefit Schemes
The CEO participates in a defined contribution plan largely on the same basis as other employees. The D-CEO participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 15 of the Consolidated Financial Statements of the Company for 2018.

Share Options
No share options were granted to executive directors during 2018.

7.3.2 Executive Directors (continued)

Other Benefits
Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. The CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for Executive Management are disclosed in Note 51 of the Consolidated Financial Statements of the Company for 2018.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel

2018	**Executive Directors**	**Other key management personnel**	**Other Material Risk Takers (MRTs)***
	€000	**€000**	**€000**
Salaries and other short term benefits	2,453	3,070	8,950
Termination benefits	-	-	-
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**

2017	**Executive Directors**	**Other key management personnel**	**Other Material Risk Takers (MRTs)***
	€000	**€000**	**€000**
Salaries and other short term benefits	2,300	3,150	8,189
Termination benefits	-	-	338
Employer's contributions	91	202	973
Retirement benefit plan costs	202	189	725
Total	**2,593**	**3,541**	**10,225**
Number of beneficiaries during the year	**2**	**13**	**117**

*Material Risk Takers (MRTs) positions were approved by the Board in December 2017 and were broadly the same for 2018.

The ''Other key management personnel'' emoluments include the remuneration of the members of the senior management namely:

- All Divisional Directors that report to the CEO or D-CEO and
- Divisional Directors that report to Board Committees.

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 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

Remuneration for year 2017 (excluding termination benefits) by business line

	Remuneration**	Number of employees**
2017	**€000**	
Corporate	1,730	21
Retail	1,545	14
IBUs and Private Banking	1,435	16
RRD	2,002	11
Insurance operations	1,043	11
Head office	8,266	59
Total	16,021	132

**Includes MRTs

One executive director and one key management personnel in 2018 and 2017 had total emoluments for the year, including employer's contributions and other benefits in the range of €2.0 million to €2.5 million and €1.0 million to €1.5 million respectively.

Termination benefits

	Executive Directors	Other Key Management Personnel	Other Material Risk Takers
2017	**€000**	**€000**	**€000**
Total amount of severance payments made during the year	-	-	338
Total number of beneficiaries	-	-	2
Total amount of severance payments awarded during the year	-	-	338
Total number of beneficiaries	-	-	2
Single highest amount of severance payment awarded to an individual during the year	-	-	190
Total amount of new sign-on payments made during the year	-	-	-
Total number of beneficiaries	-	-	-

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.

7.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

Information regarding the remuneration of Members of the Board of Directors

2018	Remuneration for services*	Remuneration for participation in the Board of Directors and its Committees	Total remuneration for services	Remuneration and benefits from other Group companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of benefits that are considered to form remuneration	Total remuneration and benefits	Annual contribution to retirement benefits
	€000	€000	€000	€000	€000	€000	€000	€000
Executive Directors								
John P. Hourican	2,339	-	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	-
Pola Hadjisotiriou	-	36	36	-	-	-	36	-
Maria Philippou	-	29	29	-	-	-	29	-
	2,551	**970**	**3,521**	**-**	**-**	**-**	**3,521**	**216**

2017	Remuneration for services*	Remuneration for participation in the Board of Directors and its Committees	Total remuneration for services	Remuneration and benefits from other Group companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of benefits that are considered to form remuneration	Total remuneration and benefits	Annual contribution to retirement benefits
	€000	€000	€000	€000	€000	€000	€000	€000
Executive Directors								
John P. Hourican	2,180	-	**2,180**	-	-	-	**2,180**	**184**
Christodoulos Patsalides	211	-	**211**	-	-	-	**211**	**18**
Non-Executive Directors								
Josef Ackermann	-	150	**150**	-	-	-	**150**	**-**
Maksim Goldman	-	120	**120**	-	-	-	**120**	**-**
Wilbur L. Ross	-	20	**20**	-	-	-	**20**	**-**
Arne Berggren	-	115	**115**	-	-	-	**115**	**-**
Anat Bar-Gera	-	15	**15**	-	-	-	**15**	**-**
Lyn Grobler	-	72	**72**	-	-	-	**72**	**-**
Michael Heger	-	110	**110**	-	-	-	**110**	**-**
Marios Kalochoritis	-	45	**45**	-	-	-	**45**	**-**
Michael Spanos	-	100	**100**	-	-	-	**100**	**-**
Ioannis Zographakis	-	135	**135**	-	-	-	**135**	**-**
	2,391	**882**	**3,273**	**-**	**-**	**-**	**3,273**	**202**

* 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 134 individuals were classified as MRTs in 2018 (15 key management personnel and 119 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 2018 and 2017.

	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**	**n/a[36]**	**18,183,138**	**n/a[36]**
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[37]	3,202,606	n/a[36]	17,864,452	n/a[36]

2017				
Assets of the reporting institution	**2,945,519**	**n/a[36]**	**18,299,433**	**n/a[36]**
Equity instruments	1,741	1,741	54,160	54,160
Debt securities	327,461	327,461	582,802	588,237
of which: covered bonds	*1,849*	*1,849*	*61,329*	*61,329*
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	*313,980*	*313,980*	*493,021*	*498,454*
of which: issued by financial corporations	*13,450*	*13,450*	*79,266*	*79,266*
of which: issued by non-financial corporations	-	-	-	-
Other assets[37]	2,601,887	n/a[36]	17,574,403	n/a[36]

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

[37] 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 an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. An asset is categorised as unencumbered if it has not been pledged against an existing liability.

The vast majority of encumbered assets are within the Bank. Of the unencumbered assets around 28% (2017: 20%) are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in the 2018 Additional Risk and Capital Management Disclosures included in the 2018 Annual Financial Report.

8.2 Collateral Received by Product Type

The values presented below, including totals, are based on a four-point median average across the four quarters in each of 2018 and 2017.

	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)	**-**	**-**

2017		
Collateral received by the reporting institution	-	96,487
Equity instruments	-	-
Debt securities	-	96,487
of which: is used by general governments	-	*96,487*
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 2018 and 2017.

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
2018	**€000**	**€000**
Carrying amount of selected financial liabilities	**1,126,161**	**3,307,797**[38]
2017		
Carrying amount of selected financial liabilities	1,218,604	2,943,572[38]

The on balance sheet encumbered assets primarily consist of loans and advances to customers, investments in debt securities and property. These are mainly pledged for the funding facilities of the central banks (ECB, CBC) for the covered bond and for deposits of the Republic of Cyprus. Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements, which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (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.

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 €1,009 million (2017: €1,001 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 2018 housing loans of a nominal amount €1,543 million (2017: €1,237 million) in Cyprus are pledged as collateral for the funding from the ECB. As at 31 December 2018, no loans were pledged as collateral for deposits of the Republic of Cyprus (2017: €715 million).

The Republic of Cyprus was upgraded to investment grade (BBB-) by S&P in September 2018 and by Fitch in October 2018 and (BBBL) by DBRS in November 2018. The Cyprus Government bonds became ECB eligible in September 2018.

[38] It includes the carrying value of balance sheet encumbered assets.

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 2018 are presented in the table below:

EU LI3 – Outline of the differences in the scope of consolidation – entity by entity

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bank of Cyprus Holdings Public Limited Company	Full consolidation	x	-	-	-	Holding company
Bank of Cyprus Public Company Ltd	Full consolidation	x	-	-	-	Commercial bank
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Full consolidation	x	-	-	-	Investment banking, asset management and brokerage
General Insurance of Cyprus Ltd	Full consolidation	-	-	-	x	General insurance
EuroLife Ltd	Full consolidation	-	-	-	x	Life insurance
Kermia Ltd	Full consolidation	-	-	-	x	Property trading and development
Kermia Properties & Investments Ltd	Full consolidation	-	-	-	x	Property trading and development
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	Full consolidation	-	-	-	x	UCITS Fund
JCC Payment Systems Ltd	Full consolidation	x	-	-	-	Card processing transaction services
CLR Investment Fund Public Ltd	Full consolidation	-	-	-	x	Investment company
Auction Yard Ltd	Full consolidation	x	-	-	-	Auction company
BOC Secretarial Company Ltd	Full consolidation	-	-	-	x	Secretarial services
S.Z. Eliades Leisure Ltd	Full consolidation	x	-	-	-	Land development and operation of a golf resort
BOC Asset Management Ltd	Full consolidation	x	-	-	-	Managements administration and safekeeping of UCITS Units
Cyreit Variable Capital Investment Company PLC (Cyreit)	Full consolidation	x	-	-	-	Real estate investment fund
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
MC Investment Assets Management LLC	Full consolidation	x	-	-	-	Problem asset management company
Fortuna Astrum Ltd	Full consolidation	x	-	-	-	Problem asset management company
LCP Holdings and Investments Public Ltd	Full consolidation	x	-	-	-	Holding company

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Canosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Citlali Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Edoric Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Indene Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ingane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jobelis Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kernland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Melsolia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otoba Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thryan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
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
Armozio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spacous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Calinora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marcozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Soluto Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Solomaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sailoma 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	
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
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

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	
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
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
Introserve Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Badrul Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cereas Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fareland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sindelaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Barosca Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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	
Fogland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebasco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dolapo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Homirova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Birkdale Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Blodar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bramwell Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cobhan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cranmer Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Domita Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Emovera Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Estaga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Innerwick Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Joberco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Labancor Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Laiki Lefkothea Center Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ligisimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Memdes Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nalmosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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	
Pamaco Platres Complex 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
Spaceglowing Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Steparco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Timeland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zecomex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valecross Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Altco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marisaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Olivero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jaselo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garveno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pendalo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Toreva Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Frontyard 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	
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
Nasebia 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
Dentorio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valioco 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	
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
Kenelyne Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Barway Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Asianco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nigora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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
Nivoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ganina 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
Valecast Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Legamon 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	
Teresan 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
Racotino Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rylico Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vatino Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Virevo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Asendo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Domilas Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gylito Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lamezoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Odolo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rondemio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tolmeco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Volparo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Arlona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bokeno 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

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	
Folimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pelika Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Battersee Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bocaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Green Hills Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otherland Properties Dorobanti SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Romaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Trecoda Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Imoreth Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Inroda Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tantora Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zunimar Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allioma Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nikaba Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vameron Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Primaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Smooland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Threefield Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nicosia Mall Property (NMP) 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	
Bascot Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Consoly Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vanemar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Alomnia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lancast Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Artozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elizano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allodica Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Letimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gosman Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Obafemi Holdings Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Stamoland Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Nicosia Mall Management (NMM) Limited	Full consolidation	x	-	-	-	Provision of services
Nicosia Mall Finance (NMF) Limited	Full consolidation	x	-	-	-	Holding of shares and other investments
Nicosia Mall Holdings (NMH) Limited	Full consolidation	x	-	-	-	Holding of shares and other investments
Axxel Ventures Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
CLR Private Equity Limited	Full consolidation	-	-	-	x	Holding of shares and other investments
Arleta Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Azemo 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	
Kuvena Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nuca Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Orleania Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ravenica Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Rouena Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Wiceco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Unoplan Properties Ltd	Full consolidation	x	-	-	-	Managing and operating of Golf Course Business
Tavoni Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Petrassimo 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
Calandomo 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
Alezia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Aparno 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	
Dorfilo 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
Jalimo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Sendilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Fodilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Livena Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Molemo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Nivamo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Stevolo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Baleland Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Icazo 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
Edilia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Limoro Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Rofeno Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Samilo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Zenoplus Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Selilar Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Nikaba Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Selilar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Battersee Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company

APPENDIX I – Basis of Consolidation of Group entities for regulatory purposes (continued)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bocaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Bonayia Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Commonland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Fledgego Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Frozenport Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Hydrobius Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Imoreth Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Inroda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Janoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Loneland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Melgred Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Otherland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Romaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Tantora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Trecoda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Zunimar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Allioma Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Landanafield Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
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

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	
Renalandia Properties Ltd	Full consolidation	x	-	-	-	Inactive
Ilera 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
Laiki Bank (Nominees) Ltd	Full consolidation	-	-	-	x	Inactive
Nelcon Transport Co. Ltd	Full consolidation	-	-	-	x	Inactive
CYCMC I Limited	Full consolidation	x	-	-	-	Inactive
CYCMC II Limited	Full consolidation	x	-	-	-	Inactive
CYCMC III Limited	Full consolidation	x	-	-	-	Inactive
CYCMC IV Limited	Full consolidation	x	-	-	-	Inactive
Europrofit Capital Investors Public Limited	Full consolidation	-	-	-	x	Inactive
Kyprou Commercial SA	Full consolidation	x	-	-	-	Inactive
Kyprou Properties SA	Full consolidation	-	-	-	x	Inactive
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Full consolidation	-	-	-	x	Inactive
Kyprou Zois (branch of EuroLife Ltd)	Full consolidation	-	-	-	x	Inactive
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
Calomland Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Lameland 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
Pittsburg 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
Frozenport Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Loneland Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Melgred Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
BOC Ventures Ltd	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
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
Bank of Cyprus Romania (Romanian branch)	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off
Kyprou Finance (NL) B.V.	Full consolidation	x	-	-	-	In the process of dissolution/ in the process of being struck off

APPENDIX II – Information flow on risk to management body

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Frequency
1	Asset Quality Target Setting	Asset Quality Target Setting for front line divisions	Cyprus	Credit Risk	RC, ExCo	Annually
2	Credit Limits & Authorities	Credit Limits & Authorities	Cyprus	Credit Risk	RC, BoD, ExCo	Annually
3	Provisions Material	All relevant material that is provided for the determination of provisions	Group	Credit Risk	Joint AC & RC, BoD, Provisioning	Quarterly
4	Write-Offs Report Semi-Annual	Present write offs cases>1 million	Cyprus	Credit Risk	RC, BoD	Semi-annually
5	Material decisions over €100 million	Presents summary of all material approvals (restructurings, large exposures, etc)	Group	Credit Risk Assessment	RC, BoD	Quarterly
6	Applied solutions under delegated Limits	To demonstrate the use of limits delegated by the RC to the Bank's approval authorities, and uncover shortcomings which require policy enhancements	Cyprus	Credit Risk Assessment	RC	Quarterly
7	Annual Information Security Report	Reports to CBC current Risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	RC, BoD, OpCo, ExCo	Annually
8	Semi Annual Risk Report on Cloud Assessments	Reports risks and progress on Cloud Assessments	Cyprus	Information Security	RC, OpCo	Semi-annually
9	Semi-Annual Country Report	Monitoring of exposures per country	Group	Market Risk	RC, BoD, ALCO	Semi-annually
10	Annual Review of Market Risk Limits	Review and revision, where necessary of market risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
11	Annual Review of Credit Limits (counterparty & country)	Review and revision, of credit risk limits	Group	Market Risk	RC, BoD, ALCO	Annually
12	Authorisation Levels for Market Risk Related Limits	Authorisation Levels for Market Risk Related Limits	Group	Market Risk	RC, BoD	Annually
13	Market Risk Related Violations	Group ALCO to ratify the violations upto 50%, and the Board RC the violations greater than 50%	Group	Market Risk	RC, ALCO	Semi-annually
14	Insurance Cover Strategy & recommendation to the BOD	Insurance Cover Strategy & recommendation to the BOD	Group	Operational Risk	RC, BoD	Annually

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Frequency
15	Semi-annual Reputational Risk Report	Providing information on major risks bearing an important reputational impact for the Bank	Group	Operational Risk	RC, ExCo	Semi-annually
16	Quarterly Outstanding Findings Monitoring Dashboard	Report integrates Operational Risks, Information Security risks, Regulatory & Compliance risks (Financial Crime and RSCO) and provides data on open risks as well as completed and outstanding actions on such risks (analysis per level of risk and division). Includes Internal Audit review of RCSA results	Cyprus	Operational Risk	AC	Quarterly
17	Yearly Report for the Appeals Committee (ApC) and the Financial Ombudsman (FO) Mediation process for the period 1st January 2018 to 31st December 2018	Presents cases examined by the Committee and the FO over a quarter and certain statistics as per CBC's requirement.	Cyprus	Operational Risk	Joint AC & RC, ExCo	Annually
18	Regulatory Communication	Regulatory Communication	Group	RDA	RC, BoD	Monthly

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
19	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 key risk indicators and key performance indicators on non-performing loans monitored by the institution. 8) Calculation of the institution's capital requirements and capital adequacy ratio. 9) A comprehensive gap analysis section by major risk department whereby the risk management function will comment on the recommendations made in its report of the previous year including an assessment of the progress achieved and the current status. 10) Risk Management function action plans for 2018 by each major department/area.	Group	Credit Risk	RC, BoD, ExCo	Annually
20	Monthly Risk Report	Report of key Risk indicators 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	Credit Risk	RC, BoD, ExCo	Monthly
21	Risk Management Strategy	Report documenting the Bank's key challenges in the risk area, focus areas, ambition, strategy, SWOT and needs.	Group	GCRO	RC	Annually

APPENDIX II – Information flow on risk to management body (continued)

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
22	Strategy Risk Assessment	Risk assessment of the 3 year business plan.	Group	GCRO	RC, BoD, ExCo	Annually
23	Risk Appetite Statement	Risk Appetite Statement of the Group	Group	RDO	RC, BoD, ExCo	Semi-annually
24	Risk Management's Division Budget	Risk Management's Division Budget	Group	RDO	RC	Annually
25	ECB SREP Stress Test (Bi-annual)	Update on ECB Stress Tests: process followed and outcome	Group	GCRO	RC, ExCo	Annually
26	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Preliminary discussion & approval of Parameters & Scenarios for ICAAP	Group	Market Risk	RC, ALCO	Annually
27	ICAAP	Internal Capital Adequacy Assessment Process	Group	Market Risk	RC, BoD, ALCO, ExCo	Annually
28	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Preliminary discussion & approval of Parameters & Scenarios for ILAAP	Group	Market Risk	RC, ALCO	Annually
29	ILAAP	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ALCO, ExCo	Annually
30	Liquidity Adequacy Statement	Individual Liquidity Adequacy Assessment Process	Group	Market Risk	RC, BoD, ExCo	Annually
31	Capital Adequacy Statement	Capital Adequacy Statement	Group	Market Risk	RC, ALCO, ExCo	Annually
32	ICAAP update of stress tests	ICAAP update of stress tests	Group	Market Risk	RC, ALCO	Semi-annually
33	ILAAP update of stress tests	ILAAP update of stress tests	Group	Market Risk	RC, ALCO	Other
34	Review of Risk Management Policies universe	Policy revisions	Cyprus	All RMD Departments	ExCo, RC	Annually
35	Semi-Annual Risk Departments Reports	Updates & monitoring on all risk areas (credit, market, operational, regulatory, information security etc.)	Group	All RMD Departments	OpCo, ExCo, RC	Semi-annually
36	Credit Monitoring of Healthy Portfolio	Provides an in-depth analysis of the healthy part of the Bank's portfolio.	Bank	Credit Risk	RC	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, Spain, Sweden.

Other geographical areas included in significant area 'Non EU Countries'

Algeria, Angola, Anguilla, Antigua and Barbuda, Argentina, Armenia, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belarus, Belize, Bermuda, Bosnia and Herzegovina, Botswana, Bouvet Island, Brazil, British Indian Ocean Territory, Brunei Darussalam, Cambodia, Cameroon, Canada, Cayman Islands, China, Colombia, Costa Rica, Curacao, Dominica, Egypt, Gambia, Georgia, Ghana, Gibraltar, Greenland, Guernsey, Guinea, Hong Kong, Iceland, India, Indonesia, Islamic Republic of Iran, Iraq, Isle of Man, Israel, Japan, Jersey, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Lebanon, Liberia, Libya, Liechtenstein, Macao, The Former Yugoslav Republic of Macedonia, Malawi, Malaysia, Marshall Islands, Mauritania, Mauritius, Mexico, Federated States of Micronesia, Moldova, Monaco, Montenegro, Morocco, Mozambique, Nepal, New Zealand, Nigeria, Niue, Norway, Oman, Pakistan, Occupied Palestinian Territory, Panama, Philippines, Qatar, Russian Federation, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Sri Lanka, Sudan, Switzerland, Syrian Arab Republic, Province of China Taiwan, Tajikistan, Thailand, Turkey, Turkmenistan, Turks and Caicos Islands, Uganda, Ukraine, United Arab Emirates, United States, Uzbekistan, Venezuela, Vietnam, British Virgin islands, U.S. Virgin islands, Zambia, Zimbabwe.

Other geographical areas included in significant area 'Supranational'

The European Central Bank, 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.

APPENDIX IV – List of other countries with their % countercyclical buffer rate

Other countries with 0% countercyclical buffer rate for 2018 & 2017

Austria, Belgium, Bulgaria, Croatia, , Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Algeria, Angola, Anguilla, Antigua and Barbuda, Argentina, Armenia, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belarus, Belize, Bermuda, Bosnia and Herzegovina, Botswana, Bouvet Island, Brazil, British Indian Ocean Territory, Brunei Darussalam, Cambodia, Cameroon, Canada, Cayman Islands, China, Colombia, Costa Rica, Curacao, Dominica, Egypt, Gambia, Georgia, Ghana, Gibraltar, Greenland, Guernsey, Guinea, Hong Kong, Iceland, India, Indonesia, Islamic Republic of Iran, Iraq, Isle of Man, Israel, Japan, Jersey, Jordan, Kazakhstan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Lebanon, Liberia, Libya, Liechtenstein, Macao, The Former Yugoslav Republic of Macedonia, Malawi, Malaysia, Marshall Islands, Mauritania, Mauritius, Mexico, Federated States of Micronesia, Moldova, Monaco, Montenegro, Morocco, Mozambique, Nepal, New Zealand, Nigeria, Niue, Norway, Oman, Pakistan, Occupied Palestinian Territory, Panama, Philippines, Qatar, Russian Federation, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Serbia, Seychelles, Singapore, South Africa, Sri Lanka, Sudan, Switzerland, Syrian Arab Republic, Province of China Taiwan, Tajikistan, Thailand, Turkey, Turkmenistan, Turks and Caicos Islands, Uganda, Ukraine, United Arab Emirates, United States, Uzbekistan, Venezuela, Vietnam, British Virgin islands, U.S. Virgin islands, Zambia, Zimbabwe.

Other countries with 0.5% countercyclical buffer rate

Lithuania
(at 0% as at 31.12.2017)

Other countries 1% countercyclical buffer rate

Czech Republic
(at 0.5% as at 31.12.2017).

Other countries 1.25% countercyclical buffer rate

Iceland, Slovakia
(Iceland was at 0% as at 31.12.2017, Slovakia was at 0.5% as at 31.12.2017).

Other countries with 2% countercyclical buffer rate

Norway, Sweden

APPENDIX V – Full Terms and Conditions of Capital Resources

Full terms and conditions of the ordinary shares of the Group

		2018/2017
		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[39]
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

APPENDIX V – Full Terms and Conditions of Capital Resources (continued)

Full terms and conditions of the AT1 Capital Securities

		2018
		Group
1	Issuer	Bank of Cyprus Holdings Public Limited Company
2	Unique identifier	XS1865594870
3	Governing law(s) of the instrument	English law, except for the subordination provisions which will be governed by the laws of Ireland
	Regulatory treatment	
4	Transitional CRR rules	Additional Tier 1 Capital Securities
5	Post-transitional CRR rules	Additional Tier 1 Capital Securities
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated Level
7	Instrument type	Additional Tier 1 Capital Securities
8	Amount recognised in regulatory capital	€220,000,000
9	Nominal amount of instrument	€220,000,000
9(a)	Issue price	100
9(b)	Redemption price	100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	19 December 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	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
	Coupons/dividends	
17	Fixed or floating dividend/coupon	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%
19	Existence of a dividend stopper	N/A
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	Yes
31	If write-down, write-down trigger(s)	Group CET1 Ratio less than 5.125%
32	If write-down, full or partial	Partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, write-up mechanism	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).
36	Non-compliant transitioned features	N/A
37	If yes, non-compliant features	N/A

APPENDIX V – Full Terms and Conditions of Capital Resources (continued)

Full terms and conditions of the Note

		2018	2017
		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	€212,000,000	€233,660,365
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 2018

Legal entity	Qualitative criterion	% RWA	% Total income	% Total Assets	Materiality
Bank of Cyprus Public Company Ltd (Cyprus)	Core Business Line	90.74	101.94	95.24	YES
CISCO	Not a critical function, significant business activity or a service/support function	0.05	0.18	0.00	NO
GIC	Not a critical function, significant business activity or a service/support function	0.00	2.16	0.01	NO
EuroLife Ltd	Not a critical function, significant business activity or a service/support function	0.00	3.74	4.60	NO
Kermia and Kermia Properties and Investments	Not a critical function, significant business activity or a service/support function	0.00	0.54	0.00	NO
JCC	Critical Function	0.56	2.85	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	-0.08	0.00	NO
S.Z. Eliades Leisure Ltd	Not a critical function, significant business activity or a service/support function	0.38	-0.28	0.00	NO
Cyreit Variable Capital Investment company PLC	Not a critical function, significant business activity or a service/support function	1.02	-1.10	0.00	NO
Bank of Cyprus Public Company Ltd (Greek branch)	Not a critical function, significant business activity or a service/support function	0.79	0.02	0.00	NO
MC Investments and Asset Management LLC	Not a critical function, significant business activity or a service/support function	0.06	-1.03	0.08	NO
Other various small subsidiaries (mainly Special Purpose Vehicles (SPVs))	Not a critical function, significant business activity or a service/support function	6.40	-8.94	0.05	NO

Specific References to CRR Articles

CRR ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar III disclosures.	Section 2.2
431 (2)	Disclosure of operational risk information.	Section 4.3
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	The Bank has a dedicated Pillar III policy
431 (4)	Explanation of ratings decisions to SMEs upon request.	Not applicable to the Bank
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information – EBA Guidelines on materiality, proprietary, confidentiality and on disclosure frequency	The Bank follows the EBA guidelines – Compliance with this provision is covered through the Report
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements and more frequently if necessary.	Section 2.2
Means of disclosures		
434 (1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	All applicable disclosures are contained within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Cross-references to accounting and other disclosures are indicated in the Report
Risk management objectives and policies		
435 (1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Sections 2.4 and 4
435 (1) (b)		Sections 2.4 and 4
435 (1) (c)		Sections 2.4 and 4
435 (1) (d)		Sections 2.4 and 4
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.4.1(b)
435 (1) (f)	Concise risk statement approved by the BoD.	Section 1, 2.4.3, 2.4.5 and 2.4.6
435 (2)	Information, once a year at a minimum, on governance arrangements.	Section 2.3.2 and Annual Corporate Governance Report 2017
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2017
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2017
435 (2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Section 2.3.3
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 2.3.5 to 2.3.7
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.8 and Appendix II

Specific References to CRR Articles (continued)

Scope of application		
436 (a)	Name of institution.	Section 2.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 3 and Appendix I
436 (b) (i)	Fully consolidated;	Section 3 and Appendix I
436 (b) (ii)	Proportionally consolidated;	Section 3 and Appendix I
436 (b) (iii)	Deducted from own funds;	Section 3 and Appendix I
436 (b) (iv)	Neither consolidated nor deducted.	Section 3 and Appendix I
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 4.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Section 2.2
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not applicable to the Bank
Own funds		
437 (1)	Requirements regarding capital resources table.	Section 5.1 to 5.4
437 (1) (a)		Section 5.1 to 5.4
437 (1) (b)		Section 5.1 to 5.4
437 (1) (c)		Section 5.1 to 5.4
437 (1) (d) (i)		Section 5.1 to 5.4
437 (1) (d) (ii)		Section 5.1 to 5.4
437 (1) (d) (iii)		Section 5.1 to 5.4
437 (1) (e)		Section 5.2 and 5.3
437 (1) (f)		Not applicable to the Bank
437 (2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above.	The Bank follows the implementation standards. (Section 5)
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 5.5
438 (b)	Result of ICAAP on demand from competent authority.	Not such a request received
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class (8% of risk-weighted exposure).	Section 5.5.1
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not applicable to the Bank
438 (d) (i)		Not applicable to the Bank
438 (d) (ii)		Not applicable to the Bank
438 (d) (iii)		Not applicable to the Bank
438 (d) (iv)		Not applicable to the Bank
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 5.5.2
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised Approach, and the advanced measurement approaches as applicable.	Section 5.5.3

Specific References to CRR Articles (continued)

Exposure to counterparty credit risk (CCR)		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 6.1.1
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Section 6.1.2
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Section 6.1.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 6.1.4
439 (e)	Derivation of net derivative credit exposure.	Section 6.1.5
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Section 6.1.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Section 6.1.8
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable to the Bank
439 (i)	Estimation of alpha, if applicable.	Not applicable to the Bank
440 (1) (a)	Geographical distributions of credit exposures	Section 6.2.3.1
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 2.2 and 5.4
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 2.2 and 5.4
Indicators of global systemic importance		
441	Indicators of global systemic importance	Not applicable to the Bank
Credit risk adjustments		
442 (a)	Definitions for accounting purposes of ‘past due’ and ‘impaired’.	Section 6.2.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.2.1
442 (c)	Exposures post-value adjustments by different types of exposure classes.	Section 6.2.2
442 (d)	Exposures post value adjustments by significant geographic areas and material exposure classes and by industry and exposure class.	Section 6.2.3.1
442 (e)	Distribution of exposures by industry	Section 6.2.3.2

Specific References to CRR Articles (continued)

Credit risk adjustments		
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.2.4
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Section 6.2.5, 6.2.13.1,6.2.9.1 and 6.2.9.2
442 (g) (i)		Section 6.2.5, 6.2.13.1, 6.2.9.1 and 6.2.9.2
442 (g) (ii)		Section 6.2.5, 6.2.13.1, 6.2.9.1 and 6.2.9.2
442 (g) (iii)		Section 6.2.5, 6.2.13.1, 6.2.9.1 and 6.2.9.2
442 (h)	Impaired, past due exposures, by geographic area, and amounts of specific and general impairment for each geography.	Section 6.2.6 and 6.2.13.1
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 (i) (i)		Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 (i) (ii)		Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 (i) (iii)		Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 (i) (iv)		Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 (i) (v)		Section 6.2.12, 6.2.13.1 and 6.2.13.3
442 endnote	Specific credit risk adjustments recorded to income statement.	Section 6.2.13.2
Unencumbered assets		
443	Disclosures on unencumbered assets.	Section 8
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes.	Section 6.3.1
444 (b)	Exposure classes associated with each ECAI.	Section 6.3.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Section 6.3.2
444 (d)	Mapping of external rating to credit quality steps.	Section 6.3.1
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step.	Section 6.3.3
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 6.6
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 5.5.3

Specific References to CRR Articles (continued)

Exposure in equities in the Banking book		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 6.4
447 (b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	Section 6.4
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 6.4
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 6.4
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Section 6.4
Exposure to interest rate risk on positions in the Banking book		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 6.5.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 6.5.2
Exposure to securitisation positions		
449	Exposure to securitisation positions	Not applicable to the Bank
Remuneration disclosures		
450	Remuneration policy.	Section 7
Leverage		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 5.6.1 and 5.6.2
451 (1) (b)		Sections 5.6.1 and 5.6.2
451 (1) (c)		Sections 5.6.1 and 5.6.2
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	Section 5.6
451 (1) (e)		Section 5.6
451 (2)	EBA shall develop implementation standards for points above.	The Bank follows the implementation standards.
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	Not applicable to the Bank

Specific References to CRR Articles (continued)

Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Bank makes use of on-balance sheet and off-balance sheet netting.	Section 6.6
453 (b)	Policies and processes for collateral valuation and management.	Section 6.6.2
453 (c)	Description of types of collateral used by the Bank.	Section 6.6.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 6.6
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 6.6.3
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 6.6.3
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.2.8
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not applicable to the Bank
Use of Internal Market Risk Models		
455	Use of Internal Market Risk Models	Not applicable to the Bank

Specific References to EBA guidelines published on 14 December 2016 – version 2 as amended on 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 6.2.9.1
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 6.2.9.2
EU CR1-C	Credit quality of exposures by geography	Section 6.2.9.3
EU CR1-D	Ageing of past-due exposures	Section 6.2.10
EU CR1-E	Non-performing and forborne exposures	Section 6.2.11
EU CR2-A	Changes in the stock of general and specific risk adjustments	Section 6.2.13.3
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Section 6.2.12
EU CR3	CRM techniques – Overview	Section 6.6.3
EU CR4	Standardised Approach – Credit risk exposure and CRM effects	Section 6.6.3
EU CR5	Standardised Approach	Section 6.3.3.3
EU CCR1	Aanalysis of CCR exposure by approach	Section 6.1.6
EU CCR2	CVA capital charge	Section 6.1.9
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 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

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	Bank of Cyprus Public Company Ltd
BoD, Board	Board of Directors
BRRD	Bank Recovery and Resolution Directive
BOC PCL	Bank of Cyprus Public Company Limited
C	
CEO	Chief Executive Officer
Company	Bank of Cyprus Holdings Public Limited Company
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive IV
CBC	Central Bank of Cyprus
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Risk Appraisal Department
CRCU	Credit Risk Control Unit
CRU	Credit Reporting Unit
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CVA	Credit Valuation Adjustment
CF	Corporate finance
CB	Commercial Banking
CSA	Credit Support Annex
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
CCC	Collection Call Center
CRR	Capital Requirements Regulation
CCyB	Countercyclical Capital Buffer
CRA	Credit Risk Assessment
CCB	Capital Conservation Buffer
CRAD	Credit Risk Assessment Department
CRM	Credit Risk Mitigation
CCF	Credit Conversion Factor
CRR&C	Credit Risk Reporting & Control
CCR	Counterparty Credit Risk
CRMD	Credit Risk Management Department
CDEA	Cleared Derivatives Execution Agreement

GLOSSARY (continued)

D	
DR	Disaster Recovery
DTA	Deferred Tax Asset
DTC	Deferred Tax Credits
D-CEO	Deputy Chief Executive Officer and Chief Operating Officer
E	
ExCo	Executive Committee
ECB	European Central Bank
EBA	European Banking Authority
ELA	Emergency Liquidity Assistance
ECAIs	External Credit Assessment Institutions
EMTN	Euro Medium Term Note
ECP	Euro Commercial Paper
EEPE	Effective expected positive exposure
EAD	Exposure at default
EEA	European Economic Area
EMU	Economic and Monetary Union
EV	Economic Value
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMIR	European Markets Infrastructure Regulation
F	
FX	Foreign Exchange
FVPL	Fair Value through Profit or Loss
FIRP	Fraud Incident Response Plan
G	
GIC	General Insurance of Cyprus
Group	Bank of Cyprus Holdings Public Limited Company
GCRO	Group Chief Risk Officer
GDP	Gross Domestic Product
GMRAs	Global Master Repurchase Agreements
H	
HR	Human Resources
HRRC	Human Resources & Remuneration Committee
HQLA	High Quality Liquid Assets
I	
IFRS	International Financial Reporting Standards
IT	Information technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAAP	Internal Liquidity Adequacy Assessment Process
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association, Inc.
IBU	International Business Unit
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

GLOSSARY (continued)

LCH	London Clearing House
LCP	Liquidity Contingency Plan
LSD	Legal Services Department
M	
MR	Market Risk Department
MM	Money Market
MRO	Main Refinancing Operations
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MTF	Multilateral Trading Facility
MRR	Minimum Reserve Requirements
MRTs	Material Risk Takers
N	
NCGC	Nominations and Corporate Governance Committee
NPEs	Non Performing Exposures
NPV	Net Present Value
NRS	Non Rate Sensitive
NSFR	Net Stable Funding Ratio
NII	Net Interest Income
NMDs	Non-Maturing Deposits
O	
OCI	Other Comprehensive Income
ORM	Operational Risk Management
OTC	Over-The-Counter
O-SIIs	Other Systemically Important Institutions
OpCo	Operational Committee
P	
PS	Payment and Settlement
PD	Probability of Default
PRA	Prudential Regulation Authority
Plan	Three year plan
PSD	Payments Service Directive
Q	
QCCP	Qualifying Central Counterparties
QIS	Quantitative Impact Study
R	
Report	Pillar 3 Disclosures 2018 report
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	Risk Control Self-Assessment
RAM	Retail Arrears Management Department
RBr	Retail Brokerage
RB	Retail Banking
REMU	Real Estate Management Unit
RC	Board Risk Committee
RAS	Risk Appetite Statement
RCMS	Risk Compliance Management System
RSCO	Regulatory/Supervisory Coordination office
RWA	Risk Weighted Assets
S	
SREP	Supervisory Review and Evaluation Process
SMEs	Small Medium Enterprises
SFTs	Securities Financing Transactions
SSM	Single Supervisory Mechanism

GLOSSARY (continued)

T	
T2	Tier 2
TC	Total capital
TS	Trading and Sales
TLTRO	Targeted-long term refinancing operations
T1	Tier 1
V	
VaR	Value at Risk

Definitions and explanations on Alternative Performance Measures Disclosures

Accumulated expected credit losses on loans and advances to customers	Expected credit losses to cover credit risk on loans and advances to customers comprise: (i) allowance for ECL of loans and advances to customers, (ii) the fair value adjustment on initial recognition of loans and advances to customers, (iii) provisions for off-balance sheet exposures (contingent liabilities and commitments) disclosed on the balance sheet within other liabilities and (iv) accumulated fair value adjustments on loans and advances to customers classified at FVPL.
Cost to income ratio	Cost-to-income ratio is calculated as the total staff costs, special levy on deposits on credit institutions in Cyprus and other operating expenses (excluding advisory and other restructuring costs) and (reversals of provisions)/provisions for litigation and regulatory matters) divided by total income.
Expected credit losses (cost of risk)	Expected credit loss (cost of risk) is calculated as the loan provisions charge (as defined) divided by average gross loans and advances to customers (as defined) (the average balance calculated as the average of the opening and closing balance).
Expected credit losses coverage ratio for NPEs	Expected credit losses coverage ratio for NPEs is calculated as the accumulated expected credit losses (as defined) over NPEs (as defined).
Gross loans and advances to customers	Comprises: (i) gross loans and advances to customers measured at amortised cost before fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale) and (ii) loans and advances to customers measured at FVPL, including accumulated fair value adjustments.
Interest earning assets	Interest earning assets is the sum of: cash and balances with central banks, loans and advances to banks, net loans and advances to customers and investments (excluding equities and mutual funds).
Leverage ratio	The leverage ratio is calculated as the tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan provisions charge	Loan provisions charge comprises of: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets.
Net loans to deposits ratio	Net loans to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits. Where applicable, loans and deposits held for sale are added to the numerator and denominator respectively.
New loan originations	New lending includes the average YTD change (if positive) for credit cards and overdraft facilities.

Definitions and explanations on Alternative Performance Measures Disclosures (continued)

Non-performing exposures (NPEs)	The Group in line with the European Banking Authority (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions: (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due. (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy. (iii) Material exposures as set by the Central Bank of Cyprus (CBC), which are more than 90 days past due. (iv) Performing forborne exposures under probation for which additional forbearance measures are extended. (v) Performing forborne exposures under probation that present more than 30 days past due within the probation period. When a specific part of the exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the specific part of the exposure is classified as non-performing.
NPE ratio	NPE ratio is NPEs (as defined) divided by gross loans and advances to customers (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit divided by the average of total assets for the relevant period.
Total income	Comprises total of net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income.