

Annual Financial Report 2018

Bank of Cyprus Holdings



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BANK OF CYPRUS HOLDINGS GROUP
Board of Directors and Executives
as at 28 March 2019

Annual Financial Report 2018

Board of Directors of Bank of Cyprus Holdings Public Limited Company	<p>Prof. Dr. Josef Ackermann CHAIRMAN</p> <p>Maksim Goldman VICE CHAIRMAN</p> <p>Arne Berggren Lyn Grobler Dr. Michael Heger John Patrick Hourican Dr. Christodoulos Patsalides Ioannis Zographakis Anat Bar-Gera Maria Philippou Paula Hadjisotiriou</p>
Executive Committee	<p>John Patrick Hourican CHIEF EXECUTIVE OFFICER</p> <p>Dr. Christodoulos Patsalides DEPUTY CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER</p> <p>Michalis Athanasiou CHIEF RISK OFFICER</p> <p>Eliza Livadiotou FINANCE DIRECTOR</p> <p>Panicos Nicolaou DIRECTOR CORPORATE BANKING</p> <p>Louis Pochanis DIRECTOR INTERNATIONAL BANKING, WEALTH AND MARKETS</p> <p>Dr. Charis Pouangare DIRECTOR CONSUMER AND SME BANKING</p> <p>Nicolas Scott Smith DIRECTOR RESTRUCTURING AND RECOVERIES DIVISION</p> <p>Anna Sofroniou DIRECTOR REAL ESTATE MANAGEMENT UNIT</p> <p>Aristos Stylianou EXECUTIVE CHAIRMAN, INSURANCE BUSINESSES</p>
Company Secretary	Katia Santis
Legal Advisers as to matters of Irish Law	Arthur Cox
Legal Advisers as to matters of English and US Law	Sidley Austin LLP
Legal Advisers as to matters of Cypriot Law	Chryssafinis & Polyviou
Independent Auditors	<p>Ernst & Young Chartered Accountants Ernst & Young Building Harcourt Centre Harcourt Street Dublin 2 Ireland</p>
Registered Office	<p>Arthur Cox 10 Earlsfort Terrace Dublin 2 D02 T380 Ireland</p>

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

Non-IFRS performance measures

Bank of Cyprus Holdings Public Limited Company (the Company) management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the Annual Financial Report as they enable the readers to identify a more consistent basis for comparing the Group's performance between financial periods and provide more detail concerning the elements of performance which management is most directly able to influence or are relevant for an assessment of Bank of Cyprus Holdings Group. They also reflect an important aspect of the way in which the operating targets are defined and performance is monitored by the Group's management. However, any non-IFRS performed measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Refer to 'Definitions and explanations on Alternative Performance Measures Disclosures' on pages 347 to 349 of the Annual Financial Report for 2018 for further information, reconciliations with Consolidated Financial Statements and calculations of non-IFRS performance measures included throughout this document and the most directly comparable IFRS measures.

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

The Annual Financial Report 2018 is available at the Bank of Cyprus Holdings Public Limited Company Registered Office (10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

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

The Annual Financial Report relates to the Company and together with its subsidiaries the Group, which was listed on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE) as at 31 December 2018.

Activities

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

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

Operating environment in Cyprus

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

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

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

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

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

Operating environment in Cyprus (continued)

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

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

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

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

Financial results

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

Financial results (continued)

The main financial highlights for 2018 are set out below:

Consolidated Income Statement underlying basis		
€ million	2018	2017 (represented)
Net interest income	452	544
Net fee and commission income	166	174
Net foreign exchange gains and net gains on other financial instruments transactions and disposal/dissolution of subsidiaries and associates	67	48
Insurance income net of insurance claims and commissions	53	50
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	18	26
Other income	26	19
Total income	782	861
Staff costs	(217)	(205)
Other operating expenses	(158)	(154)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)	(25)	(23)
Total expenses	(400)	(382)
Operating profit	382	479
Provision charge	(168)	(780)
Impairments of other financial and non-financial assets	(20)	(65)
Provisions for litigation, regulatory and other matters	(23)	(93)
Total provisions and impairments	(211)	(938)
Share of profit from associates	9	9
Profit/(loss) before tax and non-recurring items	180	(450)
Tax	3	(14)
(Profit)/loss attributable to non-controlling interests	(1)	3
Profit/(loss) after tax and before non-recurring items	182	(461)
Advisory and other restructuring costs excluding discontinued operations and NPE sale (Helix)	(42)	(29)
Profit/(loss) after tax - organic	140	(490)
Profit from discontinued operations (UK)	3	-
Restructuring costs relating to NPE sale (Helix)	(18)	-
Loss relating to NPE Sale (Helix)	(150)	-
Impairment of deferred tax assets	(79)	(62)
Loss after tax	(104)	(552)

Financial results (continued)

Key Performance Ratios	2018	2017 (represented)**
Net interest margin*	2.48%	3.10%
Cost to income ratio	51%	44%
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	48%	42%
Operating profit return on average assets	1.8%	2.3%
Basic losses per share attributable to the owners of the Company (€ cent)	(23.21)	(123.72)

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

**Represented for the disposal of the UK subsidiary

Consolidated Balance Sheet

€ million	2018	2017
Cash and balances with central banks	4,610	3,394
Loans and advances to banks	473	1,193
Debt securities, treasury bills and equity investments	1,515	1,121
Net loans and advances to customers	10,922	14,602
Stock of property	1,530	1,641
Non-current assets and disposal groups classified as held for sale	1,470	7
Other assets	1,555	1,641
Total assets	22,075	23,599
Deposits by banks	432	495
Funding from central banks	830	930
Repurchase agreements	249	257
Customer deposits	16,844	17,850
Subordinated loan stock	271	302
Other liabilities	1,082	1,148
Total liabilities	19,708	20,982
Shareholders' equity	2,121	2,586
Other equity instruments (AT1)	220	-
Total equity excluding non-controlling interests	2,341	2,586
Non-controlling interests	26	31
Total equity	2,367	2,617
Total liabilities and equity	22,075	23,599

Financial results (continued)

Consolidated Balance Sheet (continued)

Key Balance Sheet figures and ratios	2018¹	2018	2017
Gross loans and advances to customers (€ million)	15,900	13,148	18,755
Accumulated provisions (€ million)	3,852	2,254	4,204
Customer deposits (€ million)	16,844	16,844	17,850
Loans to deposits ratio (net)	72%	65%	82%
NPE ratio	47%	36%	47%
NPE provisioning coverage ratio	52%	47%	48%
Leverage ratio	10.0%	10.0%	10.4%
Capital ratios and risk weighted assets			
Common Equity Tier 1 capital ratio (CET 1) (transitional)	15.4% ²	12.1%	12.7%
CET1 (allowing for IFRS 9 transitional arrangements)	15.4% ²	11.9%	12.2%
Total capital ratio	18.3% ²	14.9%	14.2%
Risk weighted assets (€ million)	14,016 ²	15,373	17,260

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

²Pro forma for DTC and Helix.

Financial results (continued)

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

€ million	Underlying Basis	Reclassification	Statutory Basis
Net interest income	452	(33)	419
Net fee and commission income	166	(11)	155
Net foreign exchange gains and net gains on other financial instruments transactions and disposal/dissolution of subsidiaries and associates	67	17	84
Insurance income net of insurance claims and commissions	53	-	53
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	18	-	18
Other income	26	-	26
Total income	782	(27)	755
Staff costs	(217)	-	(217)
Other operating expenses	(158)	(77)	(235)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	(25)	-	(25)
Total expenses	(400)	(77)	(477)
Operating profit	382	(104)	278
Provision charge	(168)	(133)	(301)
Impairments of other financial and non-financial assets	(20)	-	(20)
Provisions for litigation, regulatory and other matters	(23)	23	-
Total provisions and impairments	(211)	(110)	(321)
Share of profit from associates	9	-	9
Profit/(loss) before tax and non-recurring items	180	(214)	(34)
Tax	3	(79)	(76)
(Profit)/loss attributable to non-controlling interests	(1)	-	(1)
Profit/(loss) after tax and before non-recurring items	182	(293)	(111)
Advisory and other restructuring costs excluding discontinued operations and NPE sale (Helix)	(42)	42	-
Profit/(loss) after tax - organic*	140	(251)	(111)
Profit from discontinued operations (UK)	3	4	7
Restructuring costs relating to NPE sale (Helix)	(18)	18	-
Loss relating to NPE Sale (Helix)	(150)	150	-
Impairment of deferred tax assets (DTA)	(79)	79	-
Loss after tax	(104)	-	(104)

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

Financial results (continued)

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

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

- Net interest income on underlying includes €32.5 million unrecognised interest on previously credit impaired loans which have cured during the year, which is presented within 'Credit losses to cover credit risk on loans and advances to customers' in the Consolidated Financial Statements in line with an IFRIC discussion, which has taken place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).
- €11.2 million fee and commission expense on the amounts deposited in regards to the AT1 issue disclosed within 'Advisory and other restructuring costs-excluding NPE sale (Helix)' under the underlying basis.
- 'Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the Consolidated Financial Statements include an amount of €16.1 million relating to net gains on loans and advances to customers measured at fair value through profit or loss (FVPL) disclosed within 'Provisions charge' under the underlying basis. Additionally, it includes €3.8 million relating to the UK disclosed within discontinued operations in the underlying basis.
- 'Restructuring costs relating to NPE sale (Helix)' of €18.4 million, 'Provisions for litigation, regulatory and other matters' of €22.8 million and 'Advisory and other restructuring costs-excluding the NPE sale (Helix)' of €32.2 million disclosed as expenses in the Consolidated Financial Statements are shown separately under the underlying basis (from the total of €32.2 million around €1.3 million relates to restructuring costs on the disposal of the UK group therefore is classified as discontinued operations in the underlying basis).
- €3.6 million for UK regulatory matters included within expenses in the Consolidated Financial Statements, are disclosed within discontinued operations in the underlying basis.
- The loss of disposal of Helix of €149.8 million disclosed within 'Credit losses to cover credit risk on loans and advances to customers' in the Consolidated Financial Statements is separately disclosed under the underlying basis.
- Impairments of other financial instruments relating to UK of €2.7 million is classified as a cost on discontinued operations per the underlying basis.
- The impairment of deferred tax asset of €79 million included within 'Income tax' in the Consolidated Financial Statements is classified as a non-recurring item and disclosed within 'Impairment of DTA' under the underlying basis.

Balance Sheet Analysis

Capital Base

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

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

Financial results (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

As at 31 December 2018, the Total Capital ratio stood at 14.9%, compared to 14.2% at 31 December 2017.

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

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

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

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

Sale of Bank of Cyprus UK Limited (BOC UK)

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

Additional Tier 1

In December 2018, the Company proceeded with the issuance of €220 million of Additional Tier 1 Capital Securities (the 'Capital Securities'), which had been priced in August 2018, after obtaining the consent of the ECB for the reduction of capital and the approval of the Irish Court for the reclassification of the share premium to distributable reserves, pursuant to section 85(1) of the Companies Act 2014 of Ireland. This reclassification had been approved at the Company's Annual General Meeting in August 2018. The reduction of capital did not have any impact on regulatory capital or the total equity position of the Company, the BOC PCL or the Group.

Financial results (continued)

Balance Sheet Analysis (continued)

Additional Tier 1 (continued)

The distributable reserves created, provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 (CRR), which provides that coupons on AT1 capital instruments may only be funded from distributable items. Distributable items for the purposes of the CRR are determined, in part, by reference to distributable reserves.

The proceeds of the issue have been on-lent by the Company to BOC PCL. The on-loan constitutes Additional Tier 1 capital for BOC PCL. The issuance has increased the Total Capital Ratio by c.140 bps to 14.9% as at 31 December 2018.

Subsequent to the issuance, the Capital Securities were admitted to the official list of the Luxembourg Stock Exchange (LuxSE) and to trading on the Euro MTF market of the LuxSE.

Project Helix

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

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

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 in early second quarter of 2019.

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

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

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

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

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

Financial results (continued)

Balance Sheet Analysis (continued)

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

The CET1 ratio (transitional basis) of 12.1% as at 31 December 2018 improves to 15.4% pro forma for DTC and Helix. The Total Capital ratio of 14.9% as at 31 December 2018 improves to 18.3% pro forma for DTC and Helix.

Funding

Funding from Central Banks

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

Deposits

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

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

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

Subordinated Loan Stock

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

Liquidity

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

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

Financial results (continued)

Balance Sheet Analysis (continued)

Liquidity (continued)

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

Loans and loan portfolio quality

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

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

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

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

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

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

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

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

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

Financial results (continued)

Balance Sheet Analysis (continued)

Loans and loan portfolio quality (continued)

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

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

Project Helix

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

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

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

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 in early in the second quarter 2019.

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

ESTIA

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

Project Velocity

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 contractual balance of €245 million and a gross book value of €34 million as at 30 September 2018 (known as Project Velocity or the Sale). The gross book value of this portfolio as at 31 December 2018 was €33 million.

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

Financial results (continued)

Balance Sheet Analysis (continued)

Real Estate Management Unit (REMU)

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

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

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

Overseas exposure

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

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

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

Income Statement Analysis

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

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

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

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

Financial results (continued)

Income Statement Analysis (continued)

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

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

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

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

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

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

Other operating expenses for 2018 were €158 million.

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

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

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

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

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

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

Advisory and other restructuring costs-excluding discontinued operations and NPE sale (Helix) for 2018 amounted to €42 million compared to €29 million for 2017.

Profit after tax arising from the organic operations of the Group for 2018 amounted to €140 million, compared to a loss of €490 million in 2017.

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

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

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

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

Financial results (continued)

Income Statement Analysis (continued)

Loss after tax attributable to the owners of the Company for 2018 was €104 million, compared to €552 million for 2017. This does not take into account the post balance sheet event allowing the conversion of DTA into DTC.

Business Overview

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

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

Project Helix

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

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 in early in the second quarter 2019.

Project Velocity

In December 2018, 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 contractual balance of €245 million and gross book value of €34 million as at 30 September 2018 (known as "Project Velocity" or the "Sale"). This portfolio comprises of 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at 31 December 2018 was €33 million.

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

Business Overview (continued)

Project Velocity (continued)

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

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

ESTIA

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

Sale of Bank of Cyprus UK Limited (BOC UK)

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

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

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

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

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

Other

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

Business Overview (continued)

Other (continued)

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

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

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

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

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

Strategy and Outlook

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

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

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

Strategy and Outlook (continued)

KEY PILLARS	PLAN OF ACTION
1. Materially reduce the level of delinquent loans	<ul style="list-style-type: none"> • Sustain momentum in restructuring and continue reduction of NPEs • Focus on terminated portfolios (in Recovery Unit) – accelerated consensual foreclosures • Real estate management via REMU • Continue to explore alternative accelerating NPE reduction measures such as NPE sales, securitisations etc.
2. Further improve the funding structure	<ul style="list-style-type: none"> • Focus on shape and cost of deposit franchise
3. Maintain an appropriate capital position	<ul style="list-style-type: none"> • Internally generate capital
4. Focus on core Cyprus markets	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time • Post further NPE reduction, BOC PCL will focus on the need to manage costs
6. Deliver returns	<ul style="list-style-type: none"> • Deliver appropriate medium term risk-adjusted returns

Going concern

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

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

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

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

Going concern (continued)

Non-Performing Exposures

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

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% and 14.9% respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).

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

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

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

Funding and liquidity

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

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

Viability statement

In accordance with the requirements of the UK Corporate Governance Code 2016 (UK Code), the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the main risks that the Group is facing.

The Directors have selected a three-year period for this assessment in arriving at the viability statement, which is also within the usual planning process of the Group.

The Directors have assessed the prospects of the Group through a number of sources, including the latest three year plan of the Group, the NPE strategy, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Assessment Process (ILAAP) reports.

The Group prepared a detailed NPE Strategy Plan for the 3 year period 2018-2020 as requested by the Single Supervisory Mechanism (SSM). The plan was approved by the Board of Directors of the Company and submitted to the SSM in March 2018. The Group is currently preparing an updated strategy for the years 2019-2021 to be submitted to the ECB by the end of June 2019.

The ICAAP is an annual process that demonstrates whether the Group has all the necessary procedures in place in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile, under both a base case and a stress case. The Group also undertakes a quarterly review of its ICAAP results considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration.

The ICAAP process demonstrates that the Group has sufficient capital, under both the base and stress case scenarios, to support its business and achieve its objectives having regard to its Board approved Risk Appetite and Strategy, and to meet its regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both the business as usual and severe stress scenarios and to meet regulatory requirements including the LCR and NSFR.

The Group prepares the ICAAP and ILAAP reports annually. Both reports for year 2017 were approved by the Board of Directors and submitted to the SSM in April 2018. The current year ICAAP and ILAAP reports are in progress and are expected to be finalised and submitted to the SSM by the end of April 2019. The base case of the ICAAP report is the latest Plan of the Group approved by the Board in February 2019, updated if necessary, for any developments.

The Directors confirm that based on their assessment of the principal risks to which the Group is exposed, the most significant of which are credit risk, liquidity risk, litigation risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and risk on changes in the fair value of property, those risks are monitored, managed and mitigated through various control mechanisms and processes set out in the Principal risks and uncertainties-Risk management and mitigation section below. Based on this assessment of the principal risks and the assessment of the Group's current position and prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

Capital base

Equity totalled €2,121 million at 31 December 2018. The CET1 ratio (transitional) totalled 12.1% at 31 December 2018 (2017: 12.7%). Adjusting for DTA, the CET1 ratio on a fully-loaded basis (IFRS 9 transitional) totalled 11.9% at 31 December 2018 (2017: 12.2%). The Total Capital ratio (transitional) at 31 December 2018, stood at 14.9% (2017: 14.2%).

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

Share capital

As at 31 December 2018, there were 446,199,933 issued ordinary shares with a nominal value of €0.10 each. Information about the changes on the authorised and issued share capital during 2018 and 2017 is disclosed in Note 36 of the Consolidated Financial Statements.

Share-based payments - share options

Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan (as approved on 24 November 2015 by the Annual General Meeting of BOC PCL) was replaced by the Share Option Plan which operates at the level of the Company. The Share Option Plan is identical to the Long Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

No share options were granted since the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of the Company. 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.

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.

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 (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). The cost of acquisition of these shares was €21,463 thousand (2017: €21,463 thousand).

For additional disclosures refer to Note 36 of the Consolidated Financial Statements, which is incorporated by reference in this Directors' Report.

Change of control

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

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

Other information

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

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

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

Rights and obligations of ordinary shares

In accordance with the Company's Constitution, the rights and restrictions attaching to the ordinary shares are as follows:

- subject to the right of the Company to set the record dates for the purposes of determining the identity of members entitled to notice of and/or to vote at a general meeting, the right to attend and speak at any general meeting of the Company and to exercise one vote per ordinary share at any general meeting of the Company;
- the right to participate pro rata in all dividends declared by the Company; and
- the right, in the event of the Company's winding up, to participate pro rata in the total assets of the Company.

Shareholders holding more than 3% of the share capital of the Company

As at 31 December 2018 and 15 March 2019 the following shareholders held more than 3% of the share capital of the Company:

	31 December 2018		15 March 2019	
	Number of ordinary or Depository Interests representing Company ordinary shares	% held	Number of ordinary or Depository Interests representing Company ordinary shares	% held
Lamesa Holdings S.A.	41,383,699	9.27%	41,383,699	9.27%
European Bank for Reconstruction and Development	22,401,744	5.02%	22,401,744	5.02%
Cyprus Popular Bank Public Co Ltd	21,467,719	4.81%	21,467,719	4.81%
TD Asset Management	17,893,015	4.01%	17,889,706	4.01%
Eaton Vance	17,064,261	3.82%	16,383,514	3.67%
Senvest Management LLC	16,383,514	3.67%	15,583,680	3.49%
Osome Investments Ltd	13,527,898	3.03%	13,527,898	3.03%

Dividends

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

Following the 2018 SREP decision, the Company 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.

Events after the reporting date

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

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

Events after the reporting date (continued)

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

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

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

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

Resignation of the Group's CEO

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

Principal risks and uncertainties - Risk management and mitigation

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

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

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

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

The Pillar 3 Disclosures Report (unaudited) of the Group, required with respect to the requirements of the Capital Requirement Regulation (EU) No 575/2013, is published on the Group's website www.bankofcyprus.com (Investor Relations).

Books and significant records

The measures that the Directors have taken to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 of Ireland (Companies Act 2014), with regard to the keeping of accounting records, include the provision of appropriate resources to maintain adequate accounting records throughout the Company and the Group, including the appointment of personnel with appropriate qualifications, experience and expertise.

The accounting records are maintained at the Company's registered office at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland and at 51 Stassinou Street, Ayia Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

Research and development

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

Political donations

Political donations are required to be disclosed under the Electoral Act 1997 of Ireland (as amended). The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2018.

Relevant audit information

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

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

Preparation of periodic reporting

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

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

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

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

Preparation of periodic reporting (continued)

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

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

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

Corporate Governance Statement

In April 2014 the CSE issued the 4th Edition (Revised) of the Corporate Governance Code (the CSE Code). Listed companies have an obligation to include in their Annual Financial Report, a Report by the Board of Directors on Corporate Governance. In the first part of the Report, companies should report whether they comply with the CSE Code and the extent to which they implement its principles. In the second part of the Report, companies should confirm that they have complied with the CSE Code provisions and in the event that they have not, they should give adequate explanation.

The Company has also chosen to comply with the UK Corporate Governance Code 2016 published by the Financial Reporting Council in the UK (the UK Code) following the decision to proceed with a Listing on the London Stock Exchange.

Regarding the first part of the Report, as a company listed on the CSE, the Company has adopted the CSE Code and implements its principles.

Regarding the second part of the Report, the Company complies with the provisions of the CSE Code. Throughout the Corporate Governance Report for 2018 a narrative statement is provided on how the principles of the CSE Code have been applied.

The narrative also covers principles of the UK Code and how these have been applied throughout the year.

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in Section 1 of the Corporate Governance Report for 2018. The powers of the Board of Directors and committees of the Board with administrative, management and supervisory functions, including any powers of the Directors in relation to the issuing or buying back by the Company of its shares, are also set out in the Corporate Governance Report.

Any amendment or addition to the Articles of Association of the Company is only valid if approved by a special resolution at a shareholders' meeting.

A description of the operation of the shareholder meeting, the key powers of the shareholder meeting, shareholders' rights and the exercise of such right is contained in Section 7 of the Corporate Governance Report.

Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the section 'Other information' above. Other information required to be disclosed for the purposes of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 is contained on pages 23 to 24.

Corporate Governance Statement (continued)

In accordance with section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details of the Board Audit Committee's membership and activities are included in Corporate Governance Report for 2018.

The Corporate Governance Report for 2018 is included within this Annual Financial Report on pages 287 to 329 and contains the information required for the purposes of section 1373 of the Companies Act 2014.

The statements and information referred in this Corporate Governance Statement are deemed to be incorporated herein.

Directors' Compliance Statement

As required by section 225 of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors further confirm that a compliance policy statement has been drawn up setting out the Company's policies and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

Service termination agreements

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

Board of Directors

The members of the Board of Directors of the Company as at the date of this Directors' Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Directors' Report except as disclosed below.

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

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

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

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

The remuneration of the Board of Directors is disclosed in Note 51 of the Consolidated financial statements.

Directors' and Secretary's interests

The interest in the share capital of the Company held by each member of the Board of Directors and the Company Secretary at 31 December 2018 is presented in the table below:

	Ordinary shares or Depositary Interests representing Company ordinary shares of €0.10 each at 31 December 2018	Ordinary shares or Depositary Interests representing Company ordinary shares of €0.10 each at 1 January 2018 or at the date of appointment
<i>Non-executive directors</i>		
Prof. Dr. Josef Ackermann	150,000	150,000
Maksim Goldman	7,192	7,192
Arne Berggren	25,000	25,000
Michael Spanos (resigned on 21 January 2019)	-	61,430
Ioannis Zographakis	3,012	3,012
Paula Hadjisotiriou	7	7
<i>Executive directors</i>		
Dr. Christodoulos Patsalides	170	170
<i>Company Secretary</i>		
Katia Santis	4	4
	185,385	246,815

Apart from the interests set out above, the Board of Directors and the Company Secretary had no other interests in the shares of the Company or its subsidiaries at 31 December 2018.

Auditors

The Auditors, Ernst & Young Chartered Accountants were re-appointed as auditors at the last Annual General Meeting held on 28 August 2018 in accordance with section 383(2) of the Companies Act 2014. During 2017 the Company undertook a competitive audit tender process in accordance with the EU Regulation on audit reform of public interest entities and its implications relating to the mandatory rotation of external auditors. On recommendation from the Audit Committee, the Board of Directors of the Company approved the appointment of PricewaterhouseCoopers (PwC) as the external auditors of the Group for accounting periods commencing on 1 January 2019. Shareholders of the Company will be asked to consider the continuation in office of PwC on an advisory non-binding basis at the 2019 Annual General Meeting.

Non-financial information statement

New regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of non-financial and diversity information by certain large undertakings and groups) Regulations 2017, require reporting on specific topics such as environmental matters, social and employee matters, respect for human rights, bribery and corruption, the principal risks related to these matters and management of these risks.

The Group's Code of Conduct outlines the high standards set in the relationships with customers, employees and the community. The Group undertakes sustainable support actions within the two pillars of Health and Education. The core of the Health pillar actions is the Bank of Cyprus Oncology Centre founded in Nicosia in partnership with the Republic of Cyprus and started offering services in 1998. The Centre has become the flagship in cancer treatment in Cyprus and is the first hospital in Cyprus to receive quality accreditation from CHKS, Europe's leading hospital accreditation organisation, and ranks amongst the most distinguished hospitals in terms of its operating and quality standards, a mark that it still holds.

Non-financial information statement (continued)

Within the Education pillar, the Bank of Cyprus Cultural Foundation has developed a series of multi-faceted activities over the years, to become the centre of culture, art and creativity of Cyprus. The Foundation keeps six Cyprological collections, manages two museums and runs educational programmes for children and adults.

Additionally, the Group supports various NGOs within the two pillars where a compelling societal need exists.

Information on the Group's business model, the Group's policies on environmental matters, social and employee matters, bribery and corruption, the principal risks related to these matters and how the Group manages these risks, and an analysis of the non-financial key performance indicators relevant to the Group is available at www.bankofcyprus.com (Responsibility, CSR Reports), which is deemed to be incorporated in this part of the Directors' Report. The Group is committed to creating a diverse place to work and invests in developing the capabilities of its workforce through development programmes and training. Additionally, the Group offers equal opportunities for career progression to all employees through the implementation of related policies and practices that promote fairness, equality and transparency. Matters relating to diversity are set out in further detail in the Diversity section of the Corporate Governance Report for 2018 included within this Annual Financial Report.

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

The Group primarily operates in one country where the European Union's legislation for human rights is applied and does not import or export goods or non-financial-services to other jurisdictions.

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Financial Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs and, in respect of the consolidated financial statements, Article 4 of the International Accounting Standards (IAS) Regulation.

Under Irish law the Directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Group's and Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group and the Company for the financial year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the EU and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Statement of Directors' Responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the assets, liabilities and financial position of the Company and enable them to ensure that the financial statements comply with the provisions of the Companies Act 2014 and Article 4 of IAS Regulation. The Directors, through the use of appropriate procedures and systems, have also ensured that measures are in place to secure compliance with the Company's and the Group's obligations to keep adequate accounting records. These accounting records are kept at the Company's registered office at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland and at 51 Stassinou Street, Ayia Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

In compliance with section 283 of the Companies Act 2014, the information and returns relating to the business dealt with in the accounting records for 2018 has been sent to the registered office of the Company. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Irish Transparency Rules to include a management report containing a fair review of the development and performance of the business and the position of the Group and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group and the Company and of the profit or loss of the Group and the Company;
- the Directors' report contained in Annual Financial Report 2018 includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Financial Report 2018 and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Prof. Dr. Josef Ackermann
Chairman



John Patrick Hourican
Chief Executive Officer

28 March 2019

Consolidated Financial Statements

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Financial Statements - Contents
for the year ended 31 December 2018

Annual Financial Report 2018

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BANK OF CYPRUS HOLDINGS GROUP
Consolidated Income Statement
for the year ended 31 December 2018

Annual Financial Report 2018

		2018	2017 (represented)*
	<i>Notes</i>	€000	€000
Continuing operations			
Turnover	2,9	984,698	1,102,049
Interest income	8	557,065	723,268
Income similar to interest income	8	52,054	31,878
Interest expense	9	(144,024)	(167,223)
Expense similar to interest expense	9	(46,042)	(44,014)
Net interest income		419,053	543,909
Fee and commission income	10	178,907	183,752
Fee and commission expense	10	(23,636)	(10,211)
Net foreign exchange gains	11	37,688	45,062
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	46,670	3,008
Insurance income net of claims and commissions	13	52,912	50,401
Net losses from revaluation and disposal of investment properties		(13,275)	(4,061)
Net gains on disposal of stock of property	28	31,867	30,447
Other income	14	25,604	19,042
		755,790	861,349
Staff costs	15	(216,740)	(205,888)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	16	(25,095)	(22,846)
Other operating expenses	16	(234,891)	(275,318)
		279,064	357,297
Net gains on derecognition of financial assets measured at amortised cost		27,825	173,443
Credit losses to cover credit risk on loans and advances to customers	17	(329,083)	(953,498)
Credit losses of other financial instruments	17	(1,610)	(6,459)
Impairment of non-financial instruments	17	(18,651)	(58,972)
Loss before share of profit from associates		(42,455)	(488,189)
Share of profit from associates	54	9,095	8,957
Loss before tax from continuing operations		(33,360)	(479,232)
Income tax	18	(75,916)	(75,573)
Loss after tax from continuing operations		(109,276)	(554,805)
Discontinued operations			
Profit after tax from discontinued operations	7	7,243	480
Loss for the year		(102,033)	(554,325)
Attributable to:			
Owners of the Company-continuing operations (loss)		(110,764)	(552,332)
Owners of the Company-discontinued operations (profit)		7,243	480
Total loss attributable to the owners of the Company		(103,521)	(551,852)
Non-controlling interests-continuing operations		1,488	(2,473)
Total profit/(loss) attributable to non-controlling interests		1,488	(2,473)
Loss for the year		(102,033)	(554,325)
Basic and diluted losses per share attributable to the owners of the Company (€ cent)-continuing operations			
	19	(24.8)	(123.8)
Basic and diluted losses per share attributable to the owners of the Company (€ cent)			
	19	(23.2)	(123.7)

* For comparative represented information refer to Note 2.41.

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

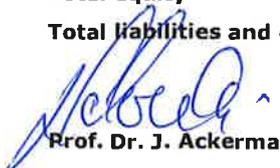
Annual Financial Report 2018

		2018	2017
	Notes	€000	€000
Loss for the year		(102,033)	(554,325)
Other comprehensive income (OCI)			
OCI that may be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)		(9,968)	-
Transfer to the consolidated income statement on disposal		(19,484)	-
		(29,452)	-
Foreign currency translation reserve			
Profit on translation of net investments in foreign branches and subsidiaries		9,938	742
Loss on hedging of net investments in foreign branches and subsidiaries	22	(9,760)	(1,166)
Transfer to the consolidated income statement on dissolution/disposal of foreign branches and subsidiaries		(20,125)	(104)
		(19,947)	(528)
Available-for-sale investments			
Net gains from fair value changes before tax		-	46,506
Share of net gains from fair value changes of associates		-	1,709
Transfer to the consolidated income statement on impairment		-	(37)
Transfer to the consolidated income statement on disposal		-	(606)
		-	47,572
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		(49,399)	47,044
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (equity instruments)			
Share of net losses from fair value changes of associates		(3,835)	-
Net gains on investments in equity instruments designated at FVOCI		2,720	-
		(1,115)	-
Property revaluation			
Fair value gain before tax	26	-	9,319
Share of net gain from fair value changes of associates		70	11
Tax	18	579	(522)
		649	8,808
Actuarial (losses)/gains on the defined benefit plans			
Remeasurement (losses)/gains on defined benefit plans	15	(912)	10,819
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		(1,378)	19,627
Other comprehensive (loss)/income for the year net of taxation		(50,777)	66,671
Total comprehensive loss for the year		(152,810)	(487,654)
Attributable to:			
Owners of the Company		(154,284)	(485,595)
Non-controlling interests		1,474	(2,059)
Total comprehensive loss for the year		(152,810)	(487,654)

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Balance Sheet
as at 31 December 2018

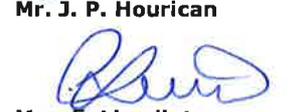
Annual Financial Report 2018

		2018	2017
	<i>Notes</i>	€000	€000
Assets			
Cash and balances with central banks	20	4,610,491	3,393,934
Loans and advances to banks	20	472,532	1,192,633
Derivative financial assets	22	24,754	18,027
Investments	21	777,104	830,483
Investments pledged as collateral	21	737,587	290,129
Loans and advances to customers	24	10,921,786	14,602,454
Life insurance business assets attributable to policyholders	25	402,565	429,890
Prepayments, accrued income and other assets	29	256,002	226,105
Stock of property	28	1,530,388	1,641,422
Investment properties	23	24,475	19,646
Property and equipment	26	260,723	279,814
Intangible assets	27	170,411	165,952
Investments in associates and joint venture	54	114,637	118,113
Deferred tax assets	18	301,778	383,498
Non-current assets and disposal groups held for sale	30	1,470,038	6,500
Total assets		<u>22,075,271</u>	<u>23,598,600</u>
Liabilities			
Deposits by banks		431,942	495,308
Funding from central banks	31	830,000	930,000
Repurchase agreements		248,945	257,322
Derivative financial liabilities	22	38,983	50,892
Customer deposits	32	16,843,558	17,849,919
Insurance liabilities	33	591,057	605,448
Accruals, deferred income and other liabilities	35	285,483	306,227
Pending litigation, claims, regulatory and other matters	40	116,951	138,375
Subordinated loan stock	34	270,930	302,288
Deferred tax liabilities	18	44,282	46,113
Non-current liabilities and disposal group held for sale	30	5,812	-
Total liabilities		<u>19,707,943</u>	<u>20,981,892</u>
Equity			
Share capital	36	44,620	44,620
Share premium	36	1,294,358	2,794,358
Revaluation and other reserves		190,411	273,708
Retained earnings/(accumulated losses)	38	591,941	(527,128)
Equity attributable to the owners of the Company		<u>2,121,330</u>	<u>2,585,558</u>
Other equity instruments	36	220,000	-
Total equity excluding non-controlling interests		<u>2,341,330</u>	<u>2,585,558</u>
Non-controlling interests		<u>25,998</u>	<u>31,150</u>
Total equity		<u>2,367,328</u>	<u>2,616,708</u>
Total liabilities and equity		<u>22,075,271</u>	<u>23,598,600</u>


Prof. Dr. J. Ackermann Chairman


Mr. I. Zographakis Director


Mr. J. P. Hourican Chief Executive Officer


Mrs. E. Livadiotou Finance Director

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

Annual Financial Report 2018

	Attributable to shareholders of the Company										Other equity instruments	Non-controlling interests	Total equity
	Share capital (Note 36)	Share premium (Note 36)	Treasury shares (Note 36)	Retained earnings / (accumulated losses) (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Total			
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000			
1 January 2018	44,620	2,794,358	(21,463)	(527,128)	92,878	54,485	6,059	105,651	36,098	2,585,558	-	31,150	2,616,708
Impact of adopting IFRS 9 at 1 January 2018 (Note 6)	-	-	-	(299,150)	-	(8,470)	-	-	-	(307,620)	-	-	(307,620)
Restated balance at 1 January 2018	44,620	2,794,358	(21,463)	(826,278)	92,878	46,015	6,059	105,651	36,098	2,277,938	-	31,150	2,309,088
(Loss)/profit for the year	-	-	-	(103,521)	-	-	-	-	-	(103,521)	-	1,488	(102,033)
Other comprehensive (loss)/income after tax for the year	-	-	-	(912)	649	(30,553)	-	-	(19,947)	(50,763)	-	(14)	(50,777)
Total comprehensive (loss)/income after tax for the year	-	-	-	(104,433)	649	(30,553)	-	-	(19,947)	(154,284)	-	1,474	(152,810)
Decrease in value of in-force life insurance business	-	-	-	5,314	-	-	-	(5,314)	-	-	-	-	-
Tax on decrease in value of in-force life insurance business	-	-	-	(664)	-	-	-	664	-	-	-	-	-
Transfer of realised profits on disposal of properties	-	-	-	4,143	(4,143)	-	-	-	-	-	-	-	-
Transfer of property revaluation reserve and other reserve of subsidiary to retained earnings (Note 52)	-	-	-	14,014	(7,955)	-	(6,059)	-	-	-	-	-	-
Disposal of subsidiary (Note 53.2.1)	-	-	-	1,996	(1,996)	-	-	-	-	-	-	-	-
Change of legal status of subsidiary to Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	-	298	-	-	-	-	-	298	-	(5,540)	(5,242)
Decrease in non-controlling interests due to change in the shareholding of subsidiary	-	-	-	(164)	-	-	-	-	-	(164)	-	164	-
Issue of other equity instruments (Note 36)	-	-	-	(2,458)	-	-	-	-	-	(2,458)	220,000	-	217,542
Elimination of share premium (Note 36)	-	(1,500,000)	-	1,500,000	-	-	-	-	-	-	-	-	-
Transfer of gain on disposal of FVOCI equity investments to retained earnings	-	-	-	173	-	(173)	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,250)	(1,250)
31 December 2018	44,620	1,294,358	(21,463)	591,941	79,433	15,289	-	101,001	16,151	2,121,330	220,000	25,998	2,367,328

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

Annual Financial Report 2018

	Attributable to shareholders of the Company											Non-controlling interests	Total equity
	Share capital (Note 36)	Share premium (Note 36)	Capital reduction reserve (Note 36)	Treasury shares (Note 36)	Accumulated losses (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2017	892,294	552,618	1,952,486	(25,333)	(544,930)	90,936	7,139	6,059	103,251	36,626	3,071,146	34,959	3,106,105
Loss for the year	-	-	-	-	(551,852)	-	-	-	-	-	(551,852)	(2,473)	(554,325)
Other comprehensive income/(loss) after tax for the year	-	-	-	-	10,819	8,620	47,346	-	-	(528)	66,257	414	66,671
Total comprehensive (loss)/income for the year	-	-	-	-	(541,033)	8,620	47,346	-	-	(528)	(485,595)	(2,059)	(487,654)
Increase in value of in-force life insurance business	-	-	-	-	(2,743)	-	-	-	2,743	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	-	343	-	-	-	(343)	-	-	-	-
Transfer of realised profits on disposal of properties	-	-	-	-	6,678	(6,678)	-	-	-	-	-	-	-
Cancellation of shares due to reorganisation	(892,294)	-	-	21,463	-	-	-	-	-	-	(870,831)	-	(870,831)
Change of parent company to Bank of Cyprus Holdings Public Limited Company and issue of new shares	44,620	2,241,740	(1,952,486)	(21,463)	558,420	-	-	-	-	-	870,831	-	870,831
Disposals of treasury shares	-	-	-	3,870	(3,863)	-	-	-	-	-	7	-	7
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,750)	(1,750)
31 December 2017	44,620	2,794,358	-	(21,463)	(527,128)	92,878	54,485	6,059	105,651	36,098	2,585,558	31,150	2,616,708

BANK OF CYPRUS HOLDINGS GROUP
Consolidated Statement of Cash Flows
for the year ended 31 December 2018

Annual Financial Report 2018

		2018	2017
	Notes	€000	€000
Net cash flow from operating activities	42	790,203	1,993,266
Cash flows from investing activities			
Purchases of debt securities and equity securities		(709,101)	(402,977)
Proceeds on disposal/redemption of investments:			
- debt securities		294,494	91,738
- equity securities		5,458	1,549
Interest received from debt securities		27,279	19,546
Dividend income from equity securities		547	683
Dividend income from associates		774	6,621
Proceeds on disposal of subsidiaries and associates		64,606	1,580
Net proceeds from disposal of UCITS Fund and investment fund units		16,359	-
Purchases of property and equipment	26	(13,592)	(10,299)
Purchases of intangible assets	27	(27,006)	(25,723)
Proceeds on disposals of property and equipment and intangible assets		1,922	91
Proceeds on disposals of investment properties and investment properties held for sale		6,500	14,568
Net cash used in investing activities		(331,760)	(302,623)
Cash flow from financing activities			
Net (repayment)/proceeds of funding from central banks		(100,000)	79,986
Net proceeds from the issue of other equity instruments		217,542	-
Net proceeds from the issue of subordinated loan stock		-	280,983
Interest on subordinated loan stock		(24,476)	-
Interest on funding from central banks		(3)	(28)
Proceeds from disposal of treasury shares		-	7
Dividend paid by subsidiaries to non-controlling interests		(1,250)	(1,750)
Net cash from financing activities		91,813	359,198
Net increase in cash and cash equivalents		550,256	2,049,841
Cash and cash equivalents			
1 January		4,280,231	2,231,028
Foreign exchange adjustments		(25,643)	(638)
Net increase in cash and cash equivalents		550,256	2,049,841
31 December	43	4,804,844	4,280,231

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

1. Corporate information

Bank of Cyprus Holdings Public Limited Company (the Company) was incorporated in the Republic of Ireland on 11 July 2016, as a public limited company under company number 545903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland.

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

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

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

Consolidated Financial Statements

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

The Consolidated Financial Statements have been prepared in both, the English and the Greek language. In case of a difference or inconsistency between the two, the English version prevails.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income, financial assets (including loans and advances to customers and investments) at fair value through profit or loss and derivative financial assets that have been measured at fair value, non-current assets held for sale measured at fair value less costs to sell and stock of property measured at net realisable value where this is lower than cost. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

Presentation of Consolidated Financial Statements

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

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 45.

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs.

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures

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

2.2.1 New and amended standards and interpretations

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 Revenue from Contracts with Customers (clarifications)

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

IFRS 2: Classification and Measurement of Share based Payment Transactions (amendments)

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

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)

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

2. Summary of significant accounting policies (continued)

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

2.2.1 New and amended standards and interpretations (continued)

IAS 40: Transfers to Investment Property (amendments)

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

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

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

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

2.3 Standards and Interpretations that are issued but not yet effective

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

IFRS 16: Leases

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

IFRS 9: Prepayment features with negative compensation (amendment)

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

IAS 28: Long-term Interests in Associates and Joint Ventures (amendments)

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

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

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

2. Summary of significant accounting policies (continued)

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

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

IFRS 17: Insurance Contracts

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

IFRS 3: Business Combinations (amendments)

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

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

IAS 19: Plan Amendment, Curtailment or Settlement (amendments)

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

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)

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

2. Summary of significant accounting policies (continued)

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

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

Conceptual Framework in IFRS standards

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

Annual Improvements to IFRSs 2015-2017 Cycle

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

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

2.4 Basis of consolidation

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

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

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

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

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

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

2.5 Business combinations

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

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

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

2.6 Investments in associates and joint ventures

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

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

2. Summary of significant accounting policies (continued)

2.6 Investments in associates and joint ventures (continued)

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

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

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

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

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

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

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

2.7 Foreign currency translation

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

2.7.1 Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

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

2. Summary of significant accounting policies (continued)

2.7 Foreign currency translation (continued)

2.7.1 Transactions and balances (continued)

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value is determined.

2.7.2 Subsidiary companies and branches

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

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

2.8 Segment reporting

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

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

2.9 Turnover

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

2.10 Revenue from contracts with customers

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

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

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

Contract balances

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

2. Summary of significant accounting policies (continued)

2.10 Revenue from contracts with customers (continued)

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

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

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

2.10.1 Fee and commission income

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

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

Over time services

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

Point in time services

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

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

2.10.2 Rental income

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

2.10.3 Gains from the disposal of investment property

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

2. Summary of significant accounting policies (continued)

2.10 Revenue from contracts with customers (continued)

2.10.4 Gains on the disposal of stock of property

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

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

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

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

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

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

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

The effective interest rate method

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

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

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

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

2. Summary of significant accounting policies (continued)

2.12 Retirement benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

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

2.13 Tax

Current income tax and deferred tax

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

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

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Summary of significant accounting policies (continued)

2.13 Tax (continued)

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

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

Indirect Tax Value Added Tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

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

2.14 Financial instruments - initial recognition

2.14.1 Date of recognition

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

2.14.2 Initial recognition and measurement of financial instruments

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

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

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

2.14.3 Day 1 profit or loss

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

2.14.4 Measurement categories of financial assets and liabilities

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

2. Summary of significant accounting policies (continued)

2.14 Financial instruments - initial recognition (continued)

2.14.4 Measurement categories of financial assets and liabilities (continued)

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

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

2.15 Classification and measurement of financial assets and liabilities

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

Business model assessment

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

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

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

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

Contractual cash flows characteristics test (SPPI assessment)

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

2.15.1 Derivative financial instruments

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

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

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

Derivatives embedded in financial liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the consolidated income statement. The host contract is accounted for in accordance with the relevant standards.

2.15.2 Financial assets measured at amortised cost

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

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

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

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

2. Summary of significant accounting policies (continued)

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

2.15.3 Debt instruments measured at FVOCI

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

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

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

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

2.15.4 Financial assets or financial liabilities held for trading

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

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

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

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

Management only designates an instrument at FVTPL at initial recognition when one of the following criteria are met:

- (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or
- (b) the liabilities are part of a group of financial liabilities or financial assets and financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- (c) the liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

2.15.6 Equity instruments measured at FVOCI

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

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

2.15.7 Subordinated loan stock

Subordinated loan stock is initially measured at the fair value of the consideration received, net of any issue costs. It is subsequently measured at amortised cost using the effective interest method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the subordinated loan stock.

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

2.15.8 Other financial liabilities

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

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

2. Summary of significant accounting policies (continued)

2.16 Reclassification of financial assets and liabilities

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

Financial liabilities are never reclassified.

2.17 Derecognition of financial assets and financial liabilities

2.17.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

A transfer only qualifies for derecognition if either:

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

2.17.2 Financial liabilities

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

2.18 Forborne and modified loans

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

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

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

2. Summary of significant accounting policies (continued)

2.18 Forborne and modified loans (continued)

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

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

2.19 Impairment of financial assets

2.19.1 Overview of ECL principle

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.1 Overview of ECL principle (continued)

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

2.19.2 Credit impaired and definition of default

Loans and advances to customers, loan commitments and financial guarantees

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.2 Credit impaired and definition of default (continued)

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

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

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

Debt securities, loans and advances to banks and balances with central banks

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

2.19.3 Significant increase in credit risk

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

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

Significant credit risk increase for loans and advances to customers

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

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

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

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

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

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

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

For exposures which are subject to individual impairment assessment, the following qualitative factors in addition to the ones incorporated in the PD calculation, are considered:

- significant change in collateral value or guarantee or financial support provided by shareholders/directors,
- significant adverse changes in business, financial and/or economic conditions in which the borrower operates.

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

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

Significant credit risk increase for financial instruments other than loans and advances to customers

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

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

2.19.4 Measurement of ECLs

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

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

The Group calculates ECL using the following three components:

- exposure at default (EAD),
- probability of default (PD), and
- loss given default (LGD).

EAD

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

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

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

Probability of default (PD)

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.4 Measurement of ECLs (continued)

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

BOC PCL's internal rating process is summarised in Note 46.

Loss given default (LGD)

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

The structure of the LGD model considers the following:

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

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

Individually assessed loans

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

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

Collectively assessed loans

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.5 Scenarios and scenarios weights

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

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

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

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

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

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

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

2.19.6 ECL measurement period

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

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.6 ECL measurement period (continued)

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

2.19.7 Purchased or originated credit impaired financial assets (POCI)

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

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

2.20.1 Derivative financial instruments

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

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries' in the consolidated income statement.

2.20.2 Financial assets or financial liabilities held for trading

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

2. Summary of significant accounting policies (continued)

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

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

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

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

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

2.20.4 Held-to-maturity investments

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

2.20.5 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading investments', 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the captions 'Loans and advances to banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables' in the consolidated balance sheet. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances and other customer credit losses' in the case of loans and advances to customers and in 'Impairment of other financial instruments' for all other instruments.

2. Summary of significant accounting policies (continued)

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

2.20.6 Available-for-sale investments

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

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

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

2.20.7 Subordinated loan stock

Subordinated loan stock is initially measured at the fair value of the consideration received, net of any issue costs. It is subsequently measured at amortised cost using the effective interest method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Group has the right to redeem the subordinated loan stock.

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

2.20.8 Other financial liabilities at amortised cost

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

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

2.20.9 Derecognition of financial assets and financial liabilities

2.20.9.1 Financial assets

A financial asset is derecognised when: (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Group has transferred its contractual rights to receive cash flows from the asset or (c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (i) transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Renegotiated loans

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

2. Summary of significant accounting policies (continued)

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

2.20.9 Derecognition of financial assets and financial liabilities (continued)

2.20.9.2 Financial liabilities

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

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

2.21.1 Loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults. There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due, according to the original contract terms.

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collaterals. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

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

2. Summary of significant accounting policies (continued)

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

2.21.1 Loans and receivables (continued)

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

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

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

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

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

2.21.3 Available-for-sale investments

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

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

2. Summary of significant accounting policies (continued)

2.22 Write-offs

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

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

2.23 Financial guarantees, letters of credits and undrawn loan commitments

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

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

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

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

2.24 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of either party.

2.25 Hedge accounting

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

2. Summary of significant accounting policies (continued)

2.25 Hedge accounting (continued)

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

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness both at the inception and at ongoing basis, of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship and at each hedge effectiveness assessment date, a formal assessment is undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2.25.1 Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the consolidated income statement, over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

2.25.2 Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' in the consolidated income statement.

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

2.25.3 Hedges of net investments in foreign operations

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

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

2. Summary of significant accounting policies (continued)

2.26 Cash and cash equivalents

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

2.27 Insurance business

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

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

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

2.27.1 Life insurance business

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

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

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

2.27.2 Life insurance in-force business

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

2.27.3 General insurance business

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

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

2. Summary of significant accounting policies (continued)

2.27 Insurance business (continued)

2.27.4 Investment contracts

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

2.27.5 Liability adequacy test

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

2.28 Repurchase and reverse repurchase agreements

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

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

2.29 Finance leases - The Group as lessor

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

2.30 Operating leases

2.30.1 Group as lessee

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

2.30.2 Group as lessor

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

2. Summary of significant accounting policies (continued)

2.31 Property and equipment

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

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

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

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

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

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

2.32 Investment properties

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

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

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

2. Summary of significant accounting policies (continued)

2.33 Stock of property

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

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

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

2.34 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

2.35 Intangible assets

Intangible assets include among others computer software and acquired insurance portfolio customer lists. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 3 to 8 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 2.27.2.

Intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

2.36 Share capital

Ordinary shares are classified as equity.

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

2.37 Other equity instruments

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

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

2.38 Treasury shares

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

2. Summary of significant accounting policies (continued)

2.39 Provisions

2.39.1 Provisions for pending litigation, claims and regulatory matters

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

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

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

2.40 Financial guarantees

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

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

2.41 Comparative information

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

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

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

2. Summary of significant accounting policies (continued)

2.41 Comparative information (continued)

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

3. Going concern

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

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

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

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

Non-Performing Exposures

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

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% (unaudited) and 14.9% (unaudited) respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1).

3. Going concern (continued)

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

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

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

Funding and liquidity

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

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

4. Operating environment

4.1 Cyprus

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

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

4. Operating environment (continued)

4.1 Cyprus (continued)

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

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

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

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

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

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

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

4.2 The Group

4.2.1 Regulatory capital ratios (unaudited)

The CET1 ratio of the Group at 31 December 2018 stands at 12.1% and the total capital at 14.9% on a transitional basis.

4. Operating environment (continued)

4.2 The Group (continued)

4.2.1 Regulatory capital ratios (unaudited) (continued)

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

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

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

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

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

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

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

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

4.2.2 Asset quality

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

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

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

4.2.3 Liquidity (unaudited)

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

4. Operating environment (continued)

4.2 The Group (continued)

4.2.3 Liquidity (unaudited) (continued)

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

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

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

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

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

4.2.4 Pending litigation, claims, regulatory and other matters

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

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

5. Significant and other judgements, estimates and assumptions

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

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

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

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

5.1 Classification of financial assets

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

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

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

5.2 Calculation of expected credit losses

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

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

Assessment of significant increase of credit risk

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

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

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

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

5.2 Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors

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

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

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

The Group uses three different economic scenarios.

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

31 December 2018

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

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

5.2 Calculation of expected credit losses (continued)

1 January 2018

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

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

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

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

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

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

5.2 Calculation of expected credit losses (continued)

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

Expected lifetime of revolving facilities

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

Assessment of loss given default

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

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

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

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

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

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

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

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

Modelling adjustments

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

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

5.2 Calculation of expected credit losses (continued)

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

Portfolio segmentation

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

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

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

5.3 Tax

The Group operates in and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the consolidated income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets.

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

5.4 Stock of property - estimation of net realisable value

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

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

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

5.5 Provisions

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

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

5.6 Fair value of investments and derivatives

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

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

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

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

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

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

5.7 Retirement benefits

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

Further details on retirement benefits are disclosed in Note 15.

5.8 General insurance business

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

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

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

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

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

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

5.9 Life insurance business

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

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

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

5.9 Life insurance business (continued)

5.9.1 Value of in-force business

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

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

5.9.2 Insurance liabilities

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

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

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

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

Mortality and morbidity rates

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

Investment return and discount rate

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

Management expenses

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

Lapses

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

Further details on insurance liabilities are disclosed in Note 33.

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

5.10 Exercise of significant influence

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

5.11 Classification of properties

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

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

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

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

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

Further information on inputs used is disclosed in Note 23.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. The Group adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information for probabilities of default and loss rates is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

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

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

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

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

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

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

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

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

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

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

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

6. Transition disclosures

6.1 Transitional Consolidated Balance Sheet on adoption of IFRS 9

	31 December 2017 (IAS 39 presentation) €000	Reclassifications and remeasurements €000	1 January 2018 (revised for IFRS 9 adoption) €000
Assets			
Cash and balances with central banks	3,393,934	(5,872)	3,388,062
Loans and advances to banks	1,192,633	(20)	1,192,613
Derivative financial assets	18,027	-	18,027
Investments	830,483	(1,861)	828,622
Investments pledged as collateral	290,129	-	290,129
Loans and advances to customers	14,602,454	(318,211)	14,284,243
Life insurance business assets attributable to policyholders	429,890	-	429,890
Prepayments, accrued income and other assets	226,105	(576)	225,529
Stock of property	1,641,422	-	1,641,422
Investment properties	19,646	-	19,646
Property and equipment	279,814	-	279,814
Intangible assets	165,952	-	165,952
Investments in associates and joint venture	118,113	-	118,113
Deferred tax assets	383,498	-	383,498
Non-current assets held for sale	6,500	-	6,500
Total assets	23,598,600	(326,540)	23,272,060
Liabilities			
Deposits by banks	495,308	-	495,308
Funding from central banks	930,000	-	930,000
Repurchase agreements	257,322	-	257,322
Derivative financial liabilities	50,892	-	50,892
Customer deposits	17,849,919	-	17,849,919
Insurance liabilities	605,448	-	605,448
Accruals, deferred income and other liabilities	306,227	(18,920)	287,307
Pending litigation, claims, regulatory and other matters	138,375	-	138,375
Subordinated loan stock	302,288	-	302,288
Deferred tax liabilities	46,113	-	46,113
Total liabilities	20,981,892	(18,920)	20,962,972
Equity			
Share capital	44,620	-	44,620
Share premium	2,794,358	-	2,794,358
Revaluation and other reserves	273,708	(8,470)	265,238
Accumulated losses	(527,128)	(299,150)	(826,278)
Equity attributable to the owners of the Company	2,585,558	(307,620)	2,277,938
Non-controlling interests	31,150	-	31,150
Total equity	2,616,708	(307,620)	2,309,088
Total liabilities and equity	23,598,600	(326,540)	23,272,060

6. Transition disclosures (continued)

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

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

6.2 Classification and measurement of financial instruments

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

Financial assets	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		€000		€000
Cash and balances with central banks	Loans and receivables (amortised cost)	3,393,934	Amortised cost	3,388,062
Loans and advances to banks	Loans and receivables (amortised cost)	1,192,633	Amortised cost	1,192,613
Derivative financial assets	FVPL	18,027	FVPL (mandatory)	18,027
Investments (including investments pledged as collateral)	Available-for-sale	929,297	FVOCI	932,105
	Loans and receivables (amortised cost)	48,658	Amortised cost	46,815
	FVPL	142,657	FVPL	139,831
Loans and advances to customers	Loans and receivables (amortised cost)	14,602,454	Amortised cost	13,894,381
			FVPL (mandatory)	389,862
Life insurance business assets attributable to policyholders	FVPL (designated)	416,060	FVPL (designated)	416,060
Other financial assets (included in 'Prepayments, accrued income and other assets' in balance sheet)	Loans and receivables (amortised cost)	105,474	Amortised cost	98,743
			FVPL (mandatory)	6,425
Financial liabilities				
Other financial liabilities and provisions for financial guarantees and commitments	n/a	228,633	n/a	209,713

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

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

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

6. Transition disclosures (continued)

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

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

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

6. Transition disclosures (continued)

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

	Ref	IAS 39 carrying amount 31 December 2017 €000	Re- classifications €000	ECL Re- measurements €000	Other Re- measurements €000	IFRS 9 carrying amount 1 January 2018 €000
Financial assets (continued)						
Reclassification: From loans and receivables (amortised cost)	A		388,971			
Re-measurement: Fair value					891	
Carrying amount under IFRS 9						389,862
Life insurance business assets attributable to policyholders						
Carrying amount under IAS 39 and under IFRS 9 (FVPL designated)	G	416,060				416,060
Other assets (mandatory FVPL)						
Carrying amount under IAS 39		-				
Reclassification: From amortised cost			6,425			
Carrying amount under IFRS 9						6,425
Total financial assets measured at FVPL		576,744	392,570	-	891	970,205
Fair value through other comprehensive income (FVOCI) under IFRS 9						
Investments – FVOCI (debt instruments)						
Carrying amount under IAS 39		n/a				
Reclassification: From available for sale	E		901,234			
Reclassification: From FVPL	D		14,041			
Re-measurement: ECL allowance				(18)		
Carrying amount under IFRS 9						915,257
Investments – FVOCI (equity instruments)						
Carrying amount under IAS 39		n/a				
Reclassification: From available for sale	C		15,624			
Reclassification: From FVPL	C		1,224			
Carrying amount under IFRS 9						16,848
Total financial assets measured at FVOCI		-	932,123	(18)	-	932,105
Investments – Available-for-sale financial assets						
Carrying amount under IAS 39		929,297				
Reclassification: To FVPL – debt instruments (mandatory)	B		(12,115)			
Reclassification: To FVPL – equity instruments	C		(324)			
Reclassification: To FVOCI – equity instruments	C		(15,624)			
Reclassification: To FVOCI – debt instruments	E		(901,234)			
Carrying amount under IFRS 9						n/a
		929,297	(929,297)	-	-	-
Financial liabilities						
Other liabilities						
Carrying amount under IAS 39		228,633				
Re-measurement: ECL allowance				(18,920)		
Carrying amount under IFRS 9						209,713
		228,633	-	(18,920)	-	209,713

6. Transition disclosures (continued)

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

- A. Loans and advances to customers carried at amortised cost under IAS 39 of a carrying amount of €388,971 thousand as at 31 December 2017, failed to meet the SPPI criteria and, as a result, have been classified at FVPL on 1 January 2018 and re-measured then at fair value with an initial application impact of €891 thousand. The Group did not voluntarily designate any loans previously measured at amortised cost as financial assets at FVPL.
- B. The Group has classified certain debt and non-equity instruments of a carrying value of €12,115 thousand that were previously classified as available-for-sale under IAS 39 as investments at FVPL as these instruments failed to meet the SPPI criteria.
- C. The Group has made an irrevocable election to classify the majority of its equity investments of a carrying value of €15,624 thousand that were classified as available-for-sale under IAS 39 as equity instruments at FVOCI on transition to IFRS 9. The Group has also elected to classify at FVOCI under IFRS 9, equity investments which were classified at FVPL under IAS 39 of an amount of €1,224 thousand, as they were not held for trading on 1 January 2018. Equity investments of a carrying amount of €1,420 thousand that were held for trading e.g. acquired principally for the purpose of selling or repurchasing in the near term will continue to be measured at FVPL under IFRS 9.
- D. The Group holds debt instruments of €14,041 thousand which were classified at FVPL as they were held for trading under IAS 39. As of 1 January 2018, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, since these instruments pass the SPPI criteria, the Group classified these investments as debt instruments measured at FVOCI.
- E. Debt instruments that were classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9 since they meet the SPPI criteria and the Group concluded that apart from a small portion (refer to B above) these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets and have therefore been classified at FVOCI.
- F. There is no impact on deferred tax on adoption of IFRS 9.
- G. The Life insurance business assets attributable to policyholders are designated at FVPL because they eliminate inconsistent treatment that would otherwise arise from measuring such assets on a different basis to the liabilities such assets fund.

6. Transition disclosures (continued)

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

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

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

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

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

6. Transition disclosures (continued)

6.5. Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9 (continued)

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

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

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

7. Segmental analysis

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

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

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

7. Segmental analysis (continued)

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

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

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

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

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

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

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

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

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

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

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

7. Segmental analysis (continued)

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

7. Segmental analysis (continued)

Analysis by business line

Continuing operations

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	Total Cyprus	Overseas	Total continuing operations
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
2018													
Net interest income/(expense)	99,643	38,932	181,335	57,708	50,634	8,106	(16,741)	208	19,514	(11,602)	427,737	(8,684)	419,053
Net fee and commission income/(expense)	14,998	9,833	46,102	13,309	62,982	2,330	-	(6,134)	1,763	9,731	154,914	357	155,271
Net foreign exchange gains	892	649	3,427	274	7,515	3,250	-	-	17,353	3,192	36,552	1,136	37,688
Net gains/(losses) on financial instrument transactions and on disposal/dissolution of subsidiaries and associates	2,380	-	-	13,745	-	70	-	(469)	21,755	41,000	78,481	(31,811)	46,670
Insurance income net of claims and commissions	-	-	-	-	-	-	-	51,101	-	-	51,101	1,811	52,912
Net losses from revaluation and disposal of investment properties	-	-	-	-	-	-	(15,544)	35	-	3,875	(11,634)	(1,641)	(13,275)
Net gains on disposal of stock of property	-	-	-	-	-	-	31,043	-	-	62	31,105	762	31,867
Total other income	67	12	117	19	4	64	16,418	718	-	6,503	23,922	1,682	25,604
Staff costs	117,980	49,426	230,981	85,055	121,135	13,820	15,176	45,459	60,385	52,761	792,178	(36,388)	755,790
Other operating expenses (excluding advisory and other restructuring costs)	(7,902)	(5,641)	(69,949)	(23,857)	(15,501)	(3,761)	(2,033)	(9,709)	(1,581)	(75,821)	(215,755)	(985)	(216,740)
Special levy on deposits on credit institutions and contribution to Single Resolution Fund	(23,394)	(14,161)	(104,749)	(41,134)	(27,709)	(3,509)	(4,149)	(9,058)	(7,677)	67,975	(167,565)	(16,273)	(183,838)
Other operating expenses - advisory and other restructuring costs	-	-	-	-	-	-	-	-	-	(25,095)	(25,095)	-	(25,095)
Other operating expenses - advisory and other restructuring costs	(32)	(6)	(59)	(39,192)	(13)	(6)	(3,792)	-	-	(7,389)	(50,489)	(564)	(51,053)
Net gains on derecognition of financial assets measured at amortised cost	86,652	29,618	56,224	(19,128)	77,912	6,544	5,202	26,692	51,127	12,431	333,274	(54,210)	279,064
Credit (losses)/gains to cover credit risk on loans and advances to customers	7,701	2,305	9,835	6,913	901	26	-	-	90	-	27,771	54	27,825
Credit (losses)/gains of other financial instruments	(4,275)	436	(12,498)	(308,856)	(22,350)	(395)	-	-	-	2,896	(345,042)	15,959	(329,083)
Impairment of non-financial instruments	-	-	-	-	-	-	-	(330)	4,988	(2,139)	2,519	(4,129)	(1,610)
Share of profit from associates	-	-	-	-	-	-	(11,457)	-	-	(1,379)	(12,836)	(5,815)	(18,651)
Income tax	-	-	-	-	-	-	-	-	-	9,095	9,095	-	9,095
Loss before tax	90,078	32,359	53,561	(321,071)	56,463	6,175	(6,255)	26,362	56,205	20,904	14,781	(48,141)	(33,360)
Income tax	(11,260)	(4,045)	(6,695)	40,134	(7,058)	(772)	782	(3,295)	(7,026)	(80,578)	(79,813)	3,897	(75,916)
Loss after tax	78,818	28,314	46,866	(280,937)	49,405	5,403	(5,473)	23,067	49,179	(59,674)	(65,032)	(44,244)	(109,276)
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	(1,488)	(1,488)	-	(1,488)
Loss after tax attributable to the owners of the Company	78,818	28,314	46,866	(280,937)	49,405	5,403	(5,473)	23,067	49,179	(61,162)	(66,520)	(44,244)	(110,764)

7. Segmental analysis (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus	Overseas	Total continuing operations
2017	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income/(expense)	100,471	50,175	213,909	130,780	66,174	9,728	(17,944)	428	(6,651)	547,070	(3,161)	543,909
Net fee and commission income/(expense)	13,740	9,875	49,589	13,085	66,746	2,526	-	(4,929)	21,854	172,486	1,055	173,541
Net foreign exchange gains/(losses)	705	619	4,525	334	7,417	3,301	-	-	29,030	45,931	(869)	45,062
Net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	-	-	-	-	-	-	-	45	2,975	3,020	(12)	3,008
Insurance income net of claims and commissions	-	-	-	-	-	-	-	48,760	-	48,760	1,641	50,401
Net losses from revaluation and disposal of investment properties	-	-	-	-	-	-	(1,625)	-	(862)	(2,487)	(1,574)	(4,061)
Net gains/(losses) on disposal of stock of property	-	-	-	-	-	-	31,232	-	280	31,512	(1,065)	30,447
Other income	8	10	429	26	(5)	33	3,762	430	12,660	17,353	1,689	19,042
	114,924	60,679	268,452	144,225	140,332	15,588	15,425	44,734	59,286	863,645	(2,296)	861,349
Staff costs (excluding voluntary exit plans and other termination benefits)	(7,235)	(5,345)	(66,509)	(22,198)	(14,151)	(3,044)	(1,742)	(9,090)	(73,806)	(203,120)	(2,224)	(205,344)
Staff costs-voluntary exit plans and other termination benefits	-	-	-	-	-	-	-	(206)	(338)	(544)	-	(544)
Special levy on deposits on credit institutions and contribution to Single Resolution Fund	-	-	-	-	-	-	-	-	(22,846)	(22,846)	-	(22,846)
Other operating expenses (excluding advisory and other restructuring costs)	(4,408)	(5,744)	(45,095)	(12,173)	(11,200)	(1,277)	(5,953)	(8,776)	(104,450)	(199,076)	(47,442)	(246,518)
Other operating expenses - advisory and other restructuring costs	-	-	-	(16,903)	-	(2)	(6,294)	-	(5,068)	(28,267)	(533)	(28,800)
	103,281	49,590	156,848	92,951	114,981	11,265	1,436	26,662	(147,222)	409,792	(52,495)	357,297
Net gain on derecognition of financial assets measured at amortised cost	15,825	4,428	13,323	136,268	935	39	-	-	2,595	173,413	30	173,443
Credit (losses)/gains to cover credit risk on loans and advances to customers	(20,940)	(13,512)	(48,032)	(841,480)	(10,666)	(486)	-	-	448	(934,668)	(18,830)	(953,498)
Credit (losses)/gains of other financial instruments	-	-	-	-	-	-	-	-	(11,956)	(11,956)	5,497	(6,459)
Impairment of non-financial instruments	-	-	-	-	-	-	(21,588)	(62)	(617)	(22,267)	(36,705)	(58,972)
Share of profit from associates	-	-	-	-	-	-	-	-	8,957	8,957	-	8,957
Profit/(loss) before tax	98,166	40,506	122,139	(612,261)	105,250	10,818	(20,152)	26,600	(147,795)	(376,729)	(102,503)	(479,232)
Income tax	(12,271)	(5,063)	(15,267)	76,533	(13,156)	(1,352)	2,519	(1,400)	(103,059)	(72,516)	(3,057)	(75,573)
Profit/(loss) after tax	85,895	35,443	106,872	(535,728)	92,094	9,466	(17,633)	25,200	(250,854)	(449,245)	(105,560)	(554,805)
Non-controlling interests-loss	-	-	-	-	-	-	-	-	2,473	2,473	-	2,473
Profit/(loss) after tax attributable to the owners of the Company	85,895	35,443	106,872	(535,728)	92,094	9,466	(17,633)	25,200	(248,381)	(446,772)	(105,560)	(552,332)

7. Segmental analysis (continued)

Discontinued operations

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

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

7. Segmental analysis (continued)

Analysis of total revenue

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

Continuing operations

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	Total Cyprus	Overseas	Total continuing operations
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
2018													
Total revenue from third parties	138,267	53,669	116,012	233,260	68,574	4,323	31,917	50,561	39,760	47,233	783,576	(27,786)	755,790
Inter-segment revenue/(expense)	(20,287)	(4,243)	114,969	(148,205)	52,561	9,497	(16,741)	(5,102)	20,625	(3,074)	-	-	-
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	-	8,602	8,602	(8,602)	-
Total revenue	117,980	49,426	230,981	85,055	121,135	13,820	15,176	45,459	60,385	52,761	792,178	(36,388)	755,790

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus	Overseas	Total continuing operations
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
2017												
Total revenue from third parties	124,291	64,737	131,630	315,161	74,718	23	33,369	48,549	62,875	855,353	5,996	861,349
Inter-segment revenue/(expense)	(9,367)	(4,058)	136,822	(170,936)	65,614	15,565	(17,944)	(3,815)	(11,881)	-	-	-
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	8,292	8,292	(8,292)	-
Total revenue	114,924	60,679	268,452	144,225	140,332	15,588	15,425	44,734	59,286	863,645	(2,296)	861,349

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

7. Segmental analysis (continued)

Analysis of assets and liabilities

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	Total Cyprus	Overseas	Total
2018	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Assets													
Assets	3,524,412	1,150,640	3,699,397	2,229,146	178,627	98,851	1,658,982	816,336	6,396,620	2,581,386	22,334,397	254,988	22,589,385
Inter-segment assets	-	-	-	-	-	-	-	(39,642)	-	(59,133)	(98,775)	-	(98,775)
	3,524,412	1,150,640	3,699,397	2,229,146	178,627	98,851	1,658,982	776,694	6,396,620	2,522,253	22,235,622	254,988	22,490,610
Assets between Cyprus and overseas operations													(415,339)
Total assets													22,075,271

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus	Overseas	Total	
2017	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	
Assets													
Assets	3,142,341	1,183,151	3,932,956	4,380,174	235,184	45,438	1,417,420	831,698	6,589,510	21,757,872	2,553,519	24,311,391	
Inter-segment assets	-	-	-	-	-	-	-	(45,391)	-	(45,391)	-	(45,391)	
	3,142,341	1,183,151	3,932,956	4,380,174	235,184	45,438	1,417,420	786,307	6,589,510	21,712,481	2,553,519	24,266,000	
Assets between Cyprus and overseas operations													(667,400)
Total assets													23,598,600

7. Segmental analysis (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Treasury	Other	Total Cyprus	Overseas	Total
2018	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Liabilities												
Liabilities	1,750,517	800,671	10,032,047	121,744	3,707,713	430,866	632,308	1,877,549	452,708	19,806,123	417,159	20,223,282
Inter-segment liabilities	-	-	-	-	-	-	-	(98,775)	-	(98,775)	-	(98,775)
	1,750,517	800,671	10,032,047	121,744	3,707,713	430,866	632,308	1,778,774	452,708	19,707,348	417,159	20,124,507
Liabilities between Cyprus and overseas operations												(416,564)
Total liabilities												19,707,943

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus	Overseas	Total	
2017	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	
Liabilities												
Liabilities	1,529,521	665,940	8,670,625	192,442	4,163,384	760,993	641,922	2,355,730	18,980,557	2,716,667	21,697,224	
Inter-segment liabilities	-	-	-	-	-	-	-	(45,391)	(45,391)	-	(45,391)	
	1,529,521	665,940	8,670,625	192,442	4,163,384	760,993	641,922	2,310,339	18,935,166	2,716,667	21,651,833	
Liabilities between Cyprus and overseas operations												(669,941)
Total liabilities												20,981,892

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

8. Interest income and income similar to interest income

Interest income

	2018	2017 (represented)
	€000	€000
Financial assets at amortised cost:		
- Loans and advances to customers	526,468	689,578
- Loans and advances to banks and central banks	5,179	11,101
- Debt securities	5,445	-
Debt securities at FVOCI	19,973	-
Investments available-for-sale	-	19,883
Investments classified as loans and receivables	-	2,706
	557,065	723,268

Income similar to interest income

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

9. Interest expense and expense similar to interest expense

Interest expense

	2018	2017 (represented)
	€000	€000
Financial liabilities at amortised cost:		
Customer deposits	93,457	125,060
Funding from central banks and deposits by banks	2,902	2,648
Subordinated loan stock	23,325	22,176
Repurchase agreements	10,198	10,207
Negative interest on loans and advances to banks and central banks	14,142	7,132
	144,024	167,223

Expense similar to interest expense

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

10. Fee and commission income and expense

Fee and commission income

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

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

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

Fee and commission expense

	2018	2017 (represented)
	€000	€000
Banking commissions	11,999	9,860
Fee in relation to AT1 issue (Note 36)	11,215	-
Mutual funds and asset management fees	283	244
Brokerage commissions	139	107
	23,636	10,211

11. Net foreign exchange gains

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

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

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

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

13. Insurance income net of claims and commissions

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

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

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

	2018		2017	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Claims and commissions				
Gross payments to policyholders	(47,030)	(34,516)	(54,515)	(27,017)
Reinsurers' share of payments to policyholders	5,158	14,735	7,837	13,643
Gross change in insurance contract liabilities	15,221	935	(16,812)	(3,177)
Reinsurers' share of gross change in insurance contract liabilities	(7)	(241)	(771)	(1,476)
Commissions paid to agents and other direct selling costs	(10,746)	(5,316)	(9,849)	(4,509)
Changes in equalisation reserve	-	20	-	(1)
	(37,404)	(24,383)	(74,110)	(22,537)

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

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

14. Other income

	2018	2017 (represented)
	€000	€000
Dividend income	547	683
Profit/(loss) on sale and write-off of property and equipment and intangible assets	99	(208)
Rental income from investment properties	10,883	2,219
Rental income from stock of property	2,625	7,981
Profit from hotel and golf activities	5,727	3,581
Other income	5,723	4,786
	25,604	19,042

Dividend income relates to Cyprus operations.

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

15. Staff costs

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

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

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

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

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

15. Staff costs (continued)

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

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

Retirement benefit plan costs

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

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

Cyprus

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

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

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

Greece

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

15. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom

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

Other countries

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

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

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

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

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

15. Staff costs (continued)

Retirement benefit plan costs (continued)

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

15. Staff costs (continued)

Retirement benefit plan costs (continued)

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

15. Staff costs (continued)

Retirement benefit plan costs (continued)

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

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

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

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

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

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

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

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

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

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations

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

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

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 19% of the defined benefit obligations, the Group adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Group's plan in the UK which comprises 81% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

15. Staff costs (continued)

Retirement benefit plan costs (continued)

The impact of significant assumptions' fluctuations on the defined benefit obligation as at 31 December 2018 and 2017 is presented below:

Variable	2018		2017	
	Change +0.5%	Change -0.5%	Change +0.5%	Change -0.5%
Discount rate	-8.2%	8.9%	-11.4%	12.3%
Inflation growth rate	4.7%	-4.6%	9.6%	-8.9%
Salary growth rate	1.2%	-1.1%	1.1%	-1.0%
Pension growth rate	0.1%	-0.1%	0.1%	-0.1%
	Plus 1 year	Minus 1 year	Plus 1 year	Minus 1 year
Life expectancy	-4.3%	4.3%	-1.5%	1.9%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the consolidated balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

16. Other operating expenses

	2018	2017
	€000	€000
Repairs and maintenance of property and equipment	23,513	19,383
Other property-related costs	13,802	17,241
Operating lease rentals for property and equipment	9,833	9,407
Consultancy and other professional services fees	18,542	17,203
Insurance	7,043	7,906
Advertising and marketing	15,355	18,270
Depreciation of property and equipment (Note 26)	11,112	10,857
Amortisation of intangible assets (Note 27)	13,217	8,743
Communication expenses	8,832	8,337
Provisions and settlements of litigations, claims and provisions for regulatory matters (Note 40.3)	26,370	92,939
Printing and stationery	2,204	2,677
Local cash transfer expenses	2,991	3,056
Other operating expenses	31,024	30,499
	183,838	246,518
Advisory and other restructuring costs	51,053	28,800
	234,891	275,318

Advisory and other restructuring costs comprise mainly fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate, (ii) the listing on the London Stock Exchange (relevant to 2017) and (iii) disposal of operations and non-core assets.

Within the total other operating expenses an amount of €1,319 thousand (2017: nil) relates to investment property that generated rental income.

16. Other operating expenses (continued)

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge.

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Group, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2018	2017
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	2,280	2,570
Other audit-related services	416	407
Tax services	474	462
Services related to the listing on the London Stock Exchange	-	114
Other services	647	499
	<u>3,817</u>	<u>4,052</u>
Continuing operations	3,780	3,628
Discontinued operations	37	424
	<u>3,817</u>	<u>4,052</u>

17. Credit losses of financial instruments and impairment of non-financial instruments

	2018	2017
	€000	(represented) €000
<i>Credit losses to cover credit risk on loans and advances to customers</i>		
Impairment loss net of reversals on loans and advances to customers (Note 46.9)	512,956	938,511
Recoveries of loans and advances to customers previously written off	(140,735)	-
Changes in expected cash flows	(37,756)	-
Financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	(5,382)	14,987
	329,083	953,498
<i>Credit losses/(gains) of other financial instruments</i>		
Amortised cost debt securities	(1,011)	-
FVOCI debt securities	(274)	-
Available-for-sale equity securities	-	63
Loans and advances to banks	711	7,775
Loans and advances to central banks	(5,872)	-
Other financial assets (Note 29)	8,056	(1,379)
	1,610	6,459
<i>Impairment of non-financial instruments</i>		
Stock of property (Note 28)	17,272	50,502
Property held for own use (Note 26)	-	8,470
Equipment (Note 26)	11	-
Other non-financial assets	1,368	-
	18,651	58,972

18. Income tax

	2018	2017
	€000	(represented) €000
<i>Current tax:</i>		
- Cyprus	3,488	3,174
- overseas	399	769
Cyprus special defence contribution	347	175
Deferred tax	81,436	67,108
Prior years' tax adjustments	(7,076)	2,917
Other tax (credits)/charges	(2,678)	1,430
	75,916	75,573

The Group's share of income tax charge from associates for 2018 amounts to €1,170 thousand (2017: €1,129 thousand).

The reconciliation between the income tax expense and the loss before tax as estimated using the current income tax rates is set out below:

18. Income tax (continued)

	2018	2017
	€000	€000
Loss before tax from continuing operations	(33,360)	(479,232)
Income tax at the normal tax rates in Cyprus	(3,822)	(59,529)
Income tax effect of:		
- expenses not deductible for income tax purposes	8,503	22,054
- income not subject to income tax	(15,343)	(10,825)
- differences between overseas income tax rates and Cyprus income tax rates	8,207	9,105
- reversal of previously recognised deferred tax	81,720	66,858
- losses on which deferred tax was not recognised	6,405	43,563
	85,670	71,226
Prior years' tax adjustments	(7,076)	2,917
Other tax (credit)/charges	(2,678)	1,430
	75,916	75,573

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2017: 12.5%).

For life insurance business there is a minimum income tax charge of 1.5% on gross premiums. Special defence contribution is payable on rental income at a rate of 3% (2017: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2017: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2018 were: Greece 29% (2017: 29%), Romania 16% (2017: 16%), Russia 20% (2017: 20%), UK 19% (2017: 20% until 31 March 2017 and 19% thereafter).

The Group is subject to income taxes in the various jurisdictions it operates and the calculation of the Group's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters, which are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

18. Income tax (continued)

The accumulated income tax losses are presented in the table below:

	Total income tax losses	Income tax losses for which a deferred tax asset was recognised	Income tax losses for which no deferred tax asset was recognised
2018	€000	€000	€000
Expiring within 5 years	950,084	-	950,084
Expiring by the end of 2028	7,378,801	2,414,176	4,964,625
	8,328,885	2,414,176	5,914,709
2017			
Expiring within 5 years	2,761,640	-	2,761,640
Expiring by the end of 2028	7,378,801	3,067,936	4,310,865
	10,140,441	3,067,936	7,072,505

The deferred tax asset relates to the Laiki Bank income tax losses transferred to BOC PCL as a result of the acquisition of certain operations on 29 March 2013. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the BOC PCL's acquisition of certain operations of Laiki Bank, these tax losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of BOC PCL by 2028 at the applicable income tax rate, currently at 12.5%.

Recognition of deferred tax assets on unutilised income tax losses is supported by management's business forecasts, taking into account available information and making various assumptions on future growth rates of customer loans, deposits, funding evolution, loan impairment and pricing, and considering the recoverability of the deferred tax assets within their expiry period.

The assessment of the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Group performed its assessment for the recoverability of its deferred tax asset as at 31 December 2018 taking into account a range of both positive and negative evidence, including the Group's actual and historic performance, the key objectives of the Group's strategy as well as the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business and capital plan, approved by the Board, up to the end of 2022 and projections which have been extrapolated beyond 2022 until the tax losses expiry date end of 2028.

The positive evidence, among others, includes:

- BOC PCL's strong branch network in Cyprus.
- The continuous improvement of the Cyprus economy and sovereign rating.

The negative evidence, among others, includes:

- The absolute level of the DTA compared to the Group's equity (c. 13%) and the level of future profitability required for its utilisation.
- The level of forecasting over the remaining 10 years of the tax losses expiry date.
- Impact of Brexit and instability in the Eurozone.
- Legislative changes and the likelihood of future developments and their impact on profitability.

18. Income tax (continued)

The financial projections have taken into account the key objectives of the Group's strategy which are set out below:

- Materially reduce the level of NPEs loans
- Further improve the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

The key assumptions and factors taken into consideration, amongst others, include the following:

- Reduction of NPEs.
- Increase in new loan originations and loan repayments.
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost, management of liquidity surplus and evolution of interest rate curves/forecasts.
- Diversified income streams mainly due to increase in fee and commission income which is an area that the Group is intensifying its efforts.
- Reduction in the level of operating expenses mainly due to the implementation of digital transformation program underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time.
- Decrease in the cost of risk, supported by the asset quality improvement and the recovery of the economy.

The above assumptions are based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts. There were no changes in the key assumptions during the year 2018, compared to those of 2017.

The internal key variables include, amongst others, the Bank's strategy, plans and planned actions for (i) expansion of certain business lines and other income streams, (ii) capital and liquidity management, (iii) cost management, (iv) loan restructuring activity and NPE portfolio sales, (v) cost of funding and (vi) pricing of deposits and loans.

External key variables mainly include the interest rate evolution which impacts the local and international business activity of the Group, the Eurozone and Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework.

The recoverability assessment performed at 31 December 2018 resulted in an impairment of €79,000 thousand. For the remaining amount of the deferred tax asset of €301,772 thousand as at 31 December 2018, management has concluded that it is probable that there will be sufficient taxable profits in the future to recover the deferred tax asset by the end of 2028.

The Group's financial and capital plan used for the purposes of the 2018 recoverability assessment has been conservatively prepared and various assumptions and variables used are already stressed. The use of alternative assumptions/sensitivity analysis representing reasonably possible alternative outcomes, could impact the recognition of the deferred tax asset of the Group and the recovery period.

The Group has performed sensitivity analysis on the following key assumptions of DTA recoverability assessment for years 2019-2028. The table below shows the impact on DTA carrying value:

18. Income tax (continued)

	Increase/(decrease) of DTA carrying value	
	2018	2017
Key assumption	€million	€million
Reduction of yield on customer loans and advances by 10 bps	(14)	-
Increase in cost of customer deposits by 10 bps	(18)	-
Increase of ECL cost by 10 bps on gross loans	(11)	-
Increase of yield on customer loans and advances by 10 bps	13	21
Lower new loan origination by 10% of the forecasted growth	(12)	-
Slower pace of NPE decrease by 5% of the forecasted drop	(28)	-
Higher net commission income by 5% on average than the forecasted growth	10	15
Higher average Cost/Income ratio by 100 bps than the forecasted ratio	(8)	-

For year end 2018, the sensitivity results that indicate a decrease in the carrying value of the DTA would not result in any increase in the recoverable period as the loss expiry date is 31 December 2028, which is the considered recoverable period. At the same time, the sensitivity results that indicate an increase in the carrying value of the DTA are not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

The recoverability assessment for year end 2017 indicated the recoverable period for deferred tax asset to be 31 December 2027, a year earlier than the expiry date of losses. As a result, the sensitivity results that indicated a decrease in the carrying value of the DTA did not have a material impact on its carrying value considering also that the recoverability assessment has shown sufficient headroom over and above the negative sensitivity impacts. The sensitivity results that indicated an increase in the carrying value of the DTA were not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of deferred tax assets into deferred tax credits. The law amendment covers the income tax losses transferred from Laiki Bank to BOC PCL in March 2013. The law amendment, which entered into force on 15 March 2019, applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'. The legislation enacted on 1 March 2019 has not been taken into account for the purpose of the year end recoverability assessment. Further information is disclosed in Note 56.

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Deferred tax

The net deferred tax assets arises from:

	2018	2017
	€000	€000
Difference between capital allowances and depreciation	(8,728)	(7,938)
Property revaluation	(16,063)	(17,545)
Investment revaluation and stock of property	(2,847)	(3,807)
Unutilised income tax losses carried forward	301,772	383,492
Value of in-force life insurance business	(14,429)	(15,093)
Other temporary differences	(2,209)	(1,724)
Net deferred tax assets	257,496	337,385

18. Income tax (continued)

Deferred tax (continued)

	2018	2017
	€000	€000
Deferred tax assets	301,778	383,498
Deferred tax liabilities	(44,282)	(46,113)
Net deferred tax assets	<u>257,496</u>	<u>337,385</u>

The deferred tax assets relate to Cyprus operations.

The movement of the net deferred tax assets is set out below:

	2018	2017
	€000	€000
1 January	337,385	405,066
Deferred tax recognised in the consolidated income statement - continuing operations	(81,436)	(67,108)
Deferred tax recognised in the consolidated income statement - discontinued operations	-	(50)
Deferred tax recognised in the consolidated statement of comprehensive income	579	(522)
Disposal of subsidiary	967	-
Foreign exchange adjustments	1	(1)
31 December	<u>257,496</u>	<u>337,385</u>

The Group offsets income tax assets and liabilities if and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities.

The analysis of the net deferred tax expense recognised in the consolidated income statement is set out below:

	2018	2017
	€000	€000
Difference between capital allowances and depreciation	855	100
Reversal of previously recognised deferred tax assets	81,720	66,858
Value of in-force life insurance business	(664)	343
Investment revaluation and stock of property	(960)	-
Other temporary differences	485	(193)
	<u>81,436</u>	<u>67,108</u>

The analysis of the net deferred tax recognised in other comprehensive income in the consolidated statement of comprehensive income is set out below:

	2018	2017
	€000	€000
Timing differences on property revaluation - income/(expense)	<u>579</u>	<u>(522)</u>

19. Earnings per share

Basic and diluted losses per share attributable to the owners of the Company	2018	2017
Loss for the year attributable to the owners of the Company (€ thousand)	(103,521)	(551,852)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	446,058	446,057
Basic and diluted losses per share (€ cent)	(23.2)	(123.7)

Basic and diluted losses per share attributable to the owners of the Company-continuing operations	2018	2017
Loss for the year attributable to the owners of the Company-continuing operations (€ thousand)	(110,764)	(552,332)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	446,058	446,057
Basic and diluted losses per share-continuing operations (€ cent)	(24.8)	(123.8)

Basic and diluted earnings per share attributable to the owners of the Company-discontinued operations		
Profit for the year attributable to the owners of the Company-discontinued operations (€ thousand)	7,243	480
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	446,058	446,057
Basic and diluted earnings per share-discontinued operations (€ cent)	1.6	0.1

20. Cash, balances with central banks and loans and advances to banks

	2018	2017
	€000	€000
Cash	153,723	143,905
Balances with central banks	4,456,768	3,250,029
	4,610,491	3,393,934
Loans and advances to banks	473,263	1,192,633
Allowance for expected credit losses	(731)	-
	472,532	1,192,633

An analysis of the movement of the gross carrying amount and ECL of balances with central banks is presented in the table below:

	Gross carrying amount	ECL
	Stage 1	Stage 1
2018	€000	€000
1 January	3,250,029	(5,872)
Net increase	1,483,635	-
Changes to models and inputs used for ECL calculation	-	5,872
Disposal of subsidiary	(277,811)	-
Foreign exchange adjustments	915	-
31 December	4,456,768	-

20. Cash, balances with central banks and loans and advances to banks (continued)

An analysis of the movement of the gross carrying amount of loans and advances to banks is presented in the table below:

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
1 January	1,159,629	-	58,002	1,217,631
Net decrease	(642,995)	-	(58,002)	(700,997)
Disposal of subsidiary	(42,974)	-	-	(42,974)
Foreign exchange adjustments	(397)	-	-	(397)
31 December	473,263	-	-	473,263

An analysis of the movement of the change on the ECL of the above financial assets is presented in the table below:

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
1 January	-	-	(24,998)	(24,998)
Impact of adopting IFRS 9 at 1 January 2018	(20)	-	-	(20)
Restated balance at 1 January	(20)	-	(24,998)	(25,018)
Changes to models and inputs used for ECL calculation	(711)	-	-	(711)
Decrease	-	-	24,998	24,998
31 December	(731)	-	-	(731)

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2018 which amount to €162,675 thousand (2017: €153,733 thousand) (Note 43).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 46.13.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

21. Investments

Investments	2018	2017
	€000	€000
Investments mandatorily measured at FVPL	152,473	103,165
Other investments at FVPL	-	39,492
Investments at FVOCI	231,548	-
Investments at amortised cost	393,083	-
Investments available-for-sale	-	639,168
Investments classified as loans and receivables	-	48,658
	777,104	830,483

21. Investments (continued)

The amounts pledged as collateral under repurchase agreements with banks are shown below:

Investments pledged as collateral	2018 €000	2017 €000
Investments at FVOCI	600,291	-
Investments at amortised cost	137,296	-
Investments available-for-sale	-	290,129
	<u>737,587</u>	<u>290,129</u>

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

The maximum exposure to credit risk for debt securities is disclosed Note 46.1 and the debt securities' price risk sensitivity analysis is disclosed in Note 47.

There were no reclassifications of investments during the year.

The credit rating analysis of investments is disclosed in Note 46.13.

21. Investments (continued)

Investments at fair value through profit or loss

	Investments mandatorily measured at FVPL		Other investments at FVPL		Total	
	2018 €000	2017 €000	2018 €000	2017 €000	2018 €000	2017 €000
Debt securities	14,616	14,577	-	-	14,616	14,577
Equity securities	3,775	2,644	-	4,541	3,775	7,185
Mutual funds	134,082	85,944	-	34,951	134,082	120,895
	152,473	103,165	-	39,492	152,473	142,657

Debt securities						
Cyprus government	547	14,577	-	-	547	14,577
Banks and other corporations	14,069	-	-	-	14,069	-
	14,616	14,577	-	-	14,616	14,577
Listed on other stock exchanges	547	14,577	-	-	547	14,577
Unlisted	14,069	-	-	-	14,069	-
	14,616	14,577	-	-	14,616	14,577

Equity securities						
Listed on the Cyprus Stock Exchange	2,294	1,965	-	3,945	2,294	5,910
Listed on other stock exchanges	972	679	-	-	972	679
Unlisted	509	-	-	596	509	596
	3,775	2,644	-	4,541	3,775	7,185

Mutual funds						
Listed on other stock exchanges	94,679	85,944	-	-	94,679	85,944
Unlisted	39,403	-	-	34,951	39,403	34,951
	134,082	85,944	-	34,951	134,082	120,895

The investments classified as mandatorily measured at FVPL are classified as such since they failed to meet the SPPI criteria.

The majority of the unlisted mutual funds relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 1 hierarchy in Note 23.

Investments at FVOCI

	2018 €000	2017 €000
Debt securities	819,748	-
Equity securities (including preference shares)	11,534	-
Mutual funds	557	-
	831,839	-

21. Investments (continued)

	2018	2017
	€000	€000
Debt securities		
Cyprus government	322,021	-
Other governments	299,876	-
Banks and other corporations	197,851	-
	819,748	-
Listed on the Cyprus Stock Exchange	5,977	-
Listed on other stock exchanges	813,771	-
	819,748	-
<i>Geographic dispersion by country of issuer</i>		
Cyprus	322,021	-
France	282,691	-
Other European countries	83,085	-
Supranational organisations	20,049	-
Other countries	111,902	-
	819,748	-
Equity securities		
Listed on the Cyprus Stock Exchange	1,498	-
Listed on other stock exchanges	167	-
Unlisted	9,869	-
	11,534	-

An analysis of the movement of debt instruments before ECL is presented in the table below:

2018	Stage 1
	€000
1 January	916,129
New assets acquired in the year	186,605
Assets derecognised and redeemed in the year	(251,498)
Interest accrued	(4,428)
Foreign exchange adjustments	7,765
Change in fair value	(34,227)
31 December	820,346

An analysis of changes on the ECL is presented in the table below:

2018	Stage 1
	€000
1 January	(872)
Changes to models and inputs used for ECL calculation	274
31 December	(598)

21. Investments (continued)

At 1 January 2018 the Group irrevocably made the election to classify its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value included in the table above amounts to €11,534 thousand at 31 December 2018 and is equal to their fair value. The dividend income amounts to €197 thousand for year 2018 and has been recognised in the income statement.

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

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €13,764 thousand at 31 December 2018. The fair value loss that would have been recognised in the consolidated income statement if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €186 thousand. The effective interest rate of these instruments is 1.6%-5.0% per annum and the respective interest income during 2018 amounts to €398 thousand.

Investments at amortised cost

	2018	2017
	€000	€000
Debt securities	530,379	-
Cyprus government	119,189	-
Other governments	123,799	-
Banks and other corporations	103,457	-
European Financial Stability Facility and European Investment Fund	183,934	-
	530,379	-
Listed on the Cyprus Stock Exchange	48,292	-
Listed on other stock exchanges	482,087	-
	530,379	-
<i>Geographic dispersion by country of issuer</i>		
Cyprus	119,189	-
Germany	64,184	-
Other European countries	69,814	-
Other countries	80,190	-
UK	13,068	-
Supranational organisations	183,934	-
	530,379	-

An analysis of changes in the gross carrying amount (before ECL) is presented in the table below:

	Stage 1	Stage 2	Total
	€000	€000	€000
2018			
1 January	-	48,658	48,658
New assets acquired in the year	522,398	-	522,398
Assets derecognised and redeemed in the year	(43,000)	-	(43,000)
Fair value due to hedging relationship	58	530	588
Accrued interest	2,773	(206)	2,567
31 December	482,229	48,982	531,211

21. Investments (continued)

An analysis of changes on the ECL is presented in the table below:

	Stage 1	Stage 2	Total
2018	€000	€000	€000
1 January	-	(1,843)	(1,843)
Change to models and inputs used for ECL calculation	(142)	1,153	1,011
31 December	(142)	(690)	(832)

Investments available-for-sale

	2018	2017
	€000	€000
Debt securities	-	901,734
Equity securities (including preference shares)	-	27,176
Mutual funds	-	387
	-	929,297

Debt securities		
Cyprus government	-	451,071
French government	-	281,979
Other governments	-	22,462
Banks and other corporations	-	146,222
	-	901,734
Listed on the Cyprus Stock Exchange	-	451,071
Listed on other stock exchanges	-	450,163
Unlisted	-	500
	-	901,734
<i>Geographic dispersion by country of issuer</i>		
Cyprus	-	451,571
France	-	281,979
Other European Union countries	-	75,573
European Financial Stability Facility and European Investment Fund	-	11,443
Supranational organisations	-	9,058
Other countries	-	72,110
	-	901,734

Equity securities		
Listed on the Cyprus Stock Exchange	-	5,750
Listed on other stock exchanges	-	546
Unlisted	-	20,880
	-	27,176

At 31 December 2017 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Available-for-sale mutual funds were mainly unlisted and issued in other countries.

21. Investments (continued)

Investment classified as Loans and receivables

At 31 December 2017 investments classified as loans and receivables amounted to €48,658 thousand. They were issued by the Cyprus government and they were listed on the CSE.

22. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2018			2017		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	17,114	240	192	33,259	99	114
Currency swaps	1,219,749	3,405	6,342	1,419,915	1,103	14,082
Interest rate swaps	57,652	471	422	69,022	216	873
Currency options	12,704	8	382	396	18	402
Interest rate caps/floors	1,650,000	462	-	-	-	-
	2,957,219	4,586	7,338	1,522,592	1,436	15,471
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	1,016,083	20,137	29,029	1,171,424	16,315	35,420
Net investments - forward exchange rate contracts and currency swaps	74,973	31	2,616	61,012	276	1
	1,091,056	20,168	31,645	1,232,436	16,591	35,421
Total	4,048,275	24,754	38,983	2,755,028	18,027	50,892

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a small portion of the derivatives' notional amount (positive market value of the derivative contract) compared to the total notional amount of the derivative contracts. In order to manage credit risk, the Group sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

22. Derivative financial instruments (continued)

Interest rate risk is explained in Note 47. The interest rate risk is managed through the use of plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Group converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Group converts floating rate assets/liabilities to fixed.

Currency risk is explained in Note 47. In order to eliminate the risk, the Group hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either buy or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

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

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates, exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

22. Derivative financial instruments (continued)

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

Fair value hedges

The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate debt securities measured at FVOCI and fixed rate customer loans and deposits.

Hedges of net investments

The Group's consolidated balance sheet is affected by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches and other foreign operations. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches, as well as overseas associates and joint ventures and forward exchange rate contracts.

As at 31 December 2018, deposits, and forward and swap exchange rate contracts amounting to €9,843 thousand and €74,973 thousand respectively (2017: €142,273 thousand and €61,012 thousand respectively) have been designated as hedging instruments and have given rise to a loss of €9,760 thousand (2017: loss of €1,166 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

2018	Gains/(losses) attributable to hedged risk		Hedged in-effectiveness
	Hedged items	Hedging instrument	
Derivatives qualifying for hedge accounting	€000	€000	€000
Fair value hedges			
-interest rate swaps	11,103	(10,028)	(1,075)
Net investments			
-forward exchange rate contracts	9,775	(9,775)	-
Total	20,878	(19,803)	(1,075)

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

2018	Carrying amount of hedged items		Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	€000	€000	€000	€000
Fair value hedges - interest rate swaps				
-debt securities	770,768	-	11,657	-
-subordinated loan stock	-	270,930	-	(555)
Net investments - forward and swap exchange rate contracts				
Net assets	74,973	-	-	2,585
Total	845,741	270,930	11,657	2,030

22. Derivative financial instruments (continued)

For assets hedged using fair value hedges the fixed rate is 3.08% and the floating rate is 1.65%. For liabilities hedged using fair value hedges, the fixed rate is 9.25% and the floating rate 8.86%.

The maturity of the Group's contract amount of the derivatives is presented in the table below:

2018	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total contract amount
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	6,405	10,263	446	-	-	17,114
Currency swaps	1,179,201	40,102	446	-	-	1,219,749
Interest rate swaps	-	-	-	57,652	-	57,652
Currency options	12,704	-	-	-	-	12,704
Interest rate caps/floors	-	-	-	1,650,000	-	1,650,000
	1,198,310	50,365	892	1,707,652	-	2,957,219
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	-	-	77,619	729,702	208,762	1,016,083
Net investments - forward and swap exchange rate contracts	74,973	-	-	-	-	74,973
	74,973	-	77,619	729,702	208,762	1,091,056
Total	1,273,283	50,365	78,511	2,437,354	208,762	4,048,275

23. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	2018		2017	
	Carrying value €000	Fair value €000	Carrying value €000	Fair value €000
Financial assets				
Cash and balances with central banks	4,610,491	4,610,491	3,393,934	3,393,934
Loans and advances to banks	472,532	467,026	1,192,633	1,191,617
Investments mandatorily measured at FVPL	152,473	152,473	103,165	103,165
Other investments measured at FVPL	-	-	39,492	39,492
Investments at FVOCI	831,839	831,839	-	-
Investments at amortised cost	530,379	538,631	-	-
Investments available-for-sale	-	-	929,297	929,297
Investments classified as loans and receivables	-	-	48,658	55,104
Derivative financial assets	24,754	24,754	18,027	18,027
Loans and advances to customers	10,921,786	10,788,446	14,602,454	15,385,385
Life insurance business assets attributable to policyholders	388,745	388,745	416,060	416,060
Financial assets classified as held for sale	1,154,108	1,154,108	-	-
Other financial assets	144,381	144,381	105,473	105,473
	19,231,488	19,100,894	20,849,193	21,637,554
Financial liabilities				
Obligations to central banks and deposits by banks	1,261,942	1,261,942	1,425,308	1,425,308
Repurchase agreements	248,945	263,511	257,322	281,951
Derivative financial liabilities	38,983	38,983	50,892	50,892
Customer deposits	16,843,558	16,849,222	17,849,919	17,875,239
Subordinated loan stock	270,930	276,527	302,288	334,783
Other financial liabilities	188,512	188,512	176,646	176,646
	18,852,870	18,878,697	20,062,375	20,144,819

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

For assets and liabilities that are recognised in the Consolidated Financial Statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

23. Fair value measurement (continued)

The following is a description of the determination of fair value for financial instruments and non-financial assets which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments and non-financial assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)

The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and BOC PCL's own credit quality respectively.

The Group calculates the CVA by applying the PD of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

The expected exposure of derivatives is calculated as per the CRR and takes into account the netting agreements where they exist. A standard LGD assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments at FVPL investments at FVOCI and investments at amortised cost

Investments which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. The rest of the investments are valued using quoted prices in active markets.

Loans and advances to customers

The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the risk free rate per currency, funding cost, servicing cost and the cost of capital, considering the risk weight of each loan.

Customer deposits

The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of BOC PCL. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Repurchase agreements

Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Group is greater than the amount borrowed, the fair value calculation of these repurchase agreements only takes into account the time value of money.

23. Fair value measurement (continued)

Loans and advances to banks

Loans and advances to banks with maturity over one year are discounted using an appropriate risk free rate plus the credit spread of each counterparty. For short-term lending, the fair value is approximated by the carrying value.

Deposits by banks

Since almost all deposits by banks are very short-term, the fair value is an approximation of the carrying value.

Subordinated loan stock

The current issue of BOC PCL is liquid with quoted prices in an active market.

Investment properties

The fair value of investment properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Property and equipment

The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this note.

Model inputs for valuation

Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

23. Fair value measurement (continued)

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

2018	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets measured at fair value				
<i>Investment properties</i>				
Residential	-	-	1,041	1,041
Offices and other commercial properties	-	-	2,002	2,002
Manufacturing and industrial properties	-	-	452	452
Hotels	-	-	2,465	2,465
Land (fields and plots)	-	-	18,515	18,515
	-	-	24,475	24,475
<i>Investment properties held for sale</i>				
Offices and other commercial properties	-	-	152,348	152,348
	-	-	152,348	152,348
<i>Freehold property</i>				
Offices and other commercial properties	-	-	236,405	236,405
<i>Freehold property held for sale</i>				
Offices and other commercial properties	-	-	88,022	88,022
<i>Loans and advances to customers measured at FVPL</i>				
	-	-	395,572	395,572
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	240	-	240
Currency swaps	-	3,405	-	3,405
Interest rate swaps	-	471	-	471
Currency options	-	8	-	8
Interest rate caps/floors	-	462	-	462
	-	4,586	-	4,586
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	20,137	-	20,137
Net investments-forward exchange rate contracts and currency swaps	-	31	-	31
	-	20,168	-	20,168
<i>Investments mandatorily measured at FVPL</i>	137,093	394	14,986	152,473
<i>Investments at FVOCI</i>	822,628	1,051	8,160	831,839
	959,721	26,199	919,968	1,905,888
Other financial assets not measured at fair value				
Loans and advances to banks	-	467,026	-	467,026
Investments at amortised cost	484,417	54,214	-	538,631
Loans and advances to customers	-	-	10,788,446	10,788,446
	484,417	521,240	10,788,446	11,794,103

23. Fair value measurement (continued)

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €12,134 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €5,263 thousand in their fair value. For investments mandatorily measured at fair value through profit and loss categorised as Level 3, for one investment with a carrying amount of €13,569 thousand, a change in the conversion factor by 10% would result in a change in the value of the debt securities by €1,357 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 47.

2018	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	192	-	192
Currency swaps	-	6,342	-	6,342
Interest rate swaps	-	422	-	422
Currency options	-	382	-	382
	-	<u>7,338</u>	-	<u>7,338</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	29,029	-	29,029
Net investments-forward exchange rate contracts	-	2,616	-	2,616
	-	<u>31,645</u>	-	<u>31,645</u>
	-	<u>38,983</u>	-	<u>38,983</u>
Other financial liabilities not measured at fair value				
Deposits by banks	-	431,942	-	431,942
Repurchase agreements	-	263,511	-	263,511
Customer deposits	-	-	16,849,222	16,849,222
Subordinated loan stock	276,527	-	-	276,527
	<u>276,527</u>	<u>695,453</u>	<u>16,849,222</u>	<u>17,821,202</u>

23. Fair value measurement (continued)

2017	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets measured at fair value				
<i>Investment properties</i>				
Residential	-	-	338	338
Offices and other commercial properties	-	-	2,752	2,752
Manufacturing and industrial properties	-	-	477	477
Hotels	-	-	2,124	2,124
Land (fields and plots)	-	-	13,955	13,955
	-	-	19,646	19,646
<i>Investment properties held for sale</i>				
Offices and other commercial properties	-	-	6,500	6,500
<i>Freehold property</i>				
Offices and other commercial properties	-	16,332	239,559	255,891
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	99	-	99
Currency swaps	-	1,103	-	1,103
Interest rate swaps	-	216	-	216
Currency options	-	18	-	18
	-	1,436	-	1,436
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	16,315	-	16,315
Net investments-forward exchange rate contracts	-	276	-	276
	-	16,591	-	16,591
<i>Investments at fair value through profit or loss</i>				
Trading investments	102,535	-	630	103,165
Other investments at fair value through profit or loss	37,823	1,573	96	39,492
	140,358	1,573	726	142,657
<i>Investments available-for-sale</i>				
	907,360	42	21,895	929,297
	1,047,718	35,974	288,326	1,372,018
Other financial assets not measured at fair value				
Loans and advances to banks	-	1,191,617	-	1,191,617
Investments classified as loans and receivables	-	55,104	-	55,104
Loans and advances to customers	-	-	15,385,385	15,385,385
	-	1,246,721	15,385,385	16,632,106

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €11,228 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €1,123 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 47.

23. Fair value measurement (continued)

2017	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	114	-	114
Currency swaps	-	14,082	-	14,082
Interest rate swaps	-	873	-	873
Currency options	-	402	-	402
	-	<u>15,471</u>	-	<u>15,471</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	35,420	-	35,420
Net investments-forward exchange rate contracts	-	1	-	1
	-	<u>35,421</u>	-	<u>35,421</u>
	-	<u>50,892</u>	-	<u>50,892</u>
Other financial liabilities not measured at fair value				
Deposits by banks	-	495,308	-	495,308
Repurchase agreements	-	281,951	-	281,951
Customer deposits	-	-	17,875,239	17,875,239
Subordinated loan stock	300,980	33,803	-	334,783
	<u>300,980</u>	<u>811,062</u>	<u>17,875,239</u>	<u>18,987,281</u>

The cash and balances with central banks and the funding from central banks are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently and they are categorised as Level 2. The carrying value of other assets and other liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3. The other assets and other liabilities are of a financial nature.

During the years 2018 and 2017 there were no significant transfers between Level 1 and Level 2.

23. Fair value measurement (continued)

Movements in Level 3 assets measured at fair value

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 assets which are measured at fair value is presented below:

	2018						2017				
	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Loans and advances to customers	Financial instruments	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January	19,646	6,500	239,559	-	389,862	22,621	38,059	11,065	246,215	-	17,479
Additions	4,522	-	2,739	-	35,601	-	4,273	-	1,280	-	724
Disposals	-	(6,500)	-	-	-	-	(12,248)	(10,864)	-	-	(689)
Transfers from investment properties to own use properties	-	-	-	-	-	-	(395)	-	395	-	-
Transfers from/(to) stock of property (Note 28)	166,572	-	84,744	-	-	-	-	-	129	-	-
Transfers to non-current assets and disposal group held for sale	(152,298)	152,298	(88,022)	88,022	-	-	(6,500)	6,500	-	-	-
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	-	-	-	-	-	525	-	-	2,740	-	5,738
Depreciation charge for the year	-	-	(2,614)	-	-	-	-	-	(2,652)	-	-
Impairment charge for the year (Note 17)	-	-	-	-	-	-	-	-	(8,470)	-	-
Fair value (losses)/gains	(13,325)	50	-	-	-	-	(3,309)	-	-	-	-
Net gains on loans and advances to customers measured at FVPL	-	-	-	-	16,125	-	-	-	-	-	-
Repayments of loans	-	-	-	-	(62,809)	-	-	-	-	-	-
Interest on loans	-	-	-	-	16,793	-	-	-	-	-	-
Foreign exchange adjustments	(642)	-	(1)	-	-	-	(234)	(201)	(78)	-	(631)
31 December	24,475	152,348	236,405	88,022	395,572	23,146	19,646	6,500	239,559	-	22,621

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis

Investment properties, investment properties held for sale and own use properties

The valuation technique mainly applied by the Group is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Group also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below.

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2018	Estimated rental value per m ² per annum	Rent growth per annum	Estimated building cost per m ²	Yield	Estimated fair value per m ²	Estimated land value per m ²	Land	Building area	Age of building
	€000							m ²	m ²	Years
Residential										
Russia	1,041	n/a	n/a	€196-€2,020	n/a	€45-€2,020	€8-€114	800-6,087	102-719	8
Offices and other commercial properties										
Cyprus	153,667	n/a	n/a	n/a	5%-6.3%	€471-€4,653	n/a	798-20,026	214-24,094	n/a
Russia	683	n/a	n/a	€175-€485	n/a	€47-€198	€26-€161	256-3,498	154-1,644	n/a
	154,350									
Manufacturing and industrial										
Russia	452	n/a	n/a	€64-€153	n/a	€12-€153	€3-€21	5,220-29,538	304-8,874	9-35
Hotels										
Russia	2,465	n/a	n/a	€318	n/a	€318	n/a	n/a	7,436	13
Land (fields and plots)										
Cyprus	17,780	n/a	n/a	n/a	n/a	n/a	€370-€1,028	2,316-21,053	n/a	n/a
Russia	735	n/a	n/a	n/a	n/a	€1-€33	€1-€33	300-58,600	n/a	n/a
	18,515									
Total	176,823									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties and own use properties held for sale

Type and country	2018	Estimated rental value per m ² per annum	Rent growth per annum	Estimated building cost per m ²	Yield	Estimated fair value per m ²	Estimated land value per m ²	Land	Building area	Age of building
	€000							m ²	m ²	Years
Offices and other commercial properties										
Cyprus	324,427	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-31,000	1-78
Total	<u>324,427</u>									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2017	Estimated rental value per m ² per annum	Rent growth per annum	Estimated building cost per m ²	Yield	Estimated fair value per m ²	Estimated land value per m ²	Land	Building area	Age of building
	€000							m ²	m ²	Years
Residential										
Russia	338	n/a	n/a	€225-€2,326	n/a	€51-€2,326	€9-€11	570-1,573	102-384	7
Offices and other commercial properties										
Cyprus	8,830	€54-€353	n/a	n/a	4%-6%	€1,339-€7,059	€1,053	1,591	68-4,788	14-34
Russia	422	n/a	n/a	€210-€410	n/a	€88-€124	€9-€73	2,588-2,773	649-1,644	8
	9,252									
Manufacturing and industrial										
Russia	477	n/a	n/a	€20-€176	n/a	€7-€176	€5-€24	5,220-29,538	304-8,874	8-29
Hotels										
Russia	2,124	n/a	n/a	€361	n/a	€361	n/a	n/a	5,946	12
Land (fields and plots)										
Cyprus	13,955	n/a	n/a	€1,000-€1,200	n/a	n/a	€279-€1,028	2,316-21,053	n/a	n/a
Total	26,146									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties and own use properties held for sale

Type and country	2017	Estimated rental value per m ² per annum	Rent growth per annum	Estimated building cost per m ²	Yield	Estimated fair value per m ²	Estimated land value per m ²	Land	Building area	Age of building
	€000							m ²	m ²	Years
Offices and other commercial properties										
Cyprus	236,268	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-11,109	11-77
Romania	3,291	n/a	n/a	n/a	9%	n/a	n/a	660	2,284	10
UK	16,332	€214-€777	0%-6%	n/a	5%-7%	€3,260-€16,959	n/a	173-1,740	173-1,689	Refurnished in 2009
Total	<u>255,891</u>									

Sensitivity analysis

Most of the Group's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach would result in a significantly higher/lower fair value of the properties.

24. Loans and advances to customers

	2018	2017
	€000	€000
Gross loans and advances to customers at amortised cost	12,430,367	18,086,230
Allowance for ECL/provisions for impairment of loans and advances to customers (Note 46)	(1,904,153)	(3,483,776)
Loans and advances to customers measured at amortised cost	10,526,214	14,602,454
Loans and advances to customers measured at FVPL	395,572	-
	10,921,786	14,602,454

Loans and advances to customers pledged as collateral are disclosed in Note 48.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL and of the provisions for impairment of loans and advances to customers are set out in Note 46.

25. Life insurance business assets attributable to policyholders

	2018	2017
	€000	€000
Equity securities	1,025	1,171
Debt securities	43,952	46,806
Mutual funds	311,892	325,091
Bank deposits	31,876	42,992
	388,745	416,060
Property	13,820	13,830
	402,565	429,890

Financial assets of life insurance business attributable to policyholders are classified as investments at FVPL.

In addition to the above assets, the life insurance subsidiary of the Group holds shares of the Company, as part of the assets attributable to policyholders with a carrying value as at 31 December 2018 of €215 thousand (2017: €350 thousand). Such shares are presented in the consolidated financial statements as treasury shares (Note 36).

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level, is presented below:

2018	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Equity securities	1,025	-	-	1,025
Debt securities	19,065	24,887	-	43,952
Mutual funds	311,619	-	273	311,892
	331,709	24,887	273	356,869
2017				
Equity securities	1,171	-	-	1,171
Debt securities	21,314	25,492	-	46,806
Mutual funds	324,235	-	856	325,091
	346,720	25,492	856	373,068

25. Life insurance business assets attributable to policyholders (continued)

Bank deposits are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

The movement of financial assets classified as Level 3 is presented below:

	2018	2017
	€000	€000
1 January	856	1,208
Unrealised losses recognised in the consolidated income statement	(583)	(352)
31 December	273	856

During years 2018 and 2017 there were no significant transfers between Level 1 and Level 2.

26. Property and equipment

	Property	Equipment	Total
	€000	€000	€000
2018			
Net book value at 1 January	257,360	22,454	279,814
Additions	4,460	9,132	13,592
Transfers from stock of property (Note 28)	84,744	-	84,744
Transfers to non-current assets and disposal group held for sale	(88,022)	(110)	(88,132)
Disposals and write-offs	-	(37)	(37)
Disposal of subsidiary (Note 53.2.1)	(16,073)	(1,151)	(17,224)
Depreciation charge for the year - continuing operations (Note 16)	(3,320)	(7,792)	(11,112)
Depreciation charge for the year - discontinued operations	(252)	(652)	(904)
Impairment charge for the year (Note 17)	-	(11)	(11)
Foreign exchange adjustments	(8)	1	(7)
Net book value at 31 December	238,889	21,834	260,723
1 January 2018			
Cost or valuation	293,664	149,263	442,927
Accumulated depreciation	(36,304)	(126,809)	(163,113)
Net book value	257,360	22,454	279,814
31 December 2018			
Cost or valuation	277,206	138,767	415,973
Accumulated depreciation	(38,317)	(116,933)	(155,250)
Net book value	238,889	21,834	260,723

26. Property and equipment (continued)

2017	Property €000	Equipment €000	Total €000
Net book value at 1 January	258,552	22,341	280,893
Additions	1,843	8,456	10,299
Revaluation	9,319	-	9,319
Transfers from investment properties (Note 23)	395	-	395
Transfers from stock of property (Note 28)	129	-	129
Disposals and write-offs	(35)	(242)	(277)
Depreciation charge for the year - continuing operations (Note 16)	(3,707)	(7,150)	(10,857)
Depreciation charge for the year - discontinued operations	(276)	(797)	(1,073)
Impairment charge for the year (Note 17)	(8,470)	-	(8,470)
Foreign exchange adjustments	(390)	(154)	(544)
Net book value at 31 December	257,360	22,454	279,814
1 January 2017			
Cost or valuation	298,743	152,838	451,581
Accumulated depreciation	(40,191)	(130,497)	(170,688)
Net book value	258,552	22,341	280,893
31 December 2017			
Cost or valuation	293,664	149,263	442,927
Accumulated depreciation	(36,304)	(126,809)	(163,113)
Net book value	257,360	22,454	279,814

The net book value of the Group's property comprises:

	2018 €000	2017 €000
Freehold property	236,405	255,891
Improvements on leasehold property	2,484	1,469
Total	238,889	257,360

Freehold property includes land amounting to €92,471 thousand (2017: €92,471 thousand) for which no depreciation is charged.

The Group's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The Group performed revaluations as at 31 December 2017. As a result, a net gain on revaluation of €9,319 thousand was recognised in the consolidated statement of comprehensive income and an impairment loss of €8,470 thousand was recognised in the consolidated income statement for the year ended 31 December 2017. The valuations at year end were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 23.

As at 31 December 2018 and 2017 there are charges against freehold property of the Group with carrying value €20,711 thousand (2017: €20,850 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2018 would have amounted to €180,340 thousand (2017: €194,446 thousand).

27. Intangible assets

	Computer software	In-force life insurance business	Total
2018	€000	€000	€000
Net book value at 1 January	45,205	120,747	165,952
Additions	27,006	-	27,006
Transfers to non-current assets and disposal group held for sale	(20)	-	(20)
Decrease in value of in-force life insurance business (Note 13)	-	(5,314)	(5,314)
Disposals and write-offs	(1,784)	-	(1,784)
Disposal of subsidiaries (Note 53.2.1)	(1,883)	-	(1,883)
Amortisation charge for the year - continuing operations (Note 16)	(13,217)	-	(13,217)
Amortisation charge for the year - discontinuing operations	(325)	-	(325)
Foreign exchange adjustments	(4)	-	(4)
Net book value at 31 December	54,978	115,433	170,411
1 January 2018			
Cost	169,612	120,747	290,359
Accumulated amortisation and impairment	(124,407)	-	(124,407)
Net book value	45,205	120,747	165,952
31 December 2018			
Cost	186,196	115,433	301,629
Accumulated amortisation and impairment	(131,218)	-	(131,218)
Net book value	54,978	115,433	170,411

27. Intangible assets (continued)

	Computer software	In-force life insurance business	Total
2017	€000	€000	€000
Net book value at 1 January	28,959	118,004	146,963
Additions	25,723	-	25,723
Increase in value of in-force life insurance business (Note 13)	-	2,743	2,743
Disposals and write-offs	(22)	-	(22)
Amortisation charge for the year - continuing operations (Note 16)	(8,743)	-	(8,743)
Amortisation charge for the year - discontinuing operations	(661)	-	(661)
Foreign exchange adjustments	(51)	-	(51)
Net book value at 31 December	45,205	120,747	165,952
1 January 2017			
Cost	144,898	118,004	262,902
Accumulated amortisation and impairment	(115,939)	-	(115,939)
Net book value	28,959	118,004	146,963
31 December 2017			
Cost	169,612	120,747	290,359
Accumulated amortisation and impairment	(124,407)	-	(124,407)
Net book value	45,205	120,747	165,952

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance business relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force business are:

	2018	2017
Discount rate (after tax)	10.0%	10.0%
Return on investments	5.0%	5.0%
Expense inflation	3.5%	4.0%

28. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2018 an impairment loss of €17,272 thousand was recognised in 'Impairment of non-financial instruments' in the consolidated income statement (2017: €50,502 thousand). At 31 December 2018, stock of €387,085 thousand (2017: €418,559 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations.

28. Stock of property (continued)

The carrying value of the stock of property is analysed in the tables below:

	2018	2017
	€000	€000
Net book value at 1 January	1,641,422	1,427,272
Additions	427,828	523,061
Disposals	(196,358)	(257,662)
Transfers to investment properties (Note 23)	(166,572)	-
Transfers to own use properties (Note 26)	(84,744)	(129)
Transfers to disposal group 1 (Note 30)	(73,899)	-
Impairment (Note 17)	(17,272)	(50,502)
Foreign exchange adjustments	(17)	(618)
Net book value at 31 December	<u>1,530,388</u>	<u>1,641,422</u>

Additions during 2018 include costs of construction of €31,860 thousand (2017: €3,404 thousand).

The Group has transferred to the Cyreit Variable Capital Investments Company PLC (Cyreit), following its set-up in March 2018 (Note 52), a diversified portfolio of commercial real estate assets acquired as part of loan restructuring activity, which are to be managed and used in accordance with the investment objective of the Cyreit that is to generate and grow medium to long term income, both in terms of rental income as well as capital appreciation. The Group assessed that there was a change in use of these properties upon transfer to Cyreit and has therefore reclassified from stock of property to investment properties.

The table below shows the result on the disposal of stock of property in the year:

	2018	2017
	€000	€000
Net proceeds	228,225	280,365
Carrying value of stock of property disposed of (excluding stock of property held by subsidiary disposed of)	(196,358)	(249,918)
Net gains on disposal of stock of property	<u>31,867</u>	<u>30,447</u>

Analysis by type and country	Cyprus	Greece	Romania	Total
2018	€000	€000	€000	€000
Residential properties	163,988	24,538	313	188,839
Offices and other commercial properties	226,999	44,347	7,401	278,747
Manufacturing and industrial properties	79,691	38,434	498	118,623
Hotels	34,840	484	-	35,324
Land (fields and plots)	897,020	7,546	3,611	908,177
Properties under construction	678	-	-	678
Total	<u>1,403,216</u>	<u>115,349</u>	<u>11,823</u>	<u>1,530,388</u>

28. Stock of property (continued)

	Cyprus €000	Greece €000	Romania €000	Total €000
2017				
Residential properties	146,214	29,057	189	175,460
Offices and other commercial properties	288,282	38,882	9,138	336,302
Manufacturing and industrial properties	112,890	33,427	498	146,815
Hotels	77,820	493	-	78,313
Land (fields and plots)	836,543	6,402	4,595	847,540
Properties under construction	56,992	-	-	56,992
Total	1,518,741	108,261	14,420	1,641,422

29. Prepayments, accrued income and other assets

	2018 €000	2017 €000
Receivables relating to disposal of operations	85,606	36,282
Reinsurers' share of insurance contract liabilities (Note 33)	48,348	48,000
Taxes refundable	14,637	25,647
Debtors	30,671	24,121
Prepaid expenses	8,658	1,391
Other assets	68,082	90,664
	256,002	226,105

An analysis of changes in the gross carrying amount of the financial asset included in prepayments, accrued income and other assets is presented in the table below:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Simplified method €000	Total €000
2018					
1 January	25,032	36,282	38,173	14,485	113,972
New assets acquired	54,760	-	-	-	54,760
Net increase/(decrease)	1,073	(5,436)	(6,850)	371	(10,842)
31 December	80,865	30,846	31,323	14,856	157,890

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Simplified method €000	Total €000
2018					
1 January	-	-	14,923	-	14,923
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	576	576
Restated balance at 1 January	-	-	14,923	576	15,499
Changes to models and inputs used for ECL calculations	-	-	4,099	336	4,435
31 December	-	-	19,022	912	19,934

29. Prepayments, accrued income and other assets (continued)

As at 31 December 2018, the receivable relating to the disposal of operations in the UK amounts to €54,760 thousand. Half of the consideration was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 53.2.1). The receivable relating to the disposal of the Ukrainian operations in 2014, amounted to €30,846 thousand and the deferred consideration is due to be paid to BOC PCL under a repayment programme which has been extended from June 2019 to December 2022. The receivable is fully secured.

During 2018, credit losses of €8,056 thousand were recognised in relation to other assets of which €4,435 thousand relate to ECL for the year and the remaining €3,621 thousand relate to write-offs (2017: reversal of impairment of €1,379 thousand) (Note 17).

30. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups held for sale

The following non-current assets and disposal groups were classified as held for sale as at 31 December 2018 and 2017:

	2018	2017
	€000	€000
Gross loans and advances to customers at amortised cost (Note 46.7)	2,711,960	-
Allowance for ECL	(1,557,852)	-
	1,154,108	-
Stock of property (Note 28)	73,899	-
Disposal group 1	1,228,007	-
Disposal group 2	151,248	-
Disposal group 3	89,683	-
Investment properties held for sale	1,100	6,500
	1,470,038	6,500

Non-current liabilities and disposal groups held for sale

The liabilities amounting to €5,812 thousand relate to disposal group 3 and represent other liabilities.

Disposal group 1

Disposal group 1 comprises loans and advances to customers and stock of property of Projects Helix and Velocity as further analysed below. The disposal group has been classified as held for sale as management is committed to sell it and has proceeded with an active programme to complete this plan. The plan is expected to be completed within 12 months from the classification date.

During 2018, the Group has reached an agreement for the sale of a portfolio (the 'Portfolio') of loans and advances to customers (known as 'Project Helix', or the 'Transaction'). The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by 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.

As at 31 December 2018, the Portfolio including stock of property, had a net book value of €1.2 billion. At completion, BOC PCL will receive a gross cash consideration of c.€1.4 billion. BOC PCL will participate in the senior debt in relation to such financing in an amount which has been syndicated down to €50 million, from the initial level of €450 million.

In March 2019, 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 in early in the second quarter 2019.

30. Non-current assets and disposal groups held for sale (continued)

In addition, the Group has entered into an agreement for the sale of a portfolio of loans and advances to customers of a gross book value of €33 million (carrying value: €6 million) known as project 'Velocity'. The sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2019.

Further analysis of the loans and advances to customers portfolio, which is included in this disposal group, is disclosed in Note 46.7.

Disposal group 2

As at 31 December 2018, the disposal group 2 relates to the subsidiary Cyreit, which is the holding company of a group of companies which holds and manages investment properties. Management is committed to sell Cyreit and has proceeded with an active programme to complete this plan. In November 2018, BOC PCL signed an agreement for the disposal of its entire holding of the investment shares of Cyreit and the disposal is expected in the second quarter of 2019.

The investment properties held within the disposal group are measured at fair value. The results of the fair value changes are presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment since the investment properties are in Cyprus.

Disposal group 3

As at 31 December 2018, the disposal group 3 relates to the subsidiary Nicosia Mall Holdings (NMH) Limited and its subsidiaries (NMH group) which are involved in the construction and management of the Nicosia Mall. Management is committed to sell NMH group and has proceeded with an active programme to complete this plan. The disposal is expected to be completed within the next 12 months from the classification date. Disposal group 3 includes stock of property amounting to €88,022 thousand and other assets of €1,661 thousand.

Investment properties

The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment since these investment properties are in Cyprus.

31. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations as set out in the table below:

	2018	2017
	€000	€000
Main Refinancing Operations (MRO)	-	100,000
Targeted Longer-Term Refinancing Operations (TLTRO II)	830,000	830,000
	830,000	930,000

As at 31 December 2018, ECB funding was at €830 million that was borrowed from the 4-year TLTRO II.

The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. The interest rate applicable to the amount borrowed by BOC PCL under the TLTRO II transactions will be 0% as eligible net lending in the pre-specified period did not exceed the benchmark.

31. Funding from central banks (continued)

In addition to TLTRO as at 31 December 2017 funding from central banks also included an amount of €100 million borrowed through the MRO. In January 2018, BOC PCL raised an additional €10 million through the MRO, bringing the funding from the MRO to €110 million. The total amount borrowed from the MRO was fully repaid during April 2018.

Details on encumbered assets related to the above funding facilities are disclosed in Note 48.

32. Customer deposits

	2018	2017
	€000	€000
<i>By type of deposit</i>		
Demand	6,708,852	6,313,244
Savings	1,352,452	1,536,576
Time or notice	8,782,254	10,000,099
	<u>16,843,558</u>	<u>17,849,919</u>
<i>By geographical area</i>		
Cyprus	16,843,558	15,982,905
United Kingdom	-	1,867,014
	<u>16,843,558</u>	<u>17,849,919</u>
<i>By currency</i>		
Euro	14,961,025	13,829,991
US Dollar	1,482,867	1,743,513
British Pound	292,640	2,110,265
Russian Rouble	25,529	49,788
Romanian Lei	443	42
Swiss Franc	7,994	14,943
Other currencies	73,060	101,377
	<u>16,843,558</u>	<u>17,849,919</u>

<i>By customer sector</i>	Cyprus	United Kingdom	Total
2018	€000	€000	€000
Corporate	1,750,517	-	1,750,517
SMEs	800,671	-	800,671
Retail	10,032,047	-	10,032,047
Restructuring			
- Corporate	69,180	-	69,180
- SMEs	29,299	-	29,299
- Retail other	16,773	-	16,773
Recoveries			
- Corporate	6,492	-	6,492
International banking services	3,707,713	-	3,707,713
Wealth management	430,866	-	430,866
	<u>16,843,558</u>	<u>-</u>	<u>16,843,558</u>

32. Customer deposits (continued)

<i>By customer sector</i>	Cyprus	United Kingdom	Total
2017	€000	€000	€000
Corporate	1,529,521	29,742	1,559,263
SMEs	665,940	201,536	867,476
Retail	8,670,625	1,635,736	10,306,361
Restructuring			
– Corporate	145,084	-	145,084
– SMEs	40,743	-	40,743
Recoveries			
– Corporate	6,615	-	6,615
International banking services	4,163,384	-	4,163,384
Wealth management	760,993	-	760,993
	15,982,905	1,867,014	17,849,919

Deposits by geographical area are based on the originator country of the deposit.

33. Insurance liabilities

	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Life insurance	€000	€000	€000	€000	€000	€000
Life insurance contract liabilities	531,640	(27,601)	504,039	546,887	(27,608)	519,279
General insurance						
Provision for unearned premiums	25,962	(9,475)	16,487	24,151	(8,879)	15,272
<i>Other liabilities</i>						
Claims outstanding	33,397	(11,272)	22,125	34,076	(11,513)	22,563
Unexpired risks reserve	58	-	58	314	-	314
Equalisation reserve	-	-	-	20	-	20
General insurance contract liabilities	59,417	(20,747)	38,670	58,561	(20,392)	38,169
	591,057	(48,348)	542,709	605,448	(48,000)	557,448

Reinsurers' share of insurance contract liabilities and other reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 29).

33. Insurance liabilities (continued)

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	546,887	(27,608)	519,279	530,075	(28,379)	501,696
New business	13,633	(1,275)	12,358	9,367	(1,173)	8,194
Change in existing business	(28,880)	1,282	(27,598)	7,445	1,944	9,389
31 December	531,640	(27,601)	504,039	546,887	(27,608)	519,279

General insurance contract liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

Liabilities for unearned premium	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	24,151	(8,879)	15,272	22,690	(8,605)	14,085
Premium income	72,912	(32,128)	40,784	65,701	(29,246)	36,455
Earned premiums	(71,101)	31,532	(39,569)	(64,240)	28,972	(35,268)
31 December	25,962	(9,475)	16,487	24,151	(8,879)	15,272

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relate to risks that have not yet expired at the reporting date.

33. Insurance liabilities (continued)

Claims outstanding	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	34,076	(11,513)	22,563	31,009	(12,989)	18,020
Amount paid for claims settled in the year	(34,516)	14,735	(19,781)	(27,017)	13,643	(13,374)
Increase in liabilities arising from claims	33,837	(14,494)	19,343	30,084	(12,167)	17,917
31 December	33,397	(11,272)	22,125	34,076	(11,513)	22,563
Reported claims	31,427	(10,395)	21,032	32,202	(10,704)	21,498
Incurred but not reported	1,970	(877)	1,093	1,874	(809)	1,065
31 December	33,397	(11,272)	22,125	34,076	(11,513)	22,563

34. Subordinated loan stock

	Contractual interest rate	2018 €000	2017 €000
Subordinated Tier 2 Capital Note with nominal value of €250 million	9.25% up to 19 January 2022	270,930	268,485
Subordinated Tier 2 Capital Loan	8.00% up to 21 December 2022	-	33,803
		270,930	302,288

BOC PCL maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note (the Note) under BOC PCL's EMTN Programme. The Note was priced at par with a coupon of 9.25% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. BOC PCL has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The Note is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market. The fair value as at 31 December 2018 is disclosed in Note 23.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of BOC PCL issued a £30 million unsecured and subordinated Tier 2 Capital Loan, priced at par.

35. Accruals, deferred income and other liabilities

	2018	2017
	€000	€000
Income tax payable and related provisions	14,568	20,410
Special defence contribution payable	4,270	5,891
Retirement benefit plans liabilities (Note 15)	8,777	10,037
Provisions for financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	27,685	51,987
Liabilities for investment-linked contracts under administration	2,971	7,873
Accrued expenses and other provisions	72,702	60,078
Deferred income	18,869	9,439
Items in the course of settlement	47,958	72,241
Other liabilities	87,683	68,271
	<u>285,483</u>	<u>306,227</u>

The ECL allowance for financial guarantees and commitments as at 31 December 2018 is analysed by stage in the table below:

	ECL allowance
	€000
2018	
Stage 1	1,314
Stage 2	2,593
Stage 3	23,778
	<u>27,685</u>

36. Share capital

	2018		2017	
	Number of shares (thousand)	€000	Number of shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €0.10 each	<u>10,000,000</u>	<u>1,000,000</u>	<u>10,000,000</u>	<u>1,000,000</u>
<i>Issued</i>				
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	<u>446,200</u>	<u>44,620</u>	<u>446,200</u>	<u>44,620</u>

Authorised and issued share capital

All issued ordinary shares carry the same rights.

2018

There were no changes to the authorised or issued share capital during the year ended 31 December 2018.

36. Share capital (continued)

2017

The Extraordinary General Meeting (EGM) of the shareholders of BOC PCL held on 13 December 2016 approved a scheme of arrangement between the Company, BOC PCL and its shareholders. The scheme of arrangement introduced the Company as the new holding company of the Group. Additionally the EGM authorised the directors of BOC PCL to take all actions necessary or appropriate to carry the scheme of arrangement into effect. The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of BOC PCL which amounted to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of BOC PCL (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of BOC PCL, equal to the aggregate nominal value of the Existing Shares so cancelled, and which shall be retained as a non-distributable capital reserve in accordance with the provisions of subsection (e) of section 64 of the Cyprus Companies Law, Cap. 113 (the Reduction of Capital).

Following the reduction of the share capital of BOC PCL, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank *pari passu* with the existing ordinary shares of BOC PCL. Also, the reserve arising in the books of account of BOC PCL as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of BOC PCL, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of BOC PCL were cancelled and BOC PCL issued and allotted 8,922,944,533 new ordinary shares of nominal value €0.10 each, credited as fully paid to the Company; and the Company issued and allotted new shares (New Shares) and procured the issue of Depositary Interests representing New Shares, in accordance with the terms of the scheme of arrangement. Each one New Share or one Depositary Interest represents one New Share for each individual holding of 20 Existing Shares. As a result, the Company issued 446,199,933 ordinary shares with a nominal value of €0.10 each.

Share premium reserve

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 sections 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.

36. Share capital (continued)

Treasury shares of the Company

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

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

The movement in treasury shares for the years 2018 and 2017 are as follows:

	2018	2017
	Number of shares (thousand)	Number of shares (thousand)
1 January	142	2,889
Disposals of treasury shares	-	(45)
Cancellation of shares due to reorganisation	-	(2,844)
Change of parent company to Bank of Cyprus Holdings Public Limited Company and issue of new shares	-	142
31 December	142	142

The treasury shares represent 0.03% of the total issued share capital of the Company (2017: 0.03%).

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

Share-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

	2018	2017
	€000	€000
Reset Perpetual Additional Tier 1 Capital Securities	220,000	-

36. Share capital (continued)

In December 2018 the Company issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. 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.

The transaction costs, directly attributable to the issuance, amounted to €2,458 thousand and have been recognised in retained earnings.

37. Dividends

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

Following the 2018 SREP decision, the Company 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.

38. Retained earnings/(accumulated losses)

For the purpose of dividend distribution, retained earnings determined at the Company level, are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals who are domiciled in Cyprus and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the company on account of the shareholders. During 2018 and 2017 no deemed dividend distribution was paid by the Company and by BOC PCL.

39. Fiduciary transactions

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2018 amounted to €1,244,908 thousand (2017: €1,120,817 thousand).

40. Pending litigation, claims, regulatory and other matters

The Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of 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.

Apart from what is described below, the Group considers that none of these matters is material, either individually or in aggregate. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2018 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

40.1 Pending litigation and claims

Investigations and litigation relating to securities issued by BOC PCL

A number of institutional and retail customers have filed various separate actions against BOC PCL alleging that BOC PCL is guilty of mis-selling in relation to securities issued by BOC PCL between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon BOC PCL in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

BOC PCL is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be documented that the relevant BOC PCL officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', BOC PCL may face significant difficulties. To date, a number of cases have been tried in Greece. BOC PCL has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Also a small number of cases are being heard in Cyprus. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

In July 2018 the Nicosia district court ruled in favour of BOC PCL in an action against BOC PCL by a capital securities holder and rejected the claim to reimburse the plaintiff for alleged damages sustained from investing in the capital securities of BOC PCL. In September 2018 judgement was issued by the district court of Larnaca against BOC PCL with respect to a capital security case. The plaintiffs were seeking compensation against BOC PCL for negligence/fraud/breach of statutory duty in selling to the plaintiffs contingent convertible bonds. The court found against BOC PCL, awarding damages. BOC PCL has filed an appeal against this judgement.

40 Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

Bail-in related litigation

Depositors

A number of the BOC PCL's depositors, who allege that they were adversely affected by the bail-in, filed claims against BOC PCL and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. BOC PCL is defending these actions.

Shareholders

Numerous claims were filed by shareholders in 2013 against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. BOC PCL appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. A number of actions for damages have been filed and are still being filed with the District Courts of Cyprus.

Claims based on set-off

Certain claims have been filed by customers against BOC PCL alleging that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. BOC PCL intends to contest such claims.

Laiki Bank depositors and shareholders

BOC PCL has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by BOC PCL's bailed-in depositors and shareholders as described above. BOC PCL, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees

Occasionally, other claims are brought against BOC PCL in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented).

Legal position of the Group

All above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

Provident fund case

In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against BOC PCL claiming €70 million allegedly owed as part of BOC PCL's contribution by virtue of an agreement with the union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for BOC PCL to predict the resolution of this matter, including the timing or any possible impact on BOC PCL, however at this stage the Group does not expect a material impact on its financial position.

40 Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

Employment litigation

Former senior officers of BOC PCL have instituted one claim for unfair dismissal and one claim for Provident Fund entitlements against BOC PCL and Trustees of the Provident Fund. As at the present date one case had been dismissed as filed out of time, but the plaintiff has subsequently filed a civil action in the District Court on the same grounds as the previous case which was filed in the Labour Disputes Court. The Group does not consider that these cases will have a material impact on its financial position.

Swiss Francs loans litigation in Cyprus and UK

A number of actions have been instituted against BOC PCL by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that BOC PCL misled these borrowers and/or misrepresented matters, in violation of applicable law. BOC PCL intends to contest such proceedings. The Group does not expect that these actions will have a material impact on its financial position.

UK property lending claims

BOC PCL is the defendant in certain proceedings alleging that BOC PCL is legally responsible for allegedly, inter alia, advancing and mis-selling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

General criminal investigations and proceedings

The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. BOC PCL is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Group is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

The Attorney General had filed a criminal case against BOC PCL and five former members of the Board of Directors for alleged market manipulation offences referring to the non-publication in a timely manner of the increased capital shortfall of BOC PCL in 2012. On 14 December 2017, the Court found BOC PCL and its former Chief Executive Officer guilty only in relation to the one charge regarding market manipulation and acquitted all accused of all remaining charges. On 5 January 2018 the Court imposed a fine of €120,000 on BOC PCL and a prison sentence of two and a half years on Mr. Andreas Eliades. BOC PCL has filed an appeal against both the decision and the fine imposed on it. In September 2018 both BOC PCL and Mr. Andreas Eliades were acquitted.

The Attorney General had also filed a separate criminal case against BOC PCL and six former members of the Board of Directors of BOC PCL for alleged market manipulation offences referring to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. On 18 December 2017, the Criminal Court dismissed the proceedings against the accused following a ruling by the Supreme Court (first instance jurisdiction) which rendered the charges void ab initio. The Attorney General has filed an appeal against the first instance ruling of the Supreme Court. In April 2018 the Supreme Court rejected the appeal and thus this is the end of this criminal case.

In January 2017 the Attorney General has filed a criminal case against a number of current and former officers of BOC PCL relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against BOC PCL in this case. Two of the former officers accused, have already been acquitted on the basis of preliminary objections raised by them. The Attorney General has filed an appeal against the acquittals. Meanwhile the hearing of this case has not yet commenced.

40 Pending litigation, claims, regulatory and other matters (continued)

40.2 Regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation

The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government Bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in BOC PCL's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek Government Bond investors regarding BOC PCL's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

The Cyprus Securities and Exchange Commission (CySEC) Investigations

The only pending CySEC investigation against BOC PCL concerns possible price manipulation attributable to BOC PCL for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. It is not expected that any resulting liability or fine will have a material impact on the financial position of the Group.

Commission for the Protection of Competition Investigation

In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the CPC) issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, BOC PCL and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by BOC PCL.

There was also an allegation concerning BOC PCL's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that BOC PCL (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017 the CPC imposed a fine of €18 million upon BOC PCL and BOC PCL filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse. In June 2018 the Administrative court accepted BOC PCL's position and cancelled the decision as well as the fine imposed upon BOC PCL. The Attorney General has filed an appeal before the Supreme court with respect to such decision.

UK regulatory matters

During 2016 and 2017 the BOC group recognised losses of €57,540 thousand on a conduct principle issue. The provision outstanding as at 31 December 2018 is €15,795 thousand (31 December 2017: €46,962 thousand). As part of the agreement for the sale of Bank of Cyprus UK Ltd (Note 53.2.1), liability in regards to UK regulatory matters remains an obligation for settlement by the Group. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management continues to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at the time.

40 Pending litigation, claims, regulatory and other matters (continued)

40.3 Provisions for pending litigation, claims, regulatory and other matters

	Pending litigation or claims (Note 40.1)	Regulatory matters (Note 40.2)	Other matters	Total
	€000	€000	€000	€000
2018				
1 January	62,646	70,672	5,057	138,375
Increase of provisions including unwinding of discount - continuing operations (Note 16)	20,804	6,675	7,953	35,432
Utilisation of provisions	(9,016)	(39,242)	-	(48,258)
Release of provisions - continuing operations (Note 16)	(62)	(9,000)	-	(9,062)
Foreign exchange adjustments	-	464	-	464
31 December	74,372	29,569	13,010	116,951
Provisions expected to be settled within no more than 12 months post reporting date	2,000	15,795	-	17,795
2017				
1 January	25,234	23,648	5,057	53,939
Increase of provisions including unwinding of discount - continuing operations (Note 16)	41,282	52,877	-	94,159
Increase of provisions including unwinding of discount - discontinued operations	-	4,598	-	4,598
Utilisation of provisions	(2,650)	(9,990)	-	(12,640)
Release of provisions - continuing operations (Note 16)	(1,220)	-	-	(1,220)
Foreign exchange adjustments	-	(461)	-	(461)
31 December	62,646	70,672	5,057	138,375
Provisions expected to be settled within no more than 12 months post reporting date	1,200	4,000	-	5,200

The decrease of accumulated provisions for regulatory matters during the six months ended 31 December 2018 mainly relates to utilisation of in provisions on UK regulatory matters as detailed in Note 40.2. The increase of provisions for pending litigation and claims during the six months ended 31 December 2018 mainly relates to increase in provision recognised on investigations and litigations relating to securities issued by BOC PCL as detailed in Note 40.1.

Other matters include other provisions for various open examination requests of the Group, by governmental and other public bodies. The provisions for pending litigation, claims, regulatory and matters do not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries as these are included in 'Insurance liabilities' (Note 33).

Some information required by the IAS 37 (Provision, Contingent Liabilities and Contingent Assets) is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

41. Contingent liabilities and commitments

As part of the services provided to its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Group (Note 46).

41. Contingent liabilities and commitments (continued)

41.2 Other contingent liabilities (continued)

41.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2018 amount to €28,851 thousand (2017: €38,306 thousand).

41.2 Other contingent liabilities

The Group, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been made, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable (Note 46.8.1).

42. Net cash flow from operating activities

	Year ended 31 December	
	2018	2017
	€000	€000
Loss before tax from continuing operations	(33,360)	(479,232)
Profit before tax from discontinued operations	8,926	1,588
<i>Adjustments for:</i>		
Credit losses to cover credit risk on loans and advances to customers and net gains on derecognition of financial assets measured at amortised cost	300,634	779,483
Depreciation of property and equipment	12,016	11,930
Amortisation of intangible assets	13,542	9,404
Impairment of property held for own use and equipment	11	8,470
Impairment of other non-financial assets	1,368	-
Credit losses of other financial instruments	1,610	6,459
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	(25,418)	(22,669)
(Profit)/loss on sale and write-offs of property and equipment and intangible assets	(99)	208
Net losses on disposal of investment properties and investment properties held for sale	-	752
Net losses from revaluation of investment properties and investment properties held for sale	13,275	3,309
Dividend income	(547)	(683)
Net gains on disposal of investments at FVOCI	(19,484)	-
Net gains on financial liabilities at FVPL	(1,435)	-
Net gains on disposal of available-for-sale investments in equity securities	-	(1,520)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	-	(2,104)
Share of profit from associates	(9,095)	(8,957)
Loss from revaluation of debt securities designated as fair value hedges	22,775	14,150
(Profit)/loss on disposal/dissolution of subsidiaries and associates	(6,205)	2,187
Net gains on disposal of stock of property	(31,867)	(30,447)
Impairment of stock of property	17,272	50,502
Interest on funding from central banks	3	28
Interest on subordinated loan stock	25,365	22,258
Change in value of in-force life insurance business	5,314	(2,743)
	294,601	362,373
<i>Change in:</i>		
Loans and advances to banks	(284,836)	60,130
Deposits by banks	(61,938)	60,522
Obligatory balances with central banks	(8,942)	(11,036)
Customer deposits	983,999	1,340,178
Value of in-force life insurance policies and liabilities	12,934	2,306
Loans and advances to customers measured at amortised cost	(320,757)	(227,629)
Loans and advances to customers measured at FVPL	(5,710)	-
Other assets	12,230	28,424
Accrued income and prepaid expenses	(8,306)	374
Other liabilities and pending litigation, claims, regulatory and other matters	(46,236)	91,673
Accrued expenses and deferred income	27,855	3,377
Derivative financial instruments	(18,636)	5,075
Investments at fair value through profit or loss	(9,816)	(8,451)
Repurchase agreements	(8,377)	(45)
Proceeds on disposals of stock of property	228,225	280,365
	786,290	1,987,636
Tax received	3,913	5,630
Net cash flow from operating activities	790,203	1,993,266

42. Net cash flow from operating activities (continued)

Non-cash transactions

2018

Repossession of collaterals

During the year ended 31 December 2018, the Group acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €395,968 thousand (2017: €519,657 thousand) (Note 28).

Increase in the shareholding of Nicosia Mall Holdings (NMH) Ltd

During 2018, BOC PCL increased its controlling interest from 51% to 64% in Nicosia Mall Holdings (NMH) Ltd.

2017

Closure of the operations of Bank of Cyprus branch in Romania

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to others entities of the Group.

Acquisition of Nicosia Mall Holdings (NMH) Limited

During the year ended 31 December 2017 the Group acquired a 51% interest in the share capital of NMH Limited as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 53.3.1.

Net cash flow from operating activities - interest and dividends

	2018	2017
	€000	€000
Interest paid	(225,585)	(194,666)
Interest received	633,733	782,476
Dividends received	547	683
	<u>408,695</u>	<u>588,493</u>

42. Net cash flow from operating activities (continued)

Changes in liabilities arising from financing activities

	Funding from central banks	Subordinated loan stock	Total
	€000	€000	€000
2018			
1 January	930,000	302,288	1,232,288
Cash flows	(100,000)	(24,476)	(124,476)
Foreign exchange adjustments	-	(33)	(33)
Other non-cash movements	-	28,491	28,491
Disposal of subsidiary	-	(35,340)	(35,340)
31 December	830,000	270,930	1,100,930
2017			
1 January 2017	850,014	-	850,014
Cash flows	79,986	280,983	360,969
Foreign exchange adjustments	-	(680)	(680)
Other non-cash movements	-	21,985	21,985
31 December 2017	930,000	302,288	1,232,288

43. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	2017
	€000	€000
Cash and non-obligatory balances with central bank	4,447,816	3,240,201
Loans and advances to banks with original maturity less than three months	357,028	1,040,030
	4,804,844	4,280,231

Analysis of cash and balances with central banks and loans and advances to banks

	2018	2017
	€000	€000
Cash and non-obligatory balances with central bank	4,447,816	3,240,201
Obligatory balances with central banks (Note 20)	162,675	153,733
Total cash and balances with central banks (Note 20)	4,610,491	3,393,934
Loans and advances to banks with original maturity less than three months	357,028	1,040,030
Restricted loans and advances to banks	115,504	117,273
Other loans and advances to banks	-	35,330
Total loans and advances to banks (Note 20)	472,532	1,192,633

Restricted loans and advances to banks include collaterals under derivative transactions of €42,631 thousand (2017: €59,997 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

44. Operating leases - The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 and 2017 are presented below:

	2018	2017
	€000	€000
Within one year	1,864	1,850
Between one and five years	2,542	2,663
After five years	47	62
	<u>4,453</u>	<u>4,575</u>

The above mainly relate to property leases for the Group's branches and offices in Cyprus.

45. Analysis of assets and liabilities by expected maturity

	2018			2017		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
Assets	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	4,447,816	162,675	4,610,491	3,241,396	152,538	3,393,934
Loans and advances to banks	364,655	107,877	472,532	1,094,918	97,715	1,192,633
Derivative financial assets	4,148	20,606	24,754	1,495	16,532	18,027
Investments	135,679	1,379,012	1,514,691	39,050	1,081,562	1,120,612
Loans and advances to customers	1,525,865	9,395,921	10,921,786	3,642,968	10,959,486	14,602,454
Life insurance business assets attributable to policyholders	498	402,067	402,565	20,317	409,573	429,890
Prepayments, accrued income and other assets	82,214	173,788	256,002	98,196	127,909	226,105
Stock of property	542,419	987,969	1,530,388	441,800	1,199,622	1,641,422
Property, equipment and intangible assets	6	431,128	431,134	13	445,753	445,766
Investment properties	-	24,475	24,475	-	19,646	19,646
Investment in associates and joint venture	-	114,637	114,637	-	118,113	118,113
Deferred tax assets	-	301,778	301,778	26,000	357,498	383,498
Non-current assets and disposal group held for sale	1,470,038	-	1,470,038	6,500	-	6,500
	8,573,338	13,501,933	22,075,271	8,612,653	14,985,947	23,598,600
Liabilities						
Deposits by banks	168,740	263,202	431,942	360,277	135,031	495,308
Funding from central banks	-	830,000	830,000	100,000	830,000	930,000
Repurchase agreements	80,692	168,253	248,945	-	257,322	257,322
Derivative financial liabilities	12,459	26,524	38,983	15,205	35,687	50,892
Customer deposits	2,946,714	13,896,844	16,843,558	4,786,907	13,063,012	17,849,919
Insurance liabilities	90,464	500,593	591,057	89,689	515,759	605,448
Accruals, deferred income and other liabilities and pending litigation, claims, regulatory and other matters	300,765	101,669	402,434	283,754	160,848	444,602
Subordinated loan stock	-	270,930	270,930	-	302,288	302,288
Deferred tax liabilities	-	44,282	44,282	-	46,113	46,113
Non-current liabilities and disposal group classified as held for sale	5,812	-	5,812	-	-	-
	3,605,646	16,102,297	19,707,943	5,635,832	15,346,060	20,981,892

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

45. Analysis of assets and liabilities by expected maturity (continued)

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. The latter would be the case where there is secured borrowing, requiring the pledging of bonds and these bonds mature before the maturity of the secured borrowing. The maturity of bonds is then extended to cover the period of the secured borrowing. Investments in equity securities are classified in the 'less than one year' time band.

Trading investments are classified in the 'less than one year' time band.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The Stage 3 Loans are classified in the 'over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits in Cyprus maturing within one year is classified in the 'over one year' time band, based on the observed behavioural analysis.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they don't have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

46. Risk management - Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms across all Group entities in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group.

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

Credit Risk Management department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that credit sanctioning function is being properly managed.

The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Credit Risk Management department determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5 'Significant and other judgements, estimates and assumptions' of these Consolidated Financial Statements.

46. Risk management - Credit risk (continued)

The Market Risk department assesses the credit risk relating to investments in liquid assets (mainly loans and advances to banks and debt securities) and submits its recommendation for limits to be set to the Assets and Liabilities Committee (ALCO) for approval.

46.1 Maximum exposure to credit risk and collateral and other credit enhancements

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	2018	2017
	€000	€000
On-balance sheet		
Cyprus	18,504,113	17,986,526
United Kingdom	511	2,056,334
Other countries	82,796	138,725
	<u>18,587,420</u>	<u>20,181,585</u>
Off-balance sheet		
Cyprus	2,781,943	2,934,269
United Kingdom	-	31,471
Other countries	60,592	73,600
	<u>2,842,535</u>	<u>3,039,340</u>
Total on and off-balance sheet		
Cyprus	21,286,056	20,920,795
United Kingdom	511	2,087,805
Other countries	143,388	212,325
	<u>21,429,955</u>	<u>23,220,925</u>

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

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers

The Credit Risk department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

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

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

Other financial instruments

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

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, the collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	€000
2018									
Balances with central banks (Note 20)	4,456,768	-	-	-	-	-	-	-	4,456,768
Loans and advances to banks (Note 20)	472,532	12,220	-	-	-	-	-	12,220	460,312
FVPL debt securities (Note 21)	14,616	-	-	-	-	-	-	-	14,616
Debt securities classified at amortised cost and FVOCI (Note 21)	1,350,127	-	-	-	-	-	-	-	1,350,127
Derivative financial instruments (Note 22)	24,754	-	-	-	-	-	-	-	24,754
Loans and advances to customers (Note 24)	10,921,786	419,735	291,662	209,274	15,735,094	1,315,573	(8,241,099)	9,730,239	1,191,547
Loans and advances to customers classified as held for sale (Note 30)	1,154,108	2,726	14,283	13,156	2,371,672	13,307	(1,374,545)	1,040,599	113,509
Debtors (Note 29)	30,671	-	-	-	-	-	-	-	30,671
Reinsurers' share of insurance contract liabilities (Note 29)	48,348	-	-	-	-	-	-	-	48,348
Other assets	113,710	-	-	31,768	48,900	46,683	(96,505)	30,846	82,864
On-balance sheet total	18,587,420	434,681	305,945	254,198	18,155,666	1,375,563	(9,712,149)	10,813,904	7,773,516
<i>Contingent liabilities</i>									
Acceptances and endorsements	5,561	323	-	34	4,506	492	-	5,355	206
Guarantees	748,705	120,139	985	4,563	152,272	34,958	-	312,917	435,788
<i>Commitments</i>									
Documentary credits	24,297	3,115	-	10	6,440	5,143	-	14,708	9,589
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,063,972	30,197	8,490	810	346,736	41,288	-	427,521	1,636,451
Off-balance sheet total	2,842,535	153,774	9,475	5,417	509,954	81,881	-	760,501	2,082,034
	21,429,955	588,455	315,420	259,615	18,665,620	1,457,444	(9,712,149)	11,574,405	9,855,550

As at 31 December 2018 the contingent liabilities and commitments include exposures relating to loans and advances to customers classified as held for sale amounting to €3,656 thousand which largely relate to the Cyprus geographical area.

46. Risk management - Credit risk (continued)

46.1 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	€000
2017									
Balances with central banks (Note 20)	3,250,029	-	-	-	-	-	-	-	3,250,029
Loans and advances to banks (Note 20)	1,192,633	-	-	-	-	-	-	-	1,192,633
Trading investments debt securities (Note 21)	14,577	-	-	-	-	-	-	-	14,577
Debt securities classified as available-for-sale and loans and receivables (Note 21)	950,392	-	-	-	-	-	-	-	950,392
Derivative financial instruments (Note 22)	18,027	-	-	-	-	-	-	-	18,027
Loans and advances to customers (Note 24)	14,602,454	339,050	275,111	258,848	21,803,417	747,362	(10,369,288)	13,054,500	1,547,954
Debtors (Note 29)	24,121	-	-	-	-	-	-	-	24,121
Reinsurers' share of insurance contract liabilities (Note 29)	48,000	-	-	-	-	-	-	-	48,000
Other assets	81,352	-	-	37,798	-	-	(1,516)	36,282	45,070
On-balance sheet total	20,181,585	339,050	275,111	296,646	21,803,417	747,362	(10,370,804)	13,090,782	7,090,803
<i>Contingent liabilities</i>									
Acceptances and endorsements	8,367	813	-	-	9,817	79	(4,056)	6,653	1,714
Guarantees	768,165	85,099	464	3,736	153,756	11,405	-	254,460	513,705
<i>Commitments</i>									
Documentary credits	29,630	1,139	7	190	7,550	486	-	9,372	20,258
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,233,178	38,132	5,563	1,543	402,309	36,266	(19,699)	464,114	1,769,064
Off-balance sheet total	3,039,340	125,183	6,034	5,469	573,432	48,236	(23,755)	734,599	2,304,741
	23,220,925	464,233	281,145	302,115	22,376,849	795,598	(10,394,559)	13,825,381	9,395,544

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus, the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of these internal limits over time.

BOC PCL categorises its loans using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from BOC PCL 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 BOC PCL 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 BOC PCL in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

Fair value adjustment on initial recognition

The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

Industry concentrations and geographical analysis of Group loans and advances to customers are presented in the table below. Following the disposal of the UK subsidiary during 2018, the loans in Romania, Russia, Greece and the remaining portfolio in UK are disclosed within 'Other countries'.

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018	€000	€000	€000	€000	€000
By economic activity					
Trade	1,447,623	39,682	1,487,305	(24,096)	1,463,209
Manufacturing	437,030	7,572	444,602	(6,439)	438,163
Hotels and catering	877,501	3,806	881,307	(20,354)	860,953
Construction	991,122	2,552	993,674	(14,661)	979,013
Real estate	980,152	21,644	1,001,796	(16,231)	985,565
Private individuals	6,234,765	11,536	6,246,301	(135,603)	6,110,698
Professional and other services	866,093	45,758	911,851	(36,551)	875,300
Other sectors	720,876	4,704	725,580	(8,114)	717,466
	<u>12,555,162</u>	<u>137,254</u>	<u>12,692,416</u>	<u>(262,049)</u>	<u>12,430,367</u>

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers (continued)

	Cyprus	United Kingdom	Other countries	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
2017						
By economic activity	€000	€000	€000	€000	€000	€000
Trade	1,969,360	13,859	58,247	2,041,466	(71,636)	1,969,830
Manufacturing	630,101	6,468	27,983	664,552	(19,968)	644,584
Hotels and catering	1,283,512	103,808	6,208	1,393,528	(47,257)	1,346,271
Construction	2,310,057	3,398	24,000	2,337,455	(144,899)	2,192,556
Real estate	1,760,498	1,339,680	95,934	3,196,112	(89,647)	3,106,465
Private individuals	6,677,670	97,992	301	6,775,963	(195,686)	6,580,277
Professional and other services	1,181,920	54,616	71,548	1,308,084	(61,954)	1,246,130
Other sectors	1,000,434	1,231	35,890	1,037,555	(37,438)	1,000,117
	<u>16,813,552</u>	<u>1,621,052</u>	<u>320,111</u>	<u>18,754,715</u>	<u>(668,485)</u>	<u>18,086,230</u>

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018					
By business line	€000	€000	€000	€000	€000
Corporate	3,363,298	125,138	3,488,436	(49,982)	3,438,454
SMEs	1,188,456	11,188	1,199,644	(16,537)	1,183,107
Retail					
- housing	2,871,294	-	2,871,294	(45,016)	2,826,278
- consumer, credit cards and other	940,388	904	941,292	2,965	944,257
Restructuring					
- corporate	531,462	24	531,486	(7,907)	523,579
- SMEs	560,806	-	560,806	(11,637)	549,169
- retail housing	498,601	-	498,601	(4,481)	494,120
- retail other	328,952	-	328,952	(8,588)	320,364
Recoveries					
- corporate	164,821	-	164,821	(7,439)	157,382
- SMEs	630,968	-	630,968	(26,178)	604,790
- retail housing	697,212	-	697,212	(40,577)	656,635
- retail other	480,733	-	480,733	(39,923)	440,810
International banking services	192,646	-	192,646	(2,158)	190,488
Wealth management	105,525	-	105,525	(4,591)	100,934
	<u>12,555,162</u>	<u>137,254</u>	<u>12,692,416</u>	<u>(262,049)</u>	<u>12,430,367</u>

46. Risk management - Credit risk (continued)

46.2 Credit risk concentration of loans and advances to customers (continued)

	Cyprus	United Kingdom	Other countries	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
2017						
By business line	€000	€000	€000	€000	€000	€000
Corporate	3,321,730	1,293,304	245,540	4,860,574	(83,251)	4,777,323
SMEs	1,219,350	238,509	17,079	1,474,938	(14,566)	1,460,372
Retail						
- housing	3,007,487	72,856	-	3,080,343	(30,274)	3,050,069
- consumer, credit cards and other	1,085,146	13,977	296	1,099,419	(14,348)	1,085,071
Restructuring						
- major corporate	1,292,607	-	33,860	1,326,467	(55,850)	1,270,617
- corporate	777,460	-	-	777,460	(15,303)	762,157
- SMEs	1,085,221	-	-	1,085,221	(37,096)	1,048,125
- retail housing	437,892	-	-	437,892	(6,319)	431,573
- retail other	226,623	-	-	226,623	(8,037)	218,586
Recoveries						
- corporate	1,709,190	2,406	23,336	1,734,932	(179,336)	1,555,596
- SMEs	950,171	-	-	950,171	(69,852)	880,319
- retail housing	652,421	-	-	652,421	(52,206)	600,215
- retail other	737,566	-	-	737,566	(94,367)	643,199
International banking services	256,554	-	-	256,554	(3,005)	253,549
Wealth management	54,134	-	-	54,134	(4,675)	49,459
	16,813,552	1,621,052	320,111	18,754,715	(668,485)	18,086,230

The fair value adjustment on initial recognition for loans and advances to customers included in the Cyprus geographical area amounts to €261,862 thousand (2017: €658,205 thousand).

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by BOC PCL in Cyprus in its normal course of business with a carrying value of €67,930 thousand (2017: €69,616 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €76,303 thousand (2017: €98,660 thousand). Additionally as at 31 December 2018, the loans and advances to customers in Cyprus include lending exposures to Serbian entities or with collaterals in Serbia with a carrying value of €10,722 thousand (2017: €15,000 thousand).

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale

Industry and business lines concentrations and geographical analysis of Group loans and advances to customers at amortised cost classified as held for sale are presented in the table below.

2018	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
By economic activity	€000	€000	€000	€000	€000
Trade	373,351	-	373,351	(12,213)	361,138
Manufacturing	202,193	-	202,193	(7,216)	194,977
Hotels and catering	258,529	-	258,529	(11,960)	246,569
Construction	995,430	-	995,430	(74,233)	921,197
Real estate	409,632	55,225	464,857	(11,765)	453,092
Private individuals	218,531	-	218,531	(9,098)	209,433
Professional and other services	140,748	-	140,748	(5,941)	134,807
Other sectors	191,463	6,011	197,474	(6,727)	190,747
	2,789,877	61,236	2,851,113	(139,153)	2,711,960

2018	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
By business line	€000	€000	€000	€000	€000
Corporate	15,249	-	15,249	(584)	14,665
SMEs	2,841	-	2,841	-	2,841
Retail					
- consumer, credit cards and other	128	-	128	(1)	127
Restructuring					
- corporate	859,214	-	859,214	(24,379)	834,835
- SMEs	216,866	-	216,866	(4,858)	212,008
- retail housing	272	-	272	-	272
- retail other	5,773	-	5,773	(210)	5,563
Recoveries					
- corporate	1,274,835	61,236	1,336,071	(86,644)	1,249,427
- SMEs	374,336	-	374,336	(17,991)	356,345
- retail housing	635	-	635	(115)	520
- retail other	39,720	-	39,720	(4,371)	35,349
International banking services	8	-	8	-	8
	2,789,877	61,236	2,851,113	(139,153)	2,711,960

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale (continued)

There were no loans and advances to customers classified as held for sale at 31 December 2017.

46.4 Currency concentration of loans and advances to customers

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018	€000	€000	€000	€000	€000
Euro	11,992,100	60,006	12,052,106	(256,720)	11,795,386
US Dollar	300,718	28,523	329,241	(276)	328,965
British Pound	37,955	11,735	49,690	(248)	49,442
Russian Rouble	81	36,058	36,139	-	36,139
Romanian Lei	-	932	932	-	932
Swiss Franc	203,026	-	203,026	(3,242)	199,784
Other currencies	21,282	-	21,282	(1,563)	19,719
	12,555,162	137,254	12,692,416	(262,049)	12,430,367

	Cyprus	United Kingdom	Other countries	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
2017	€000	€000	€000	€000	€000	€000
Euro	16,000,016	16,050	191,126	16,207,192	(649,671)	15,557,521
US Dollar	228,660	424	42,550	271,634	(525)	271,109
British Pound	74,707	1,599,844	92	1,674,643	(423)	1,674,220
Russian Rouble	229	-	85,376	85,605	(1)	85,604
Romanian Lei	-	-	967	967	-	967
Swiss Franc	451,883	2,128	-	454,011	(14,525)	439,486
Other currencies	58,057	2,606	-	60,663	(3,340)	57,323
	16,813,552	1,621,052	320,111	18,754,715	(668,485)	18,086,230

46. Risk management - Credit risk (continued)

46.5 Currency concentration of loans and advances to customers classified as held for sale

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018	€000	€000	€000	€000	€000
Euro	2,638,647	61,236	2,699,883	(129,898)	2,569,985
US Dollar	20,593	-	20,593	(123)	20,470
British Pound	2,469	-	2,469	(18)	2,451
Swiss Franc	90,951	-	90,951	(8,239)	82,712
Other currencies	37,217	-	37,217	(875)	36,342
	<u>2,789,877</u>	<u>61,236</u>	<u>2,851,113</u>	<u>(139,153)</u>	<u>2,711,960</u>

46.6 Credit quality of loans and advances to customers

The following tables present the Group's loans and advances to customers at amortised cost by staging and by business line concentration.

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Gross loans at amortised cost before fair value adjustment on initial recognition	6,035,781	1,921,255	3,915,591	819,789	12,692,416
Fair value adjustment on initial recognition	(77,738)	(20,673)	(40,432)	(123,206)	(262,049)
Gross loans at amortised cost after fair value adjustment on initial recognition	<u>5,958,043</u>	<u>1,900,582</u>	<u>3,875,159</u>	<u>696,583</u>	<u>12,430,367</u>

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
2018	€000	€000	€000	€000	€000
By business line					
Corporate	2,215,264	793,249	387,093	92,830	3,488,436
SMEs	739,166	346,148	103,384	10,946	1,199,644
Retail					
- housing	2,259,976	300,101	300,584	10,633	2,871,294
- consumer, credit cards and other	591,242	199,099	130,816	20,135	941,292
Restructuring					
- corporate	48,943	92,537	303,955	86,051	531,486
- SMEs	55,295	52,573	406,369	46,569	560,806
- retail housing	6,883	3,745	473,444	14,529	498,601
- retail other	5,140	1,226	304,076	18,510	328,952
Recoveries					
- corporate	-	-	120,234	44,587	164,821
- SMEs	-	-	515,542	115,426	630,968
- retail housing	-	-	512,175	185,037	697,212
- retail other	89	-	313,529	167,115	480,733
International banking services	69,620	78,109	41,352	3,565	192,646
Wealth management	44,163	54,468	3,038	3,856	105,525
	<u>6,035,781</u>	<u>1,921,255</u>	<u>3,915,591</u>	<u>819,789</u>	<u>12,692,416</u>

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
2018	€000	€000	€000	€000	€000
By business line					
Corporate	(25,159)	(11,564)	(12,282)	(977)	(49,982)
SMEs	(10,652)	(4,150)	(1,113)	(622)	(16,537)
Retail					
- housing	(43,528)	(97)	(1,246)	(145)	(45,016)
- consumer, credit cards and other	3,248	352	(375)	(260)	2,965
Restructuring					
- corporate	(199)	(1,988)	(2,687)	(3,033)	(7,907)
- SMEs	28	(580)	(3,931)	(7,154)	(11,637)
- retail housing	(119)	(3)	(2,796)	(1,563)	(4,481)
- retail other	34	(40)	(3,971)	(4,611)	(8,588)
Recoveries					
- corporate	-	-	(1,654)	(5,785)	(7,439)
- SMEs	-	-	(2,073)	(24,105)	(26,178)
- retail housing	-	-	(3,200)	(37,377)	(40,577)
- retail other	-	-	(4,695)	(35,228)	(39,923)
International banking services	(303)	(1,164)	(195)	(496)	(2,158)
Wealth management	(1,088)	(1,439)	(214)	(1,850)	(4,591)
	(77,738)	(20,673)	(40,432)	(123,206)	(262,049)

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
2018	€000	€000	€000	€000	€000
By business line					
Corporate	2,190,105	781,685	374,811	91,853	3,438,454
SMEs	728,514	341,998	102,271	10,324	1,183,107
Retail					
- housing	2,216,448	300,004	299,338	10,488	2,826,278
- consumer, credit cards and other	594,490	199,451	130,441	19,875	944,257
Restructuring					
- corporate	48,744	90,549	301,268	83,018	523,579
- SMEs	55,323	51,993	402,438	39,415	549,169
- retail housing	6,764	3,742	470,648	12,966	494,120
- retail other	5,174	1,186	300,105	13,899	320,364
Recoveries					
- corporate	-	-	118,580	38,802	157,382
- SMEs	-	-	513,469	91,321	604,790
- retail housing	-	-	508,975	147,660	656,635
- retail other	89	-	308,834	131,887	440,810
International banking services	69,317	76,945	41,157	3,069	190,488
Wealth management	43,075	53,029	2,824	2,006	100,934
	5,958,043	1,900,582	3,875,159	696,583	12,430,367

An analysis of changes in the gross loans at amortised cost after fair value adjustment on initial recognition by staging including the loans and advances to customers classified as held for sale is presented in the table below. Details on the loans and advances to customers classified as held for sale are disclosed in Note 46.7.

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
2018	€000	€000	€000	€000	€000
1 January	5,100,964	4,418,226	6,838,643	1,308,500	17,666,333
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	1,689,497
Restated balance at 1 January 2018	5,106,032	4,424,820	8,188,686	1,636,292	19,355,830
Transfers to stage 1	2,180,460	(1,952,997)	(227,463)	-	-
Transfers to stage 2	(269,513)	462,775	(193,262)	-	-
Transfers to stage 3	(171,920)	(441,097)	613,017	-	-
Write offs	(12,256)	(21,814)	(2,028,137)	(556,097)	(2,618,304)
Interest accrued and other adjustments	97,860	38,850	516,425	109,977	763,112
New assets originated or purchased and drawdowns of existing facilities	1,752,138	193,416	111,124	33,044	2,089,722
Assets derecognised or repaid (excluding write offs)	(1,021,693)	(603,701)	(879,866)	(112,836)	(2,618,096)
Changes to contractual cash flows due to modifications resulting in derecognition	(22)	(65)	(654)	1,511	770
Disposal of subsidiary	(1,696,090)	(108,266)	(26,351)	-	(1,830,707)
31 December	5,964,996	1,991,921	6,073,519	1,111,891	15,142,327

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New assets originated' and if negative change is reported as 'Assets derecognised or repaid'.

Loans and advances to customers at amortised cost after fair value adjustment on initial recognition, in the corporate and retail business line in Cyprus (excluding loans under Restructuring Recoveries, International banking services and Wealth management) including loans and advances to customers classified as held for sale are presented in the table below:

	Corporate €000	Retail €000
2018		
1 January	2,822,022	4,048,153
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	33,867	22,650
Restated balances at 1 January 2018	2,855,889	4,070,803
Transfers in/(out) of business line	358,019	(305,898)
Interest accrued, foreign exchange and other adjustments	172,622	144,670
Write offs	(80,160)	(25,188)
New assets originated or purchased	870,620	446,855
Assets derecognised or repaid (excluding write offs)	(852,997)	(561,675)
Changes to contractual cash flows due to modifications not resulting to derecognition	(192)	305
31 December	3,323,801	3,769,872

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

The following table presents the credit quality of the Group's loans and advances to customers at amortised cost by geographical concentration:

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018					
By staging	€000	€000	€000	€000	€000
Stage 1	6,023,870	11,911	6,035,781	(77,738)	5,958,043
Stage 2	1,921,234	21	1,921,255	(20,673)	1,900,582
Stage 3	3,790,269	125,322	3,915,591	(40,432)	3,875,159
POCI	819,789	-	819,789	(123,206)	696,583
	12,555,162	137,254	12,692,416	(262,049)	12,430,367

The following table presents the credit quality of the Company's loans and advances to customers as presented in the 2017 financial statements in accordance with IAS 39 based on Credit risk analysis.

	2017		
	Gross loans before fair value adjustment	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000
Neither past due nor impaired	11,149,969	(140,405)	11,009,564
Past due but not impaired	2,084,694	(29,554)	2,055,140
Impaired	5,520,052	(498,526)	5,021,526
	18,754,715	(668,485)	18,086,230

Loans and advances to customers that are neither past due nor impaired

2017	Grade 1	Grade 2	Grade 3	Total
	€000	€000	€000	€000
Cyprus	7,031,123	1,384,121	1,158,512	9,573,756
United Kingdom	1,503,234	48,975	22,812	1,575,021
Romania	978	-	214	1,192
	8,535,335	1,433,096	1,181,538	11,149,969

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are past due but not impaired and impaired

	2017	
	Impaired	Past due but not impaired
Past due analysis:	€000	€000
- no arrears	401,933	-
- up to 30 days	141,329	438,538
- 31 to 90 days	20,880	261,453
- 91 to 180 days	26,340	124,484
- 181 to 365 days	73,073	252,034
- over one year	4,856,497	1,008,185
	<u>5,520,052</u>	<u>2,084,694</u>

Impaired loans and advances to customers

	2017	
	Gross loans and advances	Fair value of collateral
	€000	€000
Cyprus	5,213,278	3,297,980
Greece	15,555	7,041
Russia	143,979	34,847
United Kingdom	6,447	19,932
Romania	140,793	20,385
	<u>5,520,052</u>	<u>3,380,185</u>

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of BOC PCL. These are corporate, retail and SMEs. Corporate and SME clients include legal entities. Retail includes individuals.

Scoring models use internal and external data to assess and "score" borrowers, predict future performance and manage limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower's behaviour is also used.

Credit score is one of the factors employed on new clients and management of existing clients. The credit score of the borrower is used to assess the predicted credit risk for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring improves credit decision quality, adjudication timeframes and consistency in the credit decision process and facilitates risk-based pricing.

Borrower scores define the rating of the borrower from a range of 1-7 and 8 is defined as defaulted. The 12 months default rates (PDs) are calculated per rating. These default rates are assumed to be the 12 month probability of default for the scored borrowers. The following table maps PD bands to various risk levels for corporate, retail and SME exposures.

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating
(continued)

Unrated loans for corporate are assessed using a decision tree methodology based on customer's characteristics such as days past due and gross book value. Unrated loans for retail include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customers for corporate and SME legal entities and new lending for retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

Rating	12-month PD		
	Corporate legal entities %	Retail individuals %	SME legal entities %
1	2.46	1.49	0.88
2	3.04	1.87	1.85
3	3.37	3.20	2.57
4	3.74	5.42	3.84
5	4.21	7.92	6.49
6	7.47	13.37	9.03
7	12.28	29.54	18.17

Low rating exposures demonstrate a good capacity to meet financial commitments, with low probability of default. Medium range rating exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. High rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below shows the gross loans after fair value adjustment on initial recognition in Cyprus, using the corporate legal entities, SMEs legal entities and retail individual definition as per the internal rating of BOC PCL. Loans and advances to customers classified based on the internal credit rating grades include €67,381 thousand managed in Cyprus but originated in other countries.

2018	Stage 1	Stage 2	Total
Corporate legal entities	€000	€000	€000
Rating 1	203,010	51,808	254,818
Rating 2	485,028	110,127	595,155
Rating 3	398,722	61,739	460,461
Rating 4	429,053	223,243	652,296
Rating 5	184,338	62,825	247,163
Rating 6	174,717	12,577	187,294
Rating 7	123,716	16,911	140,627
Unrated	184,900	573,703	758,603
New customers	259,165	19,023	278,188
	2,442,649	1,131,956	3,574,605
Total Stage 3 and POCI			1,237,585
			4,812,190

46. Risk management - Credit risk (continued)

46.6 Credit quality of loans and advances to customers (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

Retail individuals			
Rating 1	279,305	67,286	346,591
Rating 2	686,960	94,836	781,796
Rating 3	930,261	99,008	1,029,269
Rating 4	423,067	74,341	497,408
Rating 5	330,270	76,060	406,330
Rating 6	174,645	52,359	227,004
Rating 7	42,216	51,842	94,058
Unrated	-	3,470	3,470
New lending	259,495	36,397	295,892
	3,126,219	555,599	3,681,818
Total Stage 3 and POCI			2,709,494
			6,391,312

2018	Stage 1	Stage 2	Total
SMEs legal entities	€000	€000	€000
Rating 1	55,500	30,751	86,251
Rating 2	87,460	31,678	119,138
Rating 3	51,932	17,992	69,924
Rating 4	41,757	15,644	57,401
Rating 5	40,685	22,250	62,935
Rating 6	35,414	32,538	67,952
Rating 7	37,283	36,180	73,463
Unrated	-	19,080	19,080
New customers	37,717	6,918	44,635
	387,748	213,031	600,779
Total Stage 3 and POCI			556,403
			1,157,182

46.7 Credit quality of loans and advances to customers classified as held for sale

The following tables present the credit quality of the Group's loans and advances at amortised cost classified as held for sale by business line concentration.

2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
Gross loans at amortised cost before fair value adjustment on initial recognition	7,148	94,600	2,222,931	526,434	2,851,113
Fair value adjustment on initial recognition	(195)	(3,261)	(24,571)	(111,126)	(139,153)
Gross loans at amortised cost after fair value adjustment on initial recognition	6,953	91,339	2,198,360	415,308	2,711,960

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost before fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
Corporate	165	-	14,343	741	15,249
SMEs	2,835	-	6	-	2,841
Retail					
- consumer, credit cards and other	-	-	125	3	128
Restructuring					
- corporate	2,110	85,783	722,631	48,690	859,214
- SMEs	2,038	8,817	187,831	18,180	216,866
- retail housing	-	-	231	41	272
- retail other	-	-	5,575	198	5,773
Recoveries					
- corporate	-	-	967,761	368,310	1,336,071
- SMEs	-	-	300,509	73,827	374,336
- retail housing	-	-	484	151	635
- retail other	-	-	23,427	16,293	39,720
International banking services	-	-	8	-	8
	7,148	94,600	2,222,931	526,434	2,851,113

Fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
Corporate	-	-	(584)	-	(584)
Retail					
- consumer, credit cards and other	-	-	-	(1)	(1)
Restructuring					
- corporate	-	(2,722)	(13,730)	(7,927)	(24,379)
- SMEs	(195)	(539)	(1,470)	(2,654)	(4,858)
- retail other	-	-	(132)	(78)	(210)
Recoveries					
- corporate	-	-	(4,900)	(81,744)	(86,644)
- SMEs	-	-	(3,473)	(14,518)	(17,991)
- retail housing	-	-	-	(115)	(115)
- retail other	-	-	(282)	(4,089)	(4,371)
	(195)	(3,261)	(24,571)	(111,126)	(139,153)

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

Gross loans at amortised cost after fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
Corporate	165	-	13,759	741	14,665
SMEs	2,835	-	6	-	2,841
Retail					
- consumer, credit cards and other	-	-	125	2	127
Restructuring					
- corporate	2,110	83,061	708,901	40,763	834,835
- SMEs	1,843	8,278	186,361	15,526	212,008
- retail housing	-	-	231	41	272
- retail other	-	-	5,443	120	5,563
Recoveries					
- corporate	-	-	962,861	286,566	1,249,427
- SMEs	-	-	297,036	59,309	356,345
- retail housing	-	-	484	36	520
- retail other	-	-	23,145	12,204	35,349
International banking services	-	-	8	-	8
	6,953	91,339	2,198,360	415,308	2,711,960

The following table presents the credit quality of the Group's loans and advances to customers at amortised cost classified as held for sale by geographical concentration:

	Cyprus	Other countries	Total	Fair value adjustment on initial recognition	Gross loans at amortised cost after fair value adjustment on initial recognition
2018	€000	€000	€000	€000	€000
By staging					
Stage 1	7,148	-	7,148	(195)	6,953
Stage 2	94,600	-	94,600	(3,261)	91,339
Stage 3	2,161,695	61,236	2,222,931	(24,571)	2,198,360
POCI	526,434	-	526,434	(111,126)	415,308
	2,789,877	61,236	2,851,113	(139,153)	2,711,960

46. Risk management - Credit risk (continued)

46.7 Credit quality of loans and advances to customers classified as held for sale (continued)

	Stage 1	Stage 2	Total
	€000	€000	€000
Corporate legal entities			
Rating 2	2,452	-	2,452
Rating 3	722	4,468	5,190
Rating 6	3,000	951	3,951
Unrated	-	80,402	80,402
New customers	99	-	99
	6,273	85,821	92,094
Total Stage 3 and POCI			2,363,960
			2,456,054
Retail legal entities			
Rating 4	10	-	10
Rating 5	670	2,276	2,946
Rating 7	-	2,092	2,092
	680	4,368	5,048
Total Stage 3 and POCI			234,237
			239,285
SMEs legal entities			
Rating 7	-	129	129
Unrated	-	362	362
New customers	-	659	659
	-	1,150	1,150
Total Stage 3 and POCI			15,471
			16,621

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments

The Group enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

46.8.1 Contingent liabilities

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1	Stage 2	Stage 3	Total
Exposures	€000	€000	€000	€000
1 January	302,437	252,230	221,865	776,532
Transfers to stage 1	48,097	(32,459)	(15,638)	-
Transfers to stage 2	(9,298)	26,050	(16,752)	-
Transfers to stage 3	(2,528)	(6,749)	9,277	-
Net increase/(decrease)	62,315	(44,996)	(38,135)	(20,816)
Foreign exchange and other adjustments	(25)	-	-	(25)
Disposal of subsidiary	(1,425)	-	-	(1,425)
31 December	399,573	194,076	160,617	754,266

2018	Stage 1	Stage 2	Stage 3	Total
ECL	€000	€000	€000	€000
1 January	877	2,095	43,214	46,186
Impact of adopting IFRS 9 at 1 January 2018	(796)	(1,865)	(14,158)	(16,819)
Restated balance at 1 January	81	230	29,056	29,367
Transfers to stage 1	77	(47)	(30)	-
Transfers to stage 2	(16)	290	(274)	-
Transfers to stage 3	(887)	(3,890)	4,777	-
Charge for the year*	1,047	4,228	(9,751)	(4,476)
31 December	302	811	23,778	24,891
Individually assessed	35	149	23,778	23,962
Collectively assessed	267	662	-	929
	302	811	23,778	24,891

* The charge for the year mainly relates to changes to models and inputs.

The outstanding contingent liabilities by geography are disclosed in the table below:

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Cyprus	399,573	158,630	135,814	694,017
Other countries	-	35,446	24,803	60,249
Total	399,573	194,076	160,617	754,266

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.1 Contingent liabilities (continued)

The credit quality of contingent liabilities in Cyprus, as per the internal rating system of BOC PCL is disclosed in the table below.

Corporate legal entities	Stage 1 €000	Stage 2 €000	Total €000
Rating 1	78,723	63	78,786
Rating 2	28,878	24	28,902
Rating 3	41,333	1,356	42,689
Rating 4	27,406	2,569	29,975
Rating 5	22,468	40	22,508
Rating 6	4,811	418	5,229
Rating 7	10,717	420	11,137
Unrated	37,573	145,101	182,674
New customers	86,675	-	86,675
	338,584	149,991	488,575
Total Stage 3			155,784
			644,359

SME legal entities	Stage 1 €000	Stage 2 €000	Total €000
Rating 1	10,951	2,515	13,466
Rating 2	4,520	1,233	5,753
Rating 3	1,343	192	1,535
Rating 4	4,243	900	5,143
Rating 5	2,797	673	3,470
Rating 6	4,898	1,588	6,486
Rating 7	1,901	1,429	3,330
Unrated	-	13,211	13,211
New customers	30,336	555	30,891
	60,989	22,296	83,285
Total Stage 3			2,824
			86,109

Retail individuals	Stage 1 €000	Stage 2 €000	Total €000
Unrated	-	21,789	21,789
	-	21,789	21,789
Total Stage 3			2,009
			23,798

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Exposure	-	-	-	-
1 January	1,160,742	883,737	218,329	2,262,808
Transfers to stage 1	232,355	(205,220)	(27,135)	-
Transfers to stage 2	(150,375)	172,014	(21,639)	-
Transfers to stage 3	(10,820)	(12,993)	23,813	-
Net increase/(decrease)	93,749	(222,036)	(27,830)	(156,117)
Disposal of subsidiary	(18,232)	-	-	(18,232)
Foreign exchange and other adjustments	(190)	-	-	(190)
31 December	1,307,229	615,502	165,538	2,088,269

2018	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
ECL	-	-	-	-
1 January	25	22	5,754	5,801
Impact of adopting IFRS 9 at 1 January 2018	367	1,204	(3,672)	(2,101)
Restated balance at 1 January 2018	392	1,226	2,082	3,700
Transfers to stage 1	282	(203)	(79)	-
Transfers to stage 2	(265)	754	(489)	-
Charge for the year*	603	5	(1,514)	(906)
31 December	1,012	1,782	-	2,794
Individually assessed	78	71	-	149
Collectively assessed	934	1,711	-	2,645
	1,012	1,782	-	2,794

*The charge in the year mainly relates to changes to models and inputs.

Commitments by geography are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
Cyprus	1,307,229	615,502	165,195	2,087,926
Other countries	-	-	343	343
Total	1,307,229	615,502	165,538	2,088,269

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

The credit quality of commitments in Cyprus, as per the internal rating system of BOC PCL is disclosed in the table below.

Corporate legal entities	Stage 1 €000	Stage 2 €000	Total €000
Rating 1	175,810	7,993	183,803
Rating 2	155,852	5,246	161,098
Rating 3	85,480	15,600	101,080
Rating 4	54,717	5,614	60,331
Rating 5	28,247	1,969	30,216
Rating 6	10,853	1,982	12,835
Rating 7	11,606	2,167	13,773
Unrated	31,070	198,058	229,128
New customers	103,441	2,604	106,045
	657,076	241,233	898,309
Total Stage 3			137,557
			1,035,866

SME legal entities	Stage 1 €000	Stage 2 €000	Total €000
Rating 1	83,581	54,630	138,211
Rating 2	31,666	14,277	45,943
Rating 3	12,873	3,432	16,305
Rating 4	19,947	15,805	35,752
Rating 5	10,731	5,295	16,026
Rating 6	27,252	28,475	55,727
Rating 7	5,109	13,091	18,200
Unrated	-	23,122	23,122
New customers	25,035	733	25,768
	216,194	158,860	375,054
Total Stage 3			12,672
			387,726

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

Retail individuals	Stage 1	Stage 2	Total
	€000	€000	€000
Rating 1	84,297	43,628	127,925
Rating 2	122,073	67,980	190,053
Rating 3	85,405	38,570	123,975
Rating 4	50,785	18,416	69,201
Rating 5	16,026	7,423	23,449
Rating 6	5,475	5,054	10,529
Rating 7	1,240	3,466	4,706
Unrated	-	26,481	26,481
New lending	68,658	4,391	73,049
	433,959	215,409	649,368
Total Stage 3			15,309
			664,677

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale

The movement in ECL of loans and advances, including the loans and advances to customers held for sale, is as follows:

2018 Cyprus	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
1 January	20,840	29,510	2,654,800	500,027	3,205,177
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,561	1,294,541	326,152	1,632,322
Impact of adopting IFRS 9 at 1 January 2018	(6,660)	32,744	235,471	52,373	313,928
Restated balance at 1 January	19,248	68,815	4,184,812	878,552	5,151,427
Transfer from Romania branch	-	-	-	22,176	22,176
Transfers to stage 1	54,379	(29,841)	(24,538)	-	-
Transfers to stage 2	(1,721)	28,096	(26,375)	-	-
Transfers to stage 3	(5,459)	(11,362)	16,821	-	-
Foreign exchange and other adjustments	-	-	1,601	317	1,918
Write offs	(13,693)	(20,303)	(1,961,979)	(552,912)	(2,548,887)
Interest (provided) not recognised in the income statement	-	-	141,719	17,521	159,240
New assets originated or purchased*	6,345	-	-	5,581	11,926
Assets derecognised or repaid (excluding write offs)*	832	(3,760)	(107,462)	(9,868)	(120,258)
Write offs*	2,334	5,369	68,483	11,690	87,876
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,691	36,336	380,988	61,123	482,138
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	(1,847)
Impact on transfer between stages during the year*	(39,842)	294	110,778	(1,680)	69,550
31 December	26,233	73,870	2,783,232	431,924	3,315,259
Individually assessed	6,326	17,411	147,327	22,206	193,270
Collectively assessed	19,907	56,459	2,635,905	409,718	3,121,989
	26,233	73,870	2,783,232	431,924	3,315,259

* Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	Total
Other countries	€000	€000	€000	€000	€000
1 January	1,344	365	222,389	23,575	247,673
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	33	55,502	1,640	57,175
Impact of adopting IFRS 9 at 1 January 2018	(7)	4,215	933	33	5,174
Restated balance at 1 January	1,337	4,613	278,824	25,248	310,022
Transfer to Cyprus operations	-	-	-	(22,176)	(22,176)
Transfers to stage 2	-	28	(28)	-	-
Foreign exchange and other adjustments	(236)	-	(8,189)	1	(8,424)
Write offs	1	(42)	(116,353)	(832)	(117,226)
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	(3,594)
Interest (provided) not recognised in the income statement	-	-	5,197	-	5,197
New assets originated or purchased*	(1)	-	-	-	(1)
Assets derecognised or repaid (excluding write offs)*	-	(3)	(4,209)	(89)	(4,301)
Write offs*	-	6	944	3	953
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	33	(4,212)	(9,346)	(2,155)	(15,680)
Discontinued operations	233	3	(860)	-	(624)
Impact on transfer between stages during the year*	263	(25)	2,362	-	2,600
31 December	135	-	146,611	-	146,746
Individually assessed	-	-	88,716	-	88,716
Collectively assessed	135	-	57,895	-	58,030
	135	-	146,611	-	146,746

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 Total	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
1 January	22,184	29,875	2,877,189	523,602	3,452,850
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	1,689,497
Impact of adopting IFRS 9 at 1 January 2018 (Note 6.5)	(6,667)	36,959	236,404	52,406	319,102
Restated balance at 1 January	20,585	73,428	4,463,636	903,800	5,461,449
Transfers to stage 1	54,379	(29,841)	(24,538)	-	-
Transfers to stage 2	(1,721)	28,124	(26,403)	-	-
Transfers to stage 3	(5,459)	(11,362)	16,821	-	-
Foreign exchange and other adjustments	(236)	-	(6,588)	318	(6,506)
Write offs	(13,692)	(20,345)	(2,078,332)	(553,744)	(2,666,113)
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	(3,594)
Interest (provided) not recognised in the income statement	-	-	146,916	17,521	164,437
New assets originated or purchased*	6,344	-	-	5,581	11,925
Assets derecognised or repaid (excluding write offs)*	832	(3,763)	(111,671)	(9,957)	(124,559)
Write offs*	2,334	5,375	69,427	11,693	88,829
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,724	32,124	371,642	58,968	466,458
Discontinued operations	233	3	(860)	-	(624)
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	(1,847)
Impact on transfer between stages during the year*	(39,579)	269	113,140	(1,680)	72,150
31 December	26,368	73,870	2,929,843	431,924	3,462,005
Individually assessed	6,326	17,411	236,043	22,206	281,986
Collectively assessed	20,042	56,459	2,693,800	409,718	3,180,019
	26,368	73,870	2,929,843	431,924	3,462,005

* Individual components of the 'Impairment loss net of reversals on loans and advances to customers' as disclosed in Note 17.

The above tables do not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and ECL on financial guarantees which are part of other liabilities on the balance sheet. There were no loans and advances to customers classified as held for sale as at 31 December 2017.

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of credit losses of loans and advances to customers includes credit losses relating to loans and advances to customers classified as held for sale. Their balance at 31 December 2018 by staging and geographical area is presented in the table below:

31 December 2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Cyprus	3,441	43,977	1,271,559	188,482	1,507,459
Other countries	-	-	50,393	-	50,393
Total	3,441	43,977	1,321,952	188,482	1,557,852
Collectively assessed	3,441	43,977	1,321,952	188,482	1,557,852

2017	Cyprus €000	United Kingdom €000	Other countries €000	Total €000
1 January	3,170,161	10,782	371,298	3,552,241
Foreign exchange and other adjustments	77,234	(183)	(7,059)	69,992
Transfer between geographical areas	23	(23)	-	-
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	(12,792)
Applied in writing off impaired loans and advances	(831,708)	(117)	(138,684)	(970,509)
Interest accrued on impaired loans and advances	(97,951)	(2)	(1,406)	(99,359)
Collection of loans and advances previously written off	5,975	287	2	6,264
Charge for the year	925,161	(2,650)	16,000	938,511
Charge for the year - discontinued operations	-	(572)	-	(572)
31 December	3,236,103	7,522	240,151	3,483,776
Individual impairment	2,367,205	4,751	227,739	2,599,695
Collective impairment	868,898	2,771	12,412	884,081

The provision for impairment of loans and advances, including the loans and advances to customers held for sale, by business line is presented in the table below:

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

31 December 2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Corporate	8,322	16,008	165,706	5,143	195,179
SMEs	5,621	3,333	22,574	320	31,848
Retail					
- housing	4,052	1,028	28,109	301	33,490
- consumer, credit cards and other	4,848	4,655	26,152	1,878	37,533
Restructuring					
- corporate	1,803	42,745	402,181	21,621	468,350
- SMEs	1,507	5,469	253,504	24,325	284,805
- retail housing	23	102	138,799	4,309	143,233
- retail other	127	53	171,882	9,479	181,541
Recoveries					
- corporate	-	-	696,310	147,552	843,862
- SMEs	-	-	538,148	83,209	621,357
- retail housing	-	-	248,429	59,651	308,080
- retail other	-	-	226,379	72,396	298,775
International banking services	52	462	10,180	1,175	11,869
Wealth management	13	15	1,490	565	2,083
	26,368	73,870	2,929,843	431,924	3,462,005

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of the ECL allowance for the loans and advances to customers in the corporate and retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking services and Wealth management) including ECL allowance for loans and advances to customers held for sale is presented in the table below:

2018	Corporate	Retail
	€000	€000
1 January	106,153	115,197
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	33,867	22,651
Impact of adopting IFRS 9 at 1 January 2018	40,270	40,645
Restated balance at 1 January	180,290	178,493
Transfer in/(out) of the business line	18,978	(95,078)
Write offs	(80,160)	(25,188)
Interest (provided) not recognised in the income statement	1,788	1,531
New assets originated or purchased*	5,987	1,385
Assets derecognised or repaid (excluding write offs)*	(36,005)	(10,796)
Write offs*	772	8,018
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	(1,156)	17,962
Changes to contractual cash flows due to modifications not resulting in derecognition*	7	827
Impact on transfer between stages during the year*	17,368	(6,678)
31 December	107,869	70,476

As from 1 January 2018, to comply with the requirements of IFRS 9, relating to the measurement and presentation of the gross carrying amount and accumulated allowance for impairment as impacted from interest income on impaired loans, the gross carrying amounts of the loans have been increased by an amount of €1,689,497 thousand and an equivalent adjustment was effected on the accumulated allowance for impairment. There was no impact on the net carrying amount of the customer loans and advances from this charge in the presentation.

During 2018 the total non-contractual write-offs recorded by the Group amounted to €2,264,902 thousand (2017: €466,248 thousand).

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

At 31 December 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provision calculation for loans and advances to customers other than those classified as held for sale is c.32% under the baseline scenario (31 December 2017: c.34%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation for loans and advances to customers other than those classified as held for sale has been estimated to be on average 7 years under the baseline scenario (2017: average of 6 years).

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

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

For Stage 3 customers, the calculation of individually assessed provision is the weighted average of three scenarios; base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures. In the case of loans held for sale the Group has taken into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL. Amounts previously written off which are expected to be recovered through sale are presented in 'Recoveries of loans and advances to customers previously written off' in (Note 17).

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

Any positive cumulative average future change in forecasted property values was capped to zero for 2018 and 2017. This applies to all scenarios.

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

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

Sensitivity analysis

The Group has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents 99% of the total loan portfolio of the Group (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2018.

The Group uses three different economic scenarios in the ECL calculation: a base, an adverse and a favourable scenario with weights 50%, 30% and 20% respectively. The same scenarios determined at 31 December 2018 were used for the scenarios determined on 1 January 2018 (the transition date to IFRS 9).

The Group has altered the weights of the economic scenarios and changed the collateral realisation periods and the impact on the ECL, for both individually and collectively assessed ECL calculations, as at 31 December 2018 is presented in the table below:

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost
	€000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	4,963
Decrease the adverse weight by 5% and increase the favourable weight by 5%	(4,956)
Increase the expected recovery period by 1 year	50,898
Decrease the expected recovery period by 1 year	(49,821)
Increase the collateral realisation haircut by 5%	89,682
Decrease the collateral realisation haircut by 5%	(81,862)
Increase in the PDs of stages 1&2 by 20%	12,733
Decrease in the PDs of stages 1&2 by 20%	(11,126)

The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 31 December 2017. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(decrease) on provisions for impairment of loans and advances
	€000
Increase the timing of recovery from collaterals by 1 year for all customers	120,700
Decrease the timing of recovery from collaterals by 1 year for all customers	(121,875)
Increase haircuts by 5% on all customers	179,447
Decrease haircuts by 5% on all customers	(169,291)
Increase the average expected recovery period by 1 year and decrease of haircuts by 5% on all customers	(47,199)
Decrease the average expected recovery period by 1 year and increase of haircuts by 5% on all customers	59,748

The comparative information is not comparable to current period information since the assumptions used, are different under IAS 39 compared to those of IFRS 9.

46. Risk management - Credit risk (continued)

46.10 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2018 and 2017 by taking possession of collateral held as security, was as follows:

	2018	2017
	€000	€000
Residential property	66,893	77,932
Commercial and other property	329,363	444,536
	396,256	522,468

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2018 amounted to €1,684,606 thousand (2017: €1,611,091 thousand).

The disposals of repossessed assets during 2018 amounted to €173,080 thousand (2017: €247,030 thousand).

46.11 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower with the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to categorise the facility as credit impaired as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

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

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

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

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

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears; that is forbearance of the arrears and capitalisation of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.

Long-term restructuring solutions can include the following:

- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

Stage 2 and Stage 3 loans after fair value adjustment on initial recognition that were forborne during the year amounted to €480,437 thousand. Their related modification loss amounted to €7,009 thousand.

Facilities that have cured since their modification and are classified as Stage 1 at 31 December 2018 amount to €31,138 thousand and their corresponding ECL amount to €220 thousand.

Facilities that reverted to Stage 2 and Stage 3 having once cured amount to €165,379 thousand and their corresponding ECL amounts to €6,495 thousand at 31 December 2018.

46.12 Rescheduled loans and advances to customers

The below table presents the movement of the Group's rescheduled loans and advances to customers measured at amortised cost including those classified as held for sale (by geography). The rescheduled loans related to loans and advances classified as held for sale amounts to €1,412,802 thousand.

	Cyprus	Other countries	Total
2018	€000	€000	€000
1 January	6,272,946	99,068	6,372,014
Rescheduled loans measured at FVPL on adoption of IFRS 9	(341,765)	-	(341,765)
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	416,093	3,678	419,771
Restated balance at 1 January	6,347,274	102,746	6,450,020
Transfer between geographical areas	6,254	(6,254)	-
New loans and advances rescheduled in the year	240,660	220	240,880
Assets no longer classified as rescheduled (including repayments)	(1,472,701)	(98)	(1,472,799)
Applied in writing off rescheduled loans and advances	(727,759)	(31,932)	(759,691)
Interest accrued on rescheduled loans and advances	166,922	919	167,841
Foreign exchange adjustments	5,820	(16,795)	(10,975)
31 December	4,566,470	48,806	4,615,276

	Cyprus	United Kingdom	Other countries	Total
2017	€000	€000	€000	€000
1 January	7,401,870	90,323	163,111	7,655,304
New loans and advances rescheduled in the year	402,521	89	3,424	406,034
Assets no longer classified as rescheduled (including repayments)	(1,326,918)	(79,147)	(60,032)	(1,466,097)
Applied in writing off rescheduled loans and advances	(461,468)	(2)	(13,076)	(474,546)
Interest accrued on rescheduled loans and advances	278,858	16	1,382	280,256
Foreign exchange adjustments	(21,917)	(1,393)	(5,627)	(28,937)
31 December	6,272,946	9,886	89,182	6,372,014

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification excluding those classified as held for sale, as well as impairment provisions and tangible collateral held for rescheduled loans.

Credit quality

	Cyprus	Other countries	Total
2018	€000	€000	€000
Stage 1	508,664	120	508,784
Stage 2	376,794	24	376,818
Stage 3	2,001,947	48,662	2,050,609
POCI	266,263	-	266,263
	3,153,668	48,806	3,202,474

	Cyprus	United Kingdom	Other countries	Total
2017	€000	€000	€000	€000
Neither past due nor impaired	3,158,894	5,383	79	3,164,356
Past due but not impaired	1,218,160	2,354	-	1,220,514
Impaired	1,895,892	2,149	89,103	1,987,144
31 December	6,272,946	9,886	89,182	6,372,014

Fair value of collateral

	Cyprus	Other countries	Total
2018	€000	€000	€000
Stage 1	480,611	101	480,712
Stage 2	327,142	21	327,163
Stage 3	1,631,012	11,204	1,642,216
POCI	248,691	-	248,691
31 December	2,687,456	11,326	2,698,782

	Cyprus	United Kingdom	Other countries	Total
2017	€000	€000	€000	€000
Neither past due nor impaired	2,818,937	5,345	93	2,824,375
Past due but not impaired	1,020,063	2,353	-	1,022,416
Impaired	1,437,734	1,131	24,448	1,463,313
31 December	5,276,734	8,829	24,541	5,310,104

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration

2018	Cyprus	Other countries	Total
By economic activity	€000	€000	€000
Trade	245,919	20,430	266,349
Manufacturing	84,267	2,729	86,996
Hotels and catering	123,596	1	123,597
Construction	373,539	532	374,071
Real estate	221,011	13,186	234,197
Private individuals	1,761,663	166	1,761,829
Professional and other services	249,607	11,761	261,368
Other sectors	94,066	1	94,067
	3,153,668	48,806	3,202,474

2018			
By business line			
Corporate	337,316	45,192	382,508
SMEs	207,000	3,466	210,466
Retail			
- housing	568,879	-	568,879
- consumer, credit cards and other	172,559	124	172,683
Restructuring			
- corporate	353,210	24	353,234
- SMEs	363,465	-	363,465
- retail housing	382,478	-	382,478
- retail other	177,241	-	177,241
Recoveries			
- corporate	64,698	-	64,698
- SMEs	139,309	-	139,309
- retail housing	222,244	-	222,244
- retail other	117,573	-	117,573
International banking services	43,698	-	43,698
Wealth management	3,998	-	3,998
	3,153,668	48,806	3,202,474

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	Total
By business line	€000	€000	€000	€000	€000
Corporate	98,485	154,531	126,186	3,306	382,508
SMEs	67,513	63,170	75,310	4,473	210,466
Retail					
- housing	246,922	45,090	271,988	4,879	568,879
- consumer, credit cards and other	46,012	17,148	107,184	2,339	172,683
Restructuring					
- corporate	7,903	44,505	236,389	64,437	353,234
- SMEs	31,579	27,729	281,415	22,742	363,465
- retail housing	3,800	871	369,482	8,325	382,478
- retail other	1,468	153	171,789	3,831	177,241
Recoveries					
- corporate	-	-	49,759	14,939	64,698
- SMEs	-	-	102,355	36,954	139,309
- retail housing	-	-	165,738	56,506	222,244
- retail other	-	-	76,716	40,857	117,573
International banking services	4,174	23,621	14,185	1,718	43,698
Wealth management	928	-	2,113	957	3,998
	508,784	376,818	2,050,609	266,263	3,202,474

2017	Cyprus	United Kingdom	Other countries	Total
By economic activity	€000	€000	€000	€000
Trade	607,700	445	31,950	640,095
Manufacturing	201,377	44	12,436	213,857
Hotels and catering	429,520	2,242	-	431,762
Construction	1,222,591	-	20,145	1,242,736
Real estate	862,508	4,837	5,401	872,746
Private individuals	2,221,465	1,593	-	2,223,058
Professional and other services	359,970	725	18,912	379,607
Other sectors	367,815	-	338	368,153
	6,272,946	9,886	89,182	6,372,014

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2017	Cyprus	United Kingdom	Other countries	Total
By business line	€000	€000	€000	€000
Corporate	795,714	3,867	80,900	880,481
SMEs	344,957	4,550	4,670	354,177
Retail				
- housing	958,415	-	-	958,415
- consumer, credit cards and other	290,308	1,469	-	291,777
Restructuring				
- major corporate	934,096	-	79	934,175
- corporate	624,602	-	-	624,602
- SMEs	739,537	-	-	739,537
- retail housing	301,111	-	-	301,111
- retail other	122,749	-	-	122,749
Recoveries				
- corporate	569,287	-	3,533	572,820
- SMEs	226,158	-	-	226,158
- retail housing	171,234	-	-	171,234
- retail other	139,851	-	-	139,851
International banking services	53,103	-	-	53,103
Wealth management	1,824	-	-	1,824
	6,272,946	9,886	89,182	6,372,014

ECL allowances

	Cyprus	Other countries	Total
2018	€000	€000	€000
Stage 1	4,122	-	4,122
Stage 2	8,613	-	8,613
Stage 3	589,372	7,513	596,885
POCI	85,412	-	85,412
	687,519	7,513	695,032

	Cyprus	United Kingdom	Other countries	Total
2017	€000	€000	€000	€000
Individual impairment	797,975	1,054	66,510	865,539
Collective impairment	594,075	242	-	594,317
	1,392,050	1,296	66,510	1,459,856

46. Risk management - Credit risk (continued)

46.13 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and loans and advances to banks

Balances with central banks and loans and advances to banks are analysed by Moody's Investors Service rating as follows:

	2018	2017
	€000	€000
Aaa - Aa3	182,968	745,330
A1 - A3	100,478	560,059
Baa1 - Baa3	68,666	132,610
Ba1 - Ba3	4,472,223	2,870,600
B1 - B3	8,621	655
Caa - C	20,973	18,399
Unrated	38,147	58,406
Other receivables from banks	37,224	56,603
	<u>4,929,300</u>	<u>4,442,662</u>

Band Ba1-Ba3 above includes an amount of €162,675 thousand which relates to obligatory deposits for liquidity purposes with the CBC (2017: €153,733 thousand). As at 31 December 2018, no bank balances are impaired (2017: €33,004 thousand, with cumulative impairment loss of €24,998 thousand).

All balances with central banks and loans and advances to banks are classified as Stage 1 (Note 20).

46. Risk management - Credit risk (continued)

46.13 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Debt securities

Investments in debt securities are analysed as follows:

	2018	2017
	€000	€000
<i>Moody's rating</i>		
Aaa - Aa3	823,485	437,857
A1 - A3	27,005	-
Baa1 - Baa3	26,001	12,306
Ba1 - Ba3	441,700	514,306
Unrated	46,552	500
	1,364,743	964,969
<i>Issued by:</i>		
- Cyprus government	441,757	514,306
- Other governments	423,675	304,441
- Banks and other corporations	499,311	146,222
	1,364,743	964,969
<i>Classified as:</i>		
Investments mandatorily measured at FVPL	14,616	14,577
Investments at FVOCI	819,748	-
Investments at amortised cost	530,379	-
Available-for-sale investments	-	901,734
Loans and receivables	-	48,658
	1,364,743	964,969

	FVOCI		Amortised cost		
	Stage 1	Stage 1	Stage 2	Total	
	€000	€000	€000	€000	
Aaa - Aa3	486,385	337,100	-	337,100	
A1 - A3	1,876	11,560	-	11,560	
Baa1 - Baa3	946	25,055	-	25,055	
Ba1 - Ba3	322,020	70,841	48,292	119,133	
Unrated	8,521	-	37,531	37,531	
	819,748	444,556	85,823	530,379	

47. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, exchange rates, property and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

47. Risk management - Market risk (continued)

Interest rate risk

Interest rate risk refers to the current or prospective risk to Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated.

Interest rate risk is managed through a Year 1 Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income (when positive). There are different limits for the Euro and the US Dollar.

Sensitivity analysis

The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies using the assumption of the prevailing market risk policy for the current and the comparative year.

Currency	Interest Rate Scenario	Impact on Net Interest Income in €000	
		2018 (50 bps for Euro and 60 bps for US Dollar)	2017 (60 bps for Euro and US Dollar)
All	Parallel up	32,640	24,470
All	Parallel down	(29,712)	(29,886)
All	Steepening	(25,455)	(25,031)
All	Flattening	27,170	22,895
All	Short up	31,590	25,603
All	Short down	(29,590)	(29,352)
Euro	Parallel up	32,247	24,280
Euro	Parallel down	(28,001)	(28,458)
Euro	Steepening	(23,917)	(22,935)
Euro	Flattening	26,894	22,499
Euro	Short up	31,211	25,378
Euro	Short down	(27,743)	(27,188)
US Dollar	Parallel up	393	190
US Dollar	Parallel down	(1,711)	(1,428)
US Dollar	Steepening	(1,538)	(2,096)
US Dollar	Flattening	276	396
US Dollar	Short up	379	225
US Dollar	Short down	(1,847)	(2,164)

The table below sets out the impact on the Group's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines:

47. Risk management - Market risk (continued)

Currency	Interest Rate Scenario	Impact on Equity in €000	
		2018 (50 bps for Euro and 60 bps for US Dollar)	2017 (60 bps for Euro and US Dollar)
All	Parallel up	(62,222)	(73,930)
All	Parallel down	39,961	8,815
All	Steepening	(37,309)	(84,428)
All	Flattening	11,001	27,502
All	Short up	(31,449)	(12,685)
All	Short down	15,908	4,837
Euro	Parallel up	(63,551)	(75,866)
Euro	Parallel down	87,037	26,724
Euro	Steepening	(36,216)	(81,121)
Euro	Flattening	21,382	52,012
Euro	Short up	(32,584)	(14,551)
Euro	Short down	38,322	19,263
US Dollar	Parallel up	2,659	3,872
US Dollar	Parallel down	(3,558)	(4,547)
US Dollar	Steepening	(1,093)	(3,307)
US Dollar	Flattening	620	2,991
US Dollar	Short up	2,271	3,733
US Dollar	Short down	(3,253)	(4,795)

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified at FVOCI.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

Parallel change in interest rates ((increase)/decrease in net interest income)	Impact on profit/(loss) before tax	Impact on equity
2018	€000	€000
+0.6% for US Dollar +0.5% for Euro +1.0% for British Pound	(400)	(1,126)
-0.6% for US Dollar -0.5% for Euro -1.0% for British Pound	9,997	1,126

47. Risk management - Market risk (continued)

<i>Parallel change in interest rates ((increase)/decrease in net interest income)</i>	Impact on profit/(loss) before tax	Impact on equity
	€000	€000
2017		
+0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	364	(3,155)
-0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other countries	(364)	3,155

Currency risk

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by market risk officers.

The Group does not maintain a currency trading book.

The table below sets out the Group's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

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

47. Risk management - Market risk (continued)

2018	Change in foreign exchange rate	Impact on profit/(loss) after tax	Impact on equity
	%	€000	€000
US Dollar	+10	2,071	-
Russian Rouble	+20	2,049	18,060
Romanian Lei	+10	-	(667)
Swiss Franc	+10	1,138	-
British Pound	+20	671	(2,472)
Japanese Yen	+10	119	-
Other currencies	+10	(74)	-
US Dollar	-10	(1,695)	-
Russian Rouble	-20	(1,366)	(12,040)
Romanian Lei	-10	-	546
Swiss Franc	-10	(931)	-
British Pound	-20	(448)	1,648
Japanese Yen	-10	(97)	-
Other currencies	-10	60	-
2017			
US Dollar	+10	1,110	-
Russian Rouble	+25	2,714	22,323
Romanian Lei	+10	(419)	(407)
Swiss Franc	+20	3,803	-
British Pound	+20	868	(34,079)
Japanese Yen	+10	195	-
Other currencies	+10	(18)	-
US Dollar	-10	(908)	-
Russian Rouble	-25	(1,628)	(13,394)
Romanian Lei	-10	343	333
Swiss Franc	-20	(2,535)	-
British Pound	-20	(578)	22,719
Japanese Yen	-10	(160)	-
Other currencies	-10	14	-

Price risk

Equity securities price risk

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

Investments in equities are outside the Group's risk appetite. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Group as soon as practicable.

47. Risk management - Market risk (continued)

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

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

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

Debt securities price risk

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

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

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

47. Risk management - Market risk (continued)

	Impact on profit/(loss) before tax	Impact on equity
	€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)

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

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
	%	€000	€000
2018			
Other (non-equity instruments)	+25	3,388	-
Other (non-equity instruments)	-25	(3,388)	-

48. Risk management - Liquidity risk and funding

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Group's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

48. Risk management - Liquidity risk and funding (continued)

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite being the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting the liquidity position of the Group.

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

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

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

Liquidity is monitored and managed on an ongoing basis through:

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

Monitoring process

Daily

The daily monitoring of customer flows and the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepared a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position, net customer movements and other movements analysed by the main currencies. This report was abolished in June 2018. However, for better monitoring of the liquidity buffer, a new daily report was introduced analysing the internal liquidity buffer and comparing it to the previous day's buffer. This report is made available to Group Treasury and Group Finance. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Market Risk also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable BOC PCL to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

48. Risk management - Liquidity risk and funding (continued)

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

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

Weekly

Market Risk prepared weekly reports of Euro and foreign currency liquidity mismatch, which also disclosed the level of the liquidity ratios which were submitted to the CBC. Given these ratios were abolished on the 1 January 2018, CBC abolished these reports on the 15 June 2018 and replaced them with a new one indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

Monthly

Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements, for the Group and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and the percentage of instant access deposits are also presented to the ALCO.

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

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

Quarterly

The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly. Market Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly as well as various other liquidity reports, included in the short-term exercise of the SSM per their SREP guidelines.

Annually

The Group prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP).

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

Liquidity ratios

The Group LCR presented in the table below, is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. As from 1 January 2018, the minimum requirement is 100%.

48. Risk management - Liquidity risk and funding (continued)

The Group's LCR ratio (unaudited) was as follows:

	2018	2017
	%	%
End of reporting year	231	190
Average monthly ratio	213	120
Highest monthly ratio	231	190
Lowest monthly ratio	197	58

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

Main sources of funding

During 2018, the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

As at 31 December 2018, ECB funding was at €830 million in the form of 4-Year TLTRO II. As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

Funding to subsidiaries

The funding provided by BOC PCL to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

Any new funding to subsidiaries requires approval from the ECB and the CBC.

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

Collateral requirements

The carrying values of the Group's encumbered assets as at 31 December 2018 and 2017 are summarised below:

	2018	2017
	€000	€000
Cash and other liquid assets	118,627	120,525
Investments	737,587	317,167
Loans and advances	2,528,241	3,137,586
	3,384,455	3,575,278

48. Risk management - Liquidity risk and funding (continued)

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

Investments are mainly used as collateral for repurchase transactions with commercial banks, supplementary assets for the covered bond and with the ECB.

Loans and advances indicated as encumbered as at 31 December 2018 and 31 December 2017 are mainly used as collateral for funding from ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,009 million as at 31 December 2018 (2017: €1,001 million) in Cyprus, pledged as collateral for the covered bond issued by 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: €1,273 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 31). As at 31 December 2018, no loans were pledged as collateral for deposits of the Republic of Cyprus (2017: €715 million) (Note 31).

BOC PCL maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC. Under the Covered Bond Programme, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bonds have been amended to extend the maturity date to 12 December 2021 and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

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

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets

The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month' time band.

48. Risk management - Liquidity risk and funding (continued)

The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities

All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Group has the discretion not to accept such early termination of deposits.

Subordinated loan stock is classified in the relevant time band according to the remaining contractual maturity, ignoring the call date.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments

Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities

The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

48. Risk management - Liquidity risk and funding (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2018	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances with central banks	4,541,876	27,022	38,972	87	2,534	4,610,491
Loans and advances to banks	357,944	8,347	367	105,874	-	472,532
Investments at fair value through profit or loss	102,129	2,175	-	39,138	9,031	152,473
Loans and advances to customers	2,356,405	200,730	742,393	3,181,229	4,441,029	10,921,786
Fair value of net settled derivative assets	3,764	376	8	20,606	-	24,754
Non-trading investments	3,683	-	108,969	822,333	427,233	1,362,218
Financial assets classified as held for sale	823,140	14,453	71,658	75,722	169,135	1,154,108
Other assets	28,055	30,637	9,623	75,854	212	144,381
	8,216,996	283,740	971,990	4,320,843	5,049,174	18,842,743
Financial liabilities						
Deposits by banks	121,497	30,083	22,015	439	269,787	443,821
Funding from central banks	-	-	-	830,000	-	830,000
Repurchase agreements	-	-	90,174	172,803	-	262,977
Customer deposits	9,894,848	2,834,384	4,138,620	8,870	-	16,876,722
Subordinated loan stock	23,125	-	-	92,500	319,375	435,000
Fair value of net settled derivative liabilities	9,343	188	2,929	14,907	11,616	38,983
Other liabilities	181,706	4,741	2,065	-	-	188,512
	10,230,519	2,869,396	4,255,803	1,119,519	600,778	19,076,015
Net financial (liabilities)/assets	(2,013,523)	(2,585,656)	(3,283,813)	3,201,324	4,448,396	(233,272)

48. Risk management - Liquidity risk and funding (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2017	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances with central banks	3,321,403	29,667	34,371	8,493	-	3,393,934
Loans and advances to banks	1,053,565	4,775	3,573	110,476	20,244	1,192,633
Investments at fair value through profit or loss	123,539	4,541	-	2,290	12,287	142,657
Loans and advances to customers	4,273,947	269,251	852,799	3,933,785	5,272,672	14,602,454
Fair value of net settled derivative assets	1,414	69	11	16,369	164	18,027
Non-trading investments	20,464	-	10,480	609,319	337,692	977,955
Other assets	24,216	13,420	7,821	53,864	6,152	105,473
	8,818,548	321,723	909,055	4,734,596	5,649,211	20,433,133
Financial liabilities						
Deposits by banks	196,211	140,361	26,145	460	141,554	504,731
Funding from central banks	100,000	-	-	830,000	-	930,000
Repurchase agreements	-	-	-	267,524	10,908	278,432
Customer deposits	9,595,209	3,173,297	4,530,788	641,855	5,320	17,946,469
Subordinated loan stock	23,125	-	-	126,303	362,125	511,553
Fair value of net settled derivative liabilities	14,039	992	252	23,789	11,898	50,970
Other liabilities	87,689	16,666	29,929	4,820	2,410	141,514
	10,016,273	3,331,316	4,587,114	1,894,751	534,215	20,363,669
Net financial (liabilities)/assets	(1,197,725)	(3,009,593)	(3,678,059)	2,839,845	5,114,996	69,464
2018						
	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	241,235	32,188	448	-	-	273,871
Contractual amounts payable	(237,967)	(31,933)	(446)	-	-	(270,346)
	3,268	255	2	-	-	3,525
<i>Financial liabilities</i>						
Contractual amounts receivable	997,856	37,174	446	-	-	1,035,476
Contractual amounts payable	(1,006,555)	(37,284)	(445)	-	-	(1,044,284)
	(8,699)	(110)	1	-	-	(8,808)

48. Risk management - Liquidity risk and funding (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2018	€000	€000	€000	€000	€000	€000
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	1,985	3,008	568	-	-	5,561
Guarantees	115,174	116,697	258,603	206,044	52,187	748,705
<i>Commitments</i>						
Documentary credits	5,085	10,649	5,993	885	1,685	24,297
Undrawn formal standby facilities, credit lines and other commitments to lend	2,063,972	-	-	-	-	2,063,972
	2,186,216	130,354	265,164	206,929	53,872	2,842,535

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2017	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	403,689	6,552	1,966	-	-	412,207
Contractual amounts payable	(402,221)	(6,465)	(1,956)	-	-	(410,642)
	1,468	87	10	-	-	1,565
<i>Financial liabilities</i>						
Contractual amounts receivable	919,721	181,629	1,106	-	-	1,102,456
Contractual amounts payable	(933,009)	(182,582)	(1,107)	-	-	(1,116,698)
	(13,288)	(953)	(1)	-	-	(14,242)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2017	€000	€000	€000	€000	€000	€000
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	2,849	4,155	1,363	-	-	8,367
Guarantees	132,897	134,166	242,944	167,153	91,005	768,165
<i>Commitments</i>						
Documentary credits	3,382	5,447	17,931	505	2,365	29,630
Undrawn formal standby facilities, credit lines and other commitments to lend	2,215,856	17,322	-	-	-	2,233,178
	2,354,984	161,090	262,238	167,658	93,370	3,039,340

49. Risk management - Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

49. Risk management - Insurance risk (continued)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating.

Life insurance contracts

The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results:

	2018	2017
	€000	€000
Changes in embedded value		
Change in interest rates +0.25%	76	271
Change in expenses +10%	(2,523)	(2,014)
Change in lapsation rates +10%	(902)	(1,069)
Change in mortality rates +10%	(7,727)	(6,272)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non-economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non-economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

49. Risk management - Insurance risk (continued)

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with-profit business versus non-profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

General insurance contracts

General insurance business is concentrated in Cyprus and the main claims during 2018 and 2017 related to fire and natural forces and other damage to property, motor vehicle liability and general liability.

Risks under these policies are usually covered for a period of 12 months, with the exception of the goods in transit class that covers shorter periods and the contractors all risks class that covers longer periods.

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

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

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

The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The main risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative developments in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

50. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

The Group follows the EU Regulations, primarily the CRR and CRD IV and any other decisions or circulars issued by the regulators, ECB and CBC with respect to the capital adequacy calculations.

The Group and BOC PCL have complied with the minimum capital requirements (Pillar I and Pillar II).

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

50. Capital management (continued)

The Pillar 3 Disclosures Report (unaudited) of the Group required with respect to the requirements of the Capital Requirements Regulation (EU) No 575/2013 is published on the Group's website www.bankofcyprus.com (Investor Relations).

51. Related party transactions

Related parties of the Group include associates and joint ventures, key management personnel, Board of Directors and their connected persons.

(a) Transactions with subsidiary

The Company is the holding company of the Group. The Company enters into transactions with its subsidiary in the normal course of business. Balances and transactions between the Company and its subsidiaries are disclosed in Note 16 of the Company's financial statements. Transactions with the subsidiaries have been eliminated on consolidation.

(b) Associates

The Group provides to and receives from its associates certain banking and financial services. These are not material to the Group and all the transactions are made on normal business terms as for comparable transactions with customers of a similar standing. Additional information is disclosed in Note 54.

(c) Compensation of the Board of Directors and key management personnel

The following disclosures are made in accordance with the provisions of IAS 24 Related Party Disclosures and sections 305 and 306 of the Companies Act 2014, in respect of the compensation of the Board of Directors and key management personnel.

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

	2018	2017
	€000	€000
Director emoluments		
<i>Executives</i>		
Salaries and other short term benefits	2,453	2,300
Employer's contributions	98	91
Retirement benefit plan costs	216	202
	2,767	2,593
<i>Non-executives</i>		
Fees	970	882
Total directors' emoluments	3,737	3,475
Other key management personnel emoluments		
Salaries and other short term benefits	3,070	3,150
Employer's contributions	192	202
Retirement benefit plan costs	127	189
Total other key management personnel emoluments	3,389	3,541
Total	7,126	7,016

Other key management personnel emoluments include an amount of €572 thousand which relates to emoluments of key management personnel of Bank of Cyprus UK Limited, which was disposed in November 2018.

51. Related party transactions (continued)

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

Executive Directors

The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2018	2017
	€000	€000
John Patrick Hourican (Chief Executive Officer)	2,256	2,104
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	197	196
	2,453	2,300

The retirement benefit plan costs for 2018 amounting to €216 thousand (2017: €202 thousand) relate to: Mr John Patrick Hourican €198 thousand (2017: €184 thousand) and Dr Christodoulos Patsalides €18 thousand (2017: €18 thousand).

Non-executive Directors

	2018	2017
	€000	€000
Josef Ackermann	150	150
Wilbur L. Ross Jr.	-	20
Arne Berggren	115	115
Maksim Goldman	120	120
Michalis Spanos	100	100
Ioannis Zographakis	135	135
Marios Kalochoritis	-	45
Michael Heger	110	110
Lyn Grobler	90	72
Anat Bar-Gera	85	15
Pola Hadjisotiriou	36	-
Maria Philippou	29	-
	970	882

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company and its subsidiaries, as well as of committees of the Board of Directors.

Other key management personnel

The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy Chief Executive Officer and Chief Operating Officer.

51. Related party transactions (continued)

(d) Transactions with Directors and key management personnel

The table below shows the deposits and other credit balances held by the directors and their connected persons, who were in office during the year:

Deposits at 31 December	2018	2017
	€000	€000
- members of the Board of Directors and other key management personnel	1,575	2,737
- connected persons	3,122	3,088
	4,697	5,825
Interest expense on deposits for the year	41	64

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest expense is disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, 'Directors' means the current Board of Directors of the Company and any past directors who were members of the Board of Directors of the Company during the relevant period.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel on the same terms as those applicable to the rest of the Group's employees and their connected persons on the same terms as those of customers.

Connected persons include spouses, minor children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Group.

Directors: There were 12 Directors in office during the year (2017: 12 Directors), 3 of whom availed of credit facilities (2017: 4 Directors). The balances outstanding are disclosed below.

Key management personnel: There were 13 key management personnel in office during the year (2017: 13 key management personnel), 11 of whom availed of credit facilities (2017: 11 key management personnel). All of the key management personnel who availed of credit facilities had balances outstanding at 31 December 2018 (2017: 10 key management personnel).

Where no amount is shown in the tables below, this indicates a credit balance, a balance of nil, or a balance of less than €500.

The value of arrangements at the beginning and end of the current and preceding financial years as stated below in accordance with section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the current and preceding financial years is less than 1%.

Details of transactions with key management personnel, and their connected persons where indicated, for the years ended 31 December 2018 and 2017 are as follows:

51. Related party transactions (continued)

Current Directors

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year	Balance as at 31 December	Aggregate maximum amount outstanding during the year	Unused credit facilities
	€000	€000	€000	€000	€000	€000
Christodoulos Patsalides 2018						
Loans	238	-	33	212	236	-
Overdrafts/ credit cards	23	n/a	n/a	44	51	14
	<u>261</u>			<u>256</u>	<u>287</u>	<u>14</u>
2017						
Loans	263	-	33	238	261	-
Overdrafts/ credit cards	46	n/a	n/a	23	56	34
	<u>309</u>			<u>261</u>	<u>317</u>	<u>34</u>
Michael Spanos 2018						
Overdrafts/ credit cards	2	n/a	n/a	-	3	8
2017						
Overdrafts/ credit cards	-	n/a	n/a	2	4	9
Ioannis Zographakis 2018						
Overdrafts/ credit cards	-	n/a	n/a	4	4	6
	<u>-</u>			<u>4</u>	<u>4</u>	<u>6</u>
2017						
Overdrafts/ credit cards	-	n/a	n/a	-	5	10
John Patrick Hourican 2018						
Overdrafts/ credit cards	-	n/a	n/a	-	-	-
2017						
Overdrafts/ credit cards	-	n/a	n/a	-	28	-

51. Related party transactions (continued)

Connected persons of the Board of Directors

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No other Directors had any loan facilities or overdraft/credit card balances with the Group during the year ended 31 December 2018 (2017: nil).

No impairment charges or provisions have been recognised during the year ended 31 December 2018 and 2017 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

No Directors resigned during 2018 or 2017.

The aggregate of loans to connected person of Directors in office at 31 December 2018, as defined in section 220 of the Companies Act 2014, are as follows (aggregate of 1 person; 2017: 1 person):

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year	Balance as at 31 December	Aggregate maximum amount outstanding during the year
	€000	€000	€000	€000	€000
2018					
Persons connected to Michael Spanos					
Overdrafts/credit cards	<u>1</u>	n/a	n/a	<u>6</u>	<u>8</u>
2017					
Overdrafts/credit cards	<u>5</u>	n/a	n/a	<u>1</u>	<u>6</u>

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No impairment charges or provisions have been recognised during the year ended 31 December 2018 and 2017 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

Key management personnel in office during the year (and their connected persons)

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year	Balance as at 31 December	Aggregate maximum amount outstanding during the year
	€000	€000	€000	€000	€000
2018					
Loans	2,549	-	403	2,230	2,546
Overdrafts/credit cards	<u>335</u>	n/a	n/a	<u>361</u>	<u>508</u>
	<u>2,884</u>			<u>2,591</u>	<u>3,054</u>

51. Related party transactions (continued)

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year	Balance as at 31 December	Aggregate maximum amount outstanding during the year
	€000	€000	€000	€000	€000
2017					
Loans	2,565	147	241	2,549	2,692
Overdrafts/credit cards	389	n/a	n/a	335	491
	<u>2,954</u>			<u>2,884</u>	<u>3,183</u>

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No impairment charges or provisions have been recognised during the year ended 31 December 2018 and 2017 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

Aggregate amounts outstanding at year end and additional transactions

	2018	2017	2018	2017
	Number of directors		€000	€000
Loans and advances as at 31 December				
- Board of Directors	<u>12</u>	<u>10</u>	<u>260</u>	263
- key management personnel	<u>12</u>	<u>13</u>	<u>2,216</u>	2,473
Connected persons			<u>381</u>	414
			<u>2,857</u>	<u>3,150</u>
Interest income for the year			<u>81</u>	<u>85</u>
Commission income for the year			<u>9</u>	<u>10</u>
Insurance premium income for the year			<u>133</u>	<u>112</u>
Subscriptions and insurance expenses for the year			<u>633</u>	<u>422</u>
Accruals and other liabilities as at 31 December with entity providing key management personnel services			<u>5,108</u>	<u>6,217</u>
Staff costs consultancy and restructuring expenses with entity providing key management personnel services			<u>14,629</u>	<u>17,627</u>

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €37 thousand (2017: €76 thousand).

51. Related party transactions (continued)

There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €402 thousand (2017: €431 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2018 amounted to €532 thousand (2017: €663 thousand).

At 31 December 2018 the Group has a deposit of €4,086 thousand (2017: €5,419 thousand) with Piraeus Bank SA, in which Mr Arne Berggren is a non-executive Director. The Group has also provided certain indemnities to Piraeus Bank SA as part of the disposal of Kyprou Leasing SA in 2015.

During the year ended 31 December 2018 premiums of €45 thousand (2017: €32 thousand) and claims of €19 thousand (2017: €17 thousand) were paid between the members of the Board of Directors of the Company and their connected persons and the insurance subsidiaries of the Group.

Additionally, during the year ended 31 December 2017, BOC PCL has signed an agreement to rent property owned by connected persons to the director Mr Michalis Spanos (resigned on 21 January 2019) covering the period from 1 June 2017 to 31 May 2027 but the contract is expected to be terminated on 1 September 2019. The monthly rental expense amounts to €4 thousand commencing from June 2018. The rental expense for the Group during 2018 amounted to €30 thousand.

There were no other transactions during the years ended 31 December 2018 and 2017 with connected persons of the current members of the Board of Directors or with any members who resigned during the two years.

52. Group companies

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their registered office, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2018 are:

Company	Registered office	Activities	Percentage holding (%)
Bank of Cyprus Holdings Public Limited Company	10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland	Holding company	n/a
Bank of Cyprus Public Company Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Commercial bank	100
The Cyprus Investment and Securities Corporation Ltd (CISCO)	154 Limassol Avenue, CY-2025, Strovolos, Nicosia, Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	2-4 Themistokli Dervis Street, CY-1066, Nicosia, Cyprus	General insurance	100
EuroLife Ltd	4 Evrou Street, CY-2003, Strovolos, Nicosia, Cyprus	Life insurance	100
Kermia Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Property trading and development	100
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	154 Limassol Avenue, CY-2025 Strovolos, Nicosia, Cyprus	UCITS Fund	60
LCP Holdings and Investments Public Ltd	26 Vyronos Street, CY-1096 Nicosia, Cyprus	Holding company	67
JCC Payment Systems Ltd	1 Stadiou Street, Nisou, CY-2571 Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	26 Vyronos Street, CY-1096 Nicosia, Cyprus	Investment company	20
Auction Yard Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Auction company	100
BOC Secretarial Company Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Land development and operation of a golf resort	70
BOC Asset Management Ltd	154 Limassol Avenue, CY-2025, Strovolos, Nicosia, Cyprus	Management administration and safekeeping of UCITS Units	100
Cyreit Variable Capital Investment Company PLC (Cyreit)	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Real estate investment fund	88
Bank of Cyprus Public Company Ltd (branch of BOC PCL)	192 Alexandras Avenue, 11521 Athens, Greece	Administration of guarantees and holding of real estate properties	n/a
BOC Asset Management Romania S.A.	Calea Dorobonti 187B, Sector 1, Bucharest, Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	19-1 Zvezdnyi building, Moscow, Russia	Problem asset management company	100
Fortuna Astrum Ltd	Internacionalniti Brigada 69, 11104, Grad Beograd, Serbia	Problem asset management company	100

52. Group companies (continued)

In addition to the above companies, at 31 December 2018 BOC PCL had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Belvesi Properties Ltd, Hamura Properties Ltd, Legamon Properties Ltd, Asendo Properties Ltd, Domilas Properties Ltd, Gylito Properties Ltd, Lamezoco Properties Ltd, Noleta Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilerio Properties Ltd, Ensolo Properties Ltd, Folimo Properties Ltd, Pelika Properties Ltd, Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligosimo Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakou Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, EuroLife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Thryan Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Wingstreet Properties Ltd, Nology Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Citlali Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Regetona Properties Ltd, Arcanello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introsolve Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Garmozzy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weiner Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Barway Properties Ltd, Cimonina Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Finevo Properties Ltd, Ganina Properties Ltd, Intelamon Properties Ltd, Kenelyne Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Nivoco Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretskey Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Bokeno Properties Ltd, Flymoon Properties Ltd, Meriaco Properties Ltd, Valecast Properties Ltd, Teresan Properties Ltd, Odolo Properties Ltd, Prodino Properties Ltd, Racotino Properties Ltd, Rondemio Properties Ltd, Rylico Properties Ltd, Vatino Properties Ltd, Virevo Properties Ltd, Sailoma Properties Ltd and Volparo Properties Ltd. The registered office of the above companies is at 51 Stasinou Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia, Cyprus, with the exception of EuroLife Properties Ltd whose registered office is at 4 Evrou Street, Strovolos, CY-2003 Nicosia, Cyprus and Ledra Estate Ltd which is at 2-4 Themistoklis Dervis Street, CY-1066 Nicosia, Cyprus.

Romania: Otherland Properties Dorobanti SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL. The registered office of the companies is at Bucharest, 42-44 George Cosbuc Street, 4th Floor, 5th District, Romania.

Further, at 31 December 2018 BOC PCL had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd and Gosman Properties Ltd.

52. Group companies (continued)

Cyreit Variable Capital Investment Company PLC was incorporated in January 2018 as an alternative investment fund. The Fund is licensed and regulated by the Cyprus Securities and Exchange Commission. The Group has transferred to the Cyreit, following its set-up its holding 100% in Smooland Properties Ltd, Threefield Properties Ltd, Vameron Properties Ltd, Bascot Properties Ltd, Vanemar Properties Ltd, Consoly Properties Ltd, Alomna Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd, Allodica Properties Ltd, Wiceco Properties Ltd, Primaco Properties Ltd, Arleta Properties Ltd, Kuvana Properties Ltd, Nuca Properties Ltd, Orleania Properties Ltd, Ravenica Properties Ltd, Rouena Properties Ltd, Lancast Properties Ltd and Azemo Properties Ltd. As at 31 December the BOC PCL held 88% shareholding in Cyreit therefore the indirect holding in Cyreit's subsidiaries at 31 December 2018 is 88%.

Additionally, BOC PCL increased its controlling interest from 51% to 64% in Nicosia Mall Management (NMM) Limited, Nicosia Mall Finance (NMF) Limited, Nicosia Mall Holdings (NMH) Limited and Nicosia Mall Property (NMP) Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services except for Nicosia Mall Property (NMP) Ltd and Cyreit's subsidiaries whose activity is the ownership and management of immovable property. The registered office of the companies is at 51 Stasinou Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia, Cyprus.

At 31 December 2018 BOC PCL had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Tavoni Properties Ltd, Amary Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Calandomo Properties Ltd, Cramonco Properties Ltd, Monata Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Dorfilo Properties Ltd, Enelo Properties Ltd, Mikosa Properties Ltd, Stormino Properties Ltd, Fodilo Properties Ltd, Jalimo Properties Ltd, Livena Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Petrassimo Properties Ltd, Sendilo Properties Ltd, Stevolo Properties Ltd, Baleland Properties Ltd, Edilia Properties Ltd, Icazo Properties Ltd, Limoro Properties Ltd, Lomenia Properties Ltd, Rofeno Properties Ltd, Samilo Properties Ltd, Vemoto Properties Ltd, Vertilia Properties Ltd and Zenoplus Properties Ltd. The registered office of the companies is at 51 Stasinou Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia, Cyprus.

Romania: Selilar Properties SRL. Its registered office is at Bucharest, 42-44 George Cosbuc Street, 4th Floor, 5th District, Romania.

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

Cyprus: Otherland Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Loneland Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafeld Properties Ltd and Hydrobius Ltd. The registered office of the companies is at 51 Stasinou Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia, Cyprus.

BOC PCL also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Renalandia Properties Ltd, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd, Fantasio Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Polkima Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, CYCMC I Ltd, CYCMC II Ltd, CYCMC III Ltd and CYCMC IV Ltd. The registered office of the companies is at 51 Stasinou Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia, Cyprus.

52. Group companies (continued)

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA, whose registered office is at 192 Alexandras Avenue, 11521 Athens, Greece.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above, except Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC and Cyreit which are UCITS Fund and Investment Fund respectively, have share capital consisting of ordinary shares.

Control over CLR Investment Fund Public Ltd (CLR) and its subsidiaries without substantial shareholding

The Group considers that it exercises control over CLR and its subsidiaries (Europrofit Capital Investors Public Limited, Axxel Ventures Limited and CLR Private Equity Limited) through control of the members of the Board of Directors and is exposed to variable returns through its holding.

Dissolution and disposal of subsidiaries

As at 31 December 2018, the following subsidiaries were in the process of dissolution or in the process of being struck off: Bank of Cyprus (Channel Islands) Ltd, Bank of Cyprus Romania (Romanian branch), BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, BOC Ventures Ltd, Buchuland Properties Ltd, Calomland Properties Ltd, Corner LLC, Diners Club (Cyprus) Ltd, Fairford Properties Ltd, Frozenport Properties SRL, Lameland Properties Ltd, Leasing Finance LLC, Loneland Properties SRL, Melgred Properties SRL, Mirodi Properties Ltd, Nallora Properties Ltd, Omiks Finance LLC, Pittsburg Properties Ltd, Salecom Ltd, Sylvesta Properties Ltd, Unknownplan Properties Ltd and Kyprou Finance (NL) B.V.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated, subject to the final completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Group. The gain on dissolution of the branch in Romania amounts to €3,023 thousand.

Unknownplan Properties SRL, Buchuland Properties SRL, Janoland Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Pittsburg Properties SRL, Samarinda Navigation Co Ltd and Blindingqueen Properties SRL were dissolved during the year ended 31 December 2018. Nelipo Properties Ltd, Zarveto Properties Ltd, Bigwaive Properties Ltd, Jungax Properties Ltd, Bracando Properties Ltd, Kimrar Properties Ltd, Cadomia Properties Ltd, Desogus Properties Ltd, Ecnaland Properties Ltd, Lasmane Properties Ltd, Forsban Properties Ltd, Zedoma Properties Ltd, Carnota Properties Ltd, Fastflow Properties Ltd, Alomco Properties Ltd, Lozzaria Properties Ltd, Basiga Properties Ltd, Belaland Properties Ltd, Bank of Cyprus UK Ltd, BOC Financial Services Ltd, Finacap Properties Ltd, Jomento Properties Ltd and Newington Properties Ltd were disposed of during the year ended 31 December 2018.

Capitalisation of property revaluation reserve

During 2018 Bank of Cyprus UK Ltd proceeded with the capitalisation of its property revaluation reserve of €7,955 thousand through the issue of shares to BOC PCL and subsequent reduction of share capital as permitted by the relevant legislation. Similarly, other reserves of €6,059 thousand which is of similar nature has been reclassified to accumulated losses.

53. Acquisitions and disposals

53.1 Acquisitions during 2018

There were no acquisitions during the year ended 31 December 2018.

53. Acquisitions and disposals (continued)

53.2 Disposals during 2018

53.2.1 Disposal of Bank of Cyprus UK Limited

In November 2018, the Group completed the sale of 100% of its subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Limited.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	€000
Cash and balances with central banks	278,250
Loans and advances to banks	71,932
Loans and advances to customers	1,827,113
Property and equipment	17,224
Intangible assets	1,883
Prepayments, accrued income and other assets	23,204
	2,219,606
Liabilities	
Deposits by banks	30,869
Customer deposits	1,990,360
Accruals, deferred income and other liabilities	29,317
Subordinated loan stock	35,340
	2,085,886
Net identifiable assets sold	133,720

The cash consideration amounts to €120,131 thousand comprising of €115,991 thousand base consideration plus a purchase price adjustment of €4,140 thousand. The disposal resulted in a gain of €3,680 thousand comprising a loss of €13,703 thousand against the book value of the assets as at the disposal date and a gain of €17,383 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to consolidated income statement (Note 12).

Half of the base consideration together with the purchase price adjustment was received upon completion of the transaction and the remaining half is deferred over 24 months, without any performance conditions attached (Note 29).

The net cash flows of Bank of Cyprus UK Limited are as follows:

	2018	2017
	€000	€000
Operating	(119,269)	92,291
Investing	(744)	(1,862)
Financing	-	34,483
Net cash (outflow)/inflow for the year	(120,013)	124,912

The cash and cash equivalents as at the date of disposal amounted to €321,225 thousand.

53. Acquisitions and disposals (continued)

53.3 Acquisitions during 2017

53.3.1 Acquisition of Nicosia Mall Holdings (NMH) Limited

In the context of the loan restructuring activities, the Group acquired on 28 September 2017 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Nicosia Mall Holdings (NMH) Limited is the holding company of a group of subsidiaries involved in the construction and management of the Nicosia Mall. The consideration for the acquisition of 51% share in Nicosia Mall Holdings (NMH) Limited amounts to €7,500 thousand which was used to reduce part of the outstanding facilities and therefore the acquisition did not include any cash consideration. The transaction was considered as an acquisition of an asset and was not treated as a business combination since the Group obtained control of an input without any process, therefore no goodwill or gain on bargain was recognised. BOC PCL has control over Nicosia Mall Holdings (NMH) Limited.

The non-controlling interest is measured at the proportionate share of the identifiable net assets acquired.

The fair value of assets and liabilities of Nicosia Mall Holdings (NMH) Limited at the date of acquisition are presented below:

Assets	€000
Loans and advances to banks	4,011
Stock of property	52,758
	56,769
Liabilities	
Deposits by banks	56,769
Net identifiable assets acquired	-

No cash and cash equivalents were acquired.

53.4 Disposals during 2017

There were no material disposals during the year ended 31 December 2017.

54. Investments in associates and joint venture

Carrying value of the investments in associates and joint venture

	Percentage holdings	2018	2017
	(%)	€000	€000
CNP Cyprus Insurance Holdings Ltd	49.9	114,637	115,770
Interfund Investments Plc	-	-	2,343
Aris Capital Management LLC	30.0	-	-
Rosequeens Properties Limited	33.3	-	-
Rosequeens Properties SRL	33.3	-	-
Tsiros (Agios Tychon) Ltd	50.0	-	-
M.S. (Skyra) Vassas Ltd	15.0	-	-
D.J. Karapatakis & Sons Limited	7.5	-	-
Rodhagate Entertainment Ltd	7.5	-	-
Fairways Automotive Holdings Ltd	45.0	-	-
		114,637	118,113

54. Investments in associates and joint venture (continued)

Share of pre-tax profit/(loss) from associates

	2018	2017
	€000	€000
CNP Cyprus Insurance Holdings Ltd	9,164	8,781
Interfund Investments Plc	(69)	176
	9,095	8,957

Investments in associates

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Laiki Bank in 2013, 49.9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the BOC PCL.

The main financial highlights of the associate are as follows:

	2018	2017
	€000	€000
Total assets	717,515	707,796
Liabilities	(487,786)	(475,794)
Net assets, including value of in-force business	229,729	232,002

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €21,055 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	2018	2017
	€000	€000
Dividend income	5,362	774
Interest expense paid by the Group	129	139
Other expenses paid by the Group	92	92
Other income received by the Group	1	-

Interfund Investments Plc

In May 2018, BOC PCL sold its holding of 23.1% in its associate Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. The loss of disposal amounts to €191 thousand.

Rosequeens Properties Limited and Rosequeens Properties SRL

The Group effectively owns 33.3% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after BOC PCL took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Group's share of net assets of the associate at 31 December 2018 and 2017 had nil accounting value as the net assets of the associate had a negative balance.

Aris Capital Management LLC

The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank. The investment is considered to be fully impaired and its value is restricted to zero.

54. Investments in associates and joint venture (continued)

M.S. (Skyra) Vassas Ltd

In the context of its loan restructuring activities, the Group acquired 15.0% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Group considers that it exercises significant influence over the Skyra Vassas group as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd

In the context of its loan restructuring activities, the Group acquired 7.5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Group considers that it exercises significant influence over the two companies as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

Fairways Automotive Holdings Ltd

In the context of its loan restructuring activities, the Group acquired 45.0% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Group considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

Investment in joint venture

Tsiros (Agios Tychon) Ltd

The Group holds a 50.0% shareholding in Tsiros (Agios Tychon) Ltd. The shareholder agreement with the other shareholder of Tsiros (Agios Tychon) Ltd stipulates a number of matters which require consent by both shareholders, therefore the Group considers that it jointly controls the company. The carrying value of Tsiros (Agios Tychon) Ltd is restricted to zero.

The percentage holdings are in ordinary shares or membership interests.

55. Country by country reporting

Article 89 of CRD IV requires banks to disclose on a consolidated basis the following information for all countries where the Group operates. The table below provides information on the following items of the Group for year 2018:

Country	Total operating income/(expense) €000	Average number of employees	Profit/(loss) before tax €000	Accounting tax expense/(income) on profit/(loss) €000	Corporation tax paid/(refunded) €000	Public subsidies received €000
Cyprus	786,914	4,116	18,686	(1,623)	5,802	-
Russia	955	5	(3,110)	-	-	-
United Kingdom	267	196	428	-	670	-
Romania	19,647	16	18,819	(2,281)	17	-
Greece	(294)	8	(16,186)	(1,614)	(10,412)	-
Netherlands	(51,699)	-	(51,997)	(2)	10	-
Total	755,790	4,341	(33,360)	(5,520)	(3,913)	-

The activities of Group companies by geographical area are disclosed in Note 52.

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

Number of employees: the number of employees has been calculated as the average number of employees, on a quarterly basis, who were employed by the Group during the year ended 31 December 2018.

Profit/(loss) before tax: profit/(loss) before tax represents profits/(losses) after the deduction of inter-segment revenues/(expenses).

Accounting tax expense/(income) on profit/(loss): includes corporation tax and Cyprus special defence contribution. Deferred tax charge for the year is excluded from the above.

Corporation tax paid/(refunded) includes actual payments made during 2018 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

56. Events after the reporting period

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

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

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

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

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

56.2 Resignation of the Group's CEO

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Opinion

We have audited the financial statements of Bank of Cyprus Holdings Public Limited Company ('the Company' or the 'Parent Company') and its subsidiaries ('the Group') for the year ended 31 December 2018, which comprise the Consolidated Income Statement, Consolidated and Parent Company Statement of Comprehensive Income, Consolidated and Parent Company Balance Sheet, Consolidated and Parent Company Statement of Changes in Equity, Consolidated and Parent Company Statement of Cash Flows and notes to the financial statements, including the summary of significant accounting policies set out in Note 2. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its loss for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Parent Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Risk:	Response to the Risk:
<p>Impairment of Loans and Advances to Customers including IFRS 9 transition</p> <p>On 1 January 2018, the Group adopted IFRS 9, a new accounting standard for financial instruments. This standard introduced a model of expected credit losses, rather than the incurred loss model which was previously applied under IAS 39.</p> <p>As at 31 December 2018, the Group reported total Loans and Advances to Customers of €12.4 billion and €1.9 billion of expected credit losses ("ECLs").</p> <p>The accounting policy for provisions is described in Note 2.19 and further analysed in Note 5.2 to the consolidated financial statements.</p> <p>The key judgments and estimates in respect of the timing and measurement of ECLs which we are focused on include:</p> <ul style="list-style-type: none"> • The allocation of loans and advances to Stage 1, 2 or 3 using criteria in accordance with the standard; • The interpretations and assumptions used to build the model that calculated ECLs; • The completeness and accuracy of data used in the calculation of ECLs; • The inputs, assumptions and probability weightings assigned to multiple economic scenarios; • The identification and measurement of individually assessed provisions; and • The accuracy and adequacy of the disclosures in the financial statements. 	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • Performed walkthroughs of the processes relevant to the calculation of ECLs to identify key systems, applications and controls within the processes; • Tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECLs; • Inspected key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation; • Tested the key controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement; • Assessed management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018; • Observed the joint audit committee and risk committee meetings where the inputs, assumptions, adjustments and outcomes were discussed and approved by the members; • Challenged the criteria used to allocate loans and advances to customers to Stage 1, 2 or 3 in accordance with IFRS 9. We selected a sample of loans and advances to customers in Stage 1, 2 or 3 to verify that they were allocated to the appropriate stage; • Tested the completeness and accuracy of the data through reconciliation to the source systems and testing of inputs; • Involved our credit risk specialists within the engagement team to test the assumptions, inputs and formulas used in a sample of ECLs. This testing included assessing the appropriateness of model design and formulas used, recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Risk:	Response to the Risk:
	<ul style="list-style-type: none"> • Involved our credit risk specialists within the engagement team to assess the base case and alternative economic scenarios, including challenging probability weights. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment, interest rates and House Price Index; • Tested a sample of loan reviews and assessed the measurement of the provisions, involving our valuation specialists to value the collateral. We examined other cash flow assumptions where the level of provision is not dependent on collateral values. We also assessed the timing of estimated cash flows; and • Assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards. <p>Our planned audit procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>
<p>Provisions for Pending Litigation, Claims, Regulatory and Other Matters</p> <p>As at 31 December 2018, the Group reported provisions or pending litigation, claims, regulatory and other matters of €117 million (2017: €138 million).</p> <p>The accounting policy for provisions is described in Note 2.39.1 and further analysed in Note 5.5 to the consolidated financial statements.</p> <p>The Group, in the ordinary course of business, is subject to various legal claims, investigations and other proceedings. It also operates in a heavily regulated environment and needs to remain constantly alert to ensure compliance with relevant rules and regulations. Management reviews all existing and potential legal and conduct provisions based on the assessment of the probability of economic outflow from the Group in conjunction with the internal compliance and legal departments.</p>	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • Performed walkthroughs of the process relevant to the calculation of provisions for pending litigation, claims, regulatory and other matters to identify key systems, applications and controls within the process; • Obtained a detailed assessment from the Group's internal legal department of potential outcomes for each individual case in excess of €200k. We ensured that this assessment was endorsed by the Group's external legal advisors in Cyprus and Greece; • Analysed with the head of the internal legal department the list of existing and potential claims, the current progression of existing cases with a range of related outcome possibilities and the consequential exposure for the Group;



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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS
PUBLIC LIMITED COMPANY**

Risk:	Response to the Risk:
<p>The recognition and measurement of provisions in respect of litigation, regulatory actions and customer remediation require a high level of judgment. Due to the risk that the provision for impending litigations and pending regulatory matters may be incomplete or inappropriately provided for, and the difficulty in assessing and measuring the quantum from any resulting obligations, this is considered a key audit matter.</p> <p>Refer to the Accounting Policies and Note 40 of the consolidated financial statements.</p>	<ul style="list-style-type: none"> • Analysed lists of legal cases from each location and tested that sufficient provision has been recorded in the Group's records where the exposure is assessed as probable; • Inspected the board of directors and other committee meeting minutes for evidence of any unidentified legal cases or developments in current cases which may impact the outcome; • Inspected regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances or possible non-compliance with any regulatory requirements; • Analysed working files and results reports for the assessment of customer redress provisions, prepared by the Group's external advisors; and • Assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards. <p>Our planned audit procedures were completed without material exception. We communicated one unadjusted difference to the Group Audit Committee.</p>
<p>Going Concern</p> <p>As disclosed in the Statement of Directors' Responsibilities, the Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Group and Company will continue in business.</p> <p>The Directors have determined that the going concern assumption is appropriate and that the Group is taking all necessary measures to maintain the viability of the business into the future. As part of their assessment, the Directors have considered compliance with regulatory measures, recent legislative amendments in Cyprus and the uncertainty in executing the required steps in the Financial and Capital Plan.</p>	<p>In obtaining sufficient audit evidence:</p> <ul style="list-style-type: none"> • We obtained and read correspondence with the relevant regulators with regards to regulatory capital and liquidity requirements of the Group, in addition to other correspondence such as the findings of the Supervisory Review and Evaluation Process. We have also discussed the findings of the Supervisory Review and Evaluation Process with management of the Group to understand the actions being implemented to address the points raised by the Joint Supervisory Team;

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Risk:	Response to the Risk:
<p>The Directors have formulated actions as deemed appropriate to ensure the Group is a going concern into the future.</p> <p>Please refer to Directors' Report and Note 3 of the consolidated financial statements for details of the Directors' assessment.</p> <p>In light of the judgment and uncertainties involved in the delivery of the Financial and Capital Plan and the actions formulated therein, this is considered a key audit matter.</p>	<ul style="list-style-type: none"> • We have met with the members of the Joint Supervisory Team of the European Central Bank to understand their assessment of a number of matters including the following: <ul style="list-style-type: none"> ○ the Group's Financial and Capital Plan and the associated actions the Group needs to execute in achieving the plan; ○ the ongoing viability of the Group and the associated macro conditions impacting future viability; ○ the findings included in the letter on the Supervisory Review and Evaluation Process; and ○ the Significant Risk Transfer of Project Helix including the nature of its capital accretive impact. • We have considered the significant transactions occurring during 2018 and their ongoing accretive impact in complying with regulatory capital ratios. These executed transactions include: <ul style="list-style-type: none"> ○ Project Helix, a transaction disposing of a portfolio on non-performing loans, which received confirmation of Significant Risk Transfer from the European Central Bank in 2019; ○ The completion of the sale of Bank of Cyprus UK Limited in Q3 2018 to third party investors; and ○ The issuance of €220m Additional Tier 1 Capital Securities. • We have considered the Income Tax Law amendment 28 (I) of 2019 enacted by the Cyprus Parliament in Q1 2019. This legislation has converted the Deferred Tax Asset recognised by the Group on acquisition of the ex-Laiki Bank into a Deferred Tax Credit. This legislation has a capital accretive impact on the Group's ability to meet regulatory capital needs for the next 12 months; • We inspected the Group's 3 year Financial and Capital Plan approved by the Board in February 2019;

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS
PUBLIC LIMITED COMPANY**

Risk:	Response to the Risk:
	<ul style="list-style-type: none"> • We inspected the regulatory capital projections of the Group for the next 12 months which take into consideration the Financial and Capital Plan; • Involved our internal valuation specialists to assess the inputs and assumptions embedded in forecasts of profitability which are included within the Financial and Capital Plan, considering whether the forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment within the Group and Cyprus, the Financial and Capital Plan prepared by the Group, future strategic plans and past performance of the Group; and • We assessed the adequacy and appropriateness of disclosures in relation to going concern. <p>Our procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>
<p>Recoverability of Deferred Tax Assets As at 31 December 2018, the Group has recognised deferred tax assets of €301.8 million (2017: €383.5 million) in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in the accounting policies and further analysed in Note 5.3 to the consolidated financial statements.</p> <p>The recoverability and carrying amount of the deferred tax assets require management judgment and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward.</p> <p>In light of the inherent uncertainty and significant</p>	<p>In obtaining sufficient audit evidence:</p> <ul style="list-style-type: none"> • We performed a walkthrough of the process for the valuation of the deferred tax asset to identify key systems, applications and controls within the processes; • We tested the design and operating effectiveness of key controls across processes; • We assessed and tested the supporting calculations of the Group's Financial and Capital Plan which formed the basis of the extended projections until 2028; • We involved our internal valuation specialists within the engagement team to assess and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group's future strategy and the past performance;



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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS
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Risk:	Response to the Risk:
<p>amount of judgment and estimation required by management, we have considered future forecasts supporting the recognition of deferred tax assets to be a key audit matter.</p> <p>Refer to the Accounting policies and Note 18 of the consolidated financial statements.</p>	<ul style="list-style-type: none"> • We compared the actual results with management's profit projections and obtained explanations about significant variances to assess the accuracy of the forecasting process; and • We assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards. <p>Our procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>
<p>Valuation of Stock of Property</p> <p>The Group has acquired a significant number of properties as a result of restructuring arrangements with borrowers. As at 31 December 2018, the stock of properties amounted to €1.53 billion (2017: €1.64 billion).</p> <p>The basis of the Group's stock of property valuation policy is presented in the accounting policies and further analysed in Note 5.4 to the consolidated financial statements.</p> <p>These properties are valued by the Group as stock of property in accordance with IAS 2. In light of the large volume of properties held and the uncertainty around market condition when estimating the recoverable amount, we have considered the judgment based valuation inputs involved to be a key audit matter.</p> <p>Please refer to the Accounting Policies and Note 28 of the consolidated financial statements.</p>	<p>In obtaining sufficient audit evidence:</p> <ul style="list-style-type: none"> • We performed walkthroughs of the processes relevant to the valuation of stock of property to identify key systems, applications and controls within the processes; • We tested the design and operating effectiveness of key controls around the process for the valuation of stock of property; • We obtained management's assessment of the net realisable value ("NRV") and tested whether the lower of cost and NRV is considered as the value of stock of property as at the reporting date, in accordance with IAS 2; • We obtained valuation reports received by the Group from independent external valuers for a sample of properties to determine that the valuations used in the NRV calculation were appropriate; • For a sample of external valuation reports reviewed we assessed the methodology and assumptions by involving our internal valuation specialists; • We compared disposal cost assumptions incorporated in the calculation of the NRV to disposals that have occurred during the year; • We performed substantive analytical review procedures, categorising properties by type and district to compare the change in value of each type of property in each district over the year to the changes in the Royal Institute of Chartered Surveyors ("RICS") indices; and • We assessed the adequacy and appropriateness of disclosures for compliance with the applicable accounting standards. <p>Our procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be €18.5 million (2017: €22.0 million), which is 1% (2017: 1%) of the Group's Common Equity Tier 1 ("CET1") capital. We believe that CET1 provides us with the most appropriate performance metric on which to base our materiality calculation as we consider it to be the most relevant performance measure to the stakeholders of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely €9.3m (2017: €11.0m). We have set performance materiality at this percentage based on our risk assessment which included the historical misstatements, the effectiveness of the internal control environment and other factors affecting the financial reporting of the Group.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was €1.9m to €7.0m (2017: €2.1m to €8.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €930k (2017: €1.0m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

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Having assessed the risk of material misstatement to the Group financial statements, we selected 1 full-scope and 3 specific-scope components covering locations in Cyprus, the United Kingdom and Greece, representing the principal business units of the Group. Together with additional procedures performed at the Group level, this gave us the evidence required for our opinion on the Group financial statements.

Of the 4 components selected, we performed full scope audit procedures on the financial information of BOC PCL (the "full scope component") which was selected based on its size and risk characteristics. For the remaining 3 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the Group financial statements because of the size of these accounts or their risk profile. These 3 components were EuroLife Ltd, Bank of Cyprus UK Ltd and the Greek branch of BOC PCL.

We also instructed component auditors for 12 other locations to perform specified procedures over accounts and disclosures that were material to the Group audit.

The reporting components where we performed audit procedures accounted for 100% (2017: 100%) of the Group's Equity, 97% (2017: 96%) of the Group's Loss before Tax, 98% (2017: 94%) of the Group's Revenue and 98% (2017: 99%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2017: 100%) of the Group's Equity, 88% (2017: 94%) of the Group's Loss before Tax, 91% (2017: 82%) of the Group's Revenue and 93% (2017: 75%) of the Group's Total assets. The specific scope components contributed 0% (2017: 0%) of the Group's Equity, 4% (2017: 2%) of the Group's Loss before Tax, 4% (2017: 10%) of the Group's Revenue and 3% (2017: 10%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant testing for the Group. We also instructed 12 locations to perform specified procedures over certain aspects of Impairment of Loans and Advances to Customers and Valuation of Stock of Property, as described in the Risk section above.

Of the remaining components that together represent 0% of the Group's Equity and 3% of the Group's Loss before Tax, none are individually greater than 0% of the Group's Equity or 1% of the Group's Loss before Tax. For these components, we performed other procedures, including analytical review procedures, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the one full scope component, audit procedures were performed on this entity directly by a component audit team. For the three specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (Ireland) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on notes 46 to 49 that describe the principal risks and explain how they are being managed or mitigated;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

- the directors' confirmation set out in the Viability Statement on page 22 in the annual report that they have carried out a robust assessment of the principal risks facing the Group and the Parent Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 20 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 6.8.3(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 20 in the annual report as to how they have assessed the prospects of the Group and the Parent Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group and the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Parent Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 6.8.6 do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and determined that the most significant are:

- The regulations and supervisory requirements of the European Central Bank and the Central Bank of Cyprus;
- Companies Act 2014;
- Irish Auditing and Accounting Supervisory Authority and the UK Corporate Governance Code; and
- Tax legislation of Cyprus.

We understood how the Group is complying with those frameworks by inspecting the policies of the Group, holding discussions with internal legal counsel, the internal compliance department and internal audit amongst auditors. We also inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations impacting the Group.

We assessed the susceptibility of the Group and Parent Company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Finance Director, Chief Risk Officer, Head of Internal Audit and Head of Legal. We also inspected the Group's fraud-related policies and mandates of different governance forums assessing fraud.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Board of Directors of Bank of Cyprus Holdings Public Limited Company on 14 July 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.



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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS
PUBLIC LIMITED COMPANY**

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Eoin MacManus
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm

Office: Dublin, Ireland

Date: 28 March 2019

Financial Statements

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Financial Statements - Contents

for the year ended 31 December 2018

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BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018	2017
		€000	€000
Other income	4	15,838	1,653
Fee and commission expenses	5	(11,215)	-
Administrative and other operating expenses	6	(2,237)	(1,602)
		2,386	51
Finance costs		(22)	(24)
Impairment of investment in subsidiary	8	(383,131)	(545,358)
Loss before income tax		(380,767)	(545,331)
Income tax	7	-	-
Loss and total comprehensive loss for the year		(380,767)	(545,331)

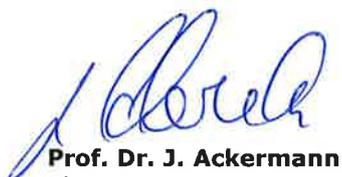
The notes on pages 277 to 286 form an integral part of these financial statements.

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Balance Sheet

as at 31 December 2018

Assets		2018	2017
Non-current assets		€000	€000
Investment in subsidiary	Notes 8	1,910,489	2,293,620
Investments	9	220,000	-
		2,130,489	2,293,620
Current assets			
Bank balances	10	-	151
Other assets		101	-
Receivables from related parties	11	734	61
		835	212
Total assets		2,131,324	2,293,832
Equity and liabilities			
Equity and reserves			
Share capital	12	44,620	44,620
Share premium	12	1,294,358	2,794,358
Retained earnings/(accumulated losses)	13	571,424	(545,351)
Equity attributable to the owners of the Company		1,910,402	2,293,627
Other equity instruments	12	220,000	-
Total equity and reserves		2,130,402	2,293,627
Current liabilities			
Bank overdrafts	10	18	-
Other payables	14	904	205
		922	205
Total liabilities and equity		2,131,324	2,293,832


Prof. Dr. J. Ackermann
 Chairman


John Patrick Hourican
 Chief Executive Officer

28 March 2019

The notes on pages 277 to 286 form an integral part of these financial statements.

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital (Note 12)	Share premium (Note 12)	Retained earnings/ (accumulated losses) (Note 13)	Total equity attributable to the owners of the Company	Other equity instruments (Note 12)	Total equity
	€000	€000	€000	€000	€000	€000
Balance at 1 January 2017	25	-	(20)	5	-	5
Shares repurchased and cancelled	(25)	-	-	(25)	-	(25)
Issue of new shares	44,620	2,794,358	-	2,838,978	-	2,838,978
Total comprehensive loss after tax for the year	-	-	(545,331)	(545,331)	-	(545,331)
Balance at 31 December 2017/1 January 2018	44,620	2,794,358	(545,351)	2,293,627	-	2,293,627
Total comprehensive loss after tax for the year	-	-	(380,767)	(380,767)	-	(380,767)
Elimination of share premium reserve	-	(1,500,000)	1,500,000	-	-	-
Issue of other equity instruments (Note 12)	-	-	(2,458)	(2,458)	220,000	217,542
Balance at 31 December 2018	44,620	1,294,358	571,424	1,910,402	220,000	2,130,402

The notes on pages 277 to 286 form an integral part of these financial statements.

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018	2017
		€000	€000
Cash flows from operating activities			
Loss before tax		(380,767)	(545,331)
<i>Adjustments for:</i>			
Impairment of investment in subsidiary	8	383,131	545,358
		2,364	27
<i>Changes in working capital:</i>			
Other assets		(101)	-
Receivables from related parties		(673)	(61)
Other payables		699	185
Net cash from operating activities		2,289	151
Cash flows from investing activities			
Purchases of equity securities	9	(220,000)	-
Net cash used in investing activities		(220,000)	-
Cash flows from financing activities			
Net proceeds from issuance of capital securities	12	217,542	-
Net cash from financing activities		217,542	-
Net (decrease)/increase in cash and cash equivalents		(169)	151
Cash and cash equivalents:			
At beginning of the year		151	-
At end of the year	10	(18)	151

The notes on pages 277 to 286 form an integral part of these financial statements.

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 under company number 545903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland.

The Company owns 100% of the share capital of Bank of Cyprus Public Company Limited (BOC PCL) whose principal activities involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt. The Board of Directors does not expect that the Company's activities will change in the foreseeable future. The Company is tax resident in Cyprus.

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

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

On 18 January 2017, the Company became the sole shareholder of BOC PCL, and on 19 January 2017 the shares of the Company were admitted to listing and trading on the LSE and the CSE.

The financial statements are available at the Company's registered office (at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland) and on the Group's website www.bankofcyprus.com (Investor Relations).

Financial statements

The financial statements of the Company for the year ended 31 December 2018 were authorised for issue by a resolution of the Board of Directors on 28 March 2019. The Company also issues consolidated financial statements which are available at the Company's registered office and on the Group's website.

The financial statements have been prepared in both the English and Greek language. In case of a difference or inconsistency between the two, the English version prevails.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs.

Presentation of financial statements

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

2.2 Going concern

The going concern assessment of the Company is consistent with the going concern assessment of the Group, a summary of which is presented in Note 3 of the consolidated financial statements of the Group for the year ended 31 December 2018.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted in preparing the financial statements of the Company are consistent with those adopted in preparing the consolidated financial statements of the Group, a summary of which is presented in Note 2 of the consolidated financial statements of the Group for the year ended 31 December 2018.

In addition the following policies are adopted:

Investment in subsidiary

The investment in subsidiary is measured at cost less impairment.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 of the consolidated financial statements of the Group for the year ended 31 December 2018.

3. Significant accounting estimates, judgements and assumptions

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

Fair value of investments and derivatives

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

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

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

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

Further details on the fair value of assets and liabilities are disclosed in Note 15.

Investment in subsidiary

The Company periodically evaluates the recoverability of investment in subsidiary whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiary may be impaired, the estimated future undiscounted cash flows associated with this subsidiary would be compared to their carrying amounts to determine if the impairment of the investment is necessary.

4. Other income

	2018	2017
	€000	€000
Management consultancy services (Note 16 (i))	1,034	940
Reimbursement of expenses and fees (Note 16 (i))	14,804	713
	15,838	1,653

5. Fee and commission expenses

	2018	2017
	€000	€000
Fee and commission expenses	11,215	-

In accordance with the purchase agreement of the Capital Securities issued in December 2018 (Note 12) between the Company and the investors each investor paid in August and September 2018 an amount equal to the purchase price (principal amount) of the Capital Securities it has agreed to purchase to an escrow agent in accordance with the terms and conditions of an escrow deed. The escrow deed provided that the aggregate purchase proceeds would be held in escrow until the issue date of the capital securities. The purchase proceeds in respect of each investor accrued a commitment fee payable by the Company for the period during which the money was held in escrow, at a rate that was commercially agreed between the investors and the Company.

6. Administrative and other operating expenses

	2018	2017
	€000	€000
Directors' fees (Note 16 (iii))	970	882
Consultancy and other professional fees (Note 16 (ii))	898	165
Stock exchange fees	284	400
Audit fees	51	155
Other expenses	34	-
	2,237	1,602

The consultancy and other professional fees above do not include any fees charged by the Company's statutory auditors.

The Company did not employ any staff during the years 2018 and 2017.

7. Income tax

	2018	2017
	€000	€000
Current tax	-	-

The reconciliation between the income tax expense and the loss before tax as estimated using the current income tax rates is set out below:

	2018	2017
	€000	€000
Loss before tax	(380,767)	(545,331)
Income tax at the normal tax rates in Cyprus	(47,596)	(68,166)
Income tax effect of:		
- expenses not deductible for income tax purposes	49,447	68,258
- income not subject to income tax	(1,851)	(89)
- tax effect of losses on which deferred tax was not recognised	-	(3)
	-	-

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2017: 12.5%).

8. Investment in subsidiary

	2018	2017
	€000	€000
1 January	2,293,620	-
Issue of shares due to reorganisation (Note 12)	-	2,838,978
Impairment of investment in subsidiary	(383,131)	(545,358)
31 December	1,910,489	2,293,620

The investment in subsidiary represents an 100% investment in the share capital of BOC PCL, a company registered in Cyprus and its activities are presented in Note 1. Its registered office is at 51 Stassinos Street, Aya Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

On 31 December 2018, the Company made an assessment of the carrying value of the investment in subsidiary and as a result of that assessment an impairment of €383,131 thousand has been recognised. The impairment losses have been primarily driven by the decrease of the equity of the subsidiary following IFRS 9 impact on transition and 2018 loss after tax.

9. Investments

	2018	2017
	€000	€000
Equity instruments at fair value through other comprehensive income (Note 16 (v))	220,000	-

On 19 December 2018 the Company issued €220,000 thousand of Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1) (Note 12). On the same date, the Company and BOC PCL entered into an agreement pursuant to which the Company on-lent to BOC PCL the entire €220,000 thousand proceeds of the issue of the AT1 (the loan, the 'AT1 Loan') on terms substantially identical to the terms and conditions of the AT1 issued by the Company. The AT1 Loan constitutes an unsecured and subordinated obligation of BOC PCL. The interest is at 12.50% and is payable semi-annually. BOC PCL may elect to cancel any interest payment for an unlimited period, and on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. The AT1 Loan is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at BOC PCL's option on the fifth anniversary of the issue date and each subsequent fifth anniversary. AT1 Loan has been classified as equity instruments at fair value through other comprehensive income. No amounts have been recognised in profit and loss and other comprehensive income in respect of these investments during the year.

The fair value of equity instruments held by the Company is determined using models for which all inputs that have a significant effect on fair value are market observable. Equity instruments are financial instruments whose carrying value is a reasonable approximation of fair value and they are as categorised as Level 2 instruments in fair value hierarchy. The maximum exposure to credit risk at the balance sheet date is the carrying value of the equity instruments.

There were no transfers in and out of Level 2 during 2018.

10. Bank balances

	2018	2017
	€000	€000
Cash at bank (Note 16 (iv))	-	151

Cash at bank does not earn any interest (2017: 0.02% per annum).

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY
Notes to the Financial Statements

10. Bank balances (continued)

Cash at bank and bank overdrafts include the following for the purpose of statement of cash flows:

	2018	2017
	€000	€000
Cash at bank	-	151
Bank overdrafts (Note 16 (iv))	(18)	-
	(18)	151

11. Receivables from related parties

	2018	2017
	€000	€000
Receivables from related parties (Note 16 (iv))	734	61

The above balances represent the maximum exposure to credit risk at the balance sheet date.

12. Share capital

	2018		2017	
	Number of shares (thousand)	€000	Number of shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €0.10 each	10,000,000	1,000,000	10,000,000	1,000,000
<i>Issued and fully paid</i>				
Ordinary shares of €0.10 each	446,200	44,620	446,200	44,620

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

Authorised and issued share capital

All issued shares are fully paid and carry the same rights.

2018

There were no changes to the authorised or issued share capital during the year ended 31 December 2018.

2017

The Extraordinary General Meeting (EGM) of the shareholders of BOC PCL held on 13 December 2016 approved a scheme of arrangement between the Company, BOC PCL and its shareholders. The scheme of arrangement introduced the Company as the new holding company of the Group. Additionally the EGM authorised the directors of BOC PCL to take all actions necessary or appropriate to carry the scheme of arrangement into effect. The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of BOC PCL which amounted to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of BOC PCL (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of BOC PCL, equal to the aggregate nominal value of the Existing Shares so cancelled, and which shall be retained as a non-distributable capital reserve in accordance with the provisions of subsection (e) of section 64 of the Companies Law, Cap. 113 (the Reduction of Capital).

12. Share capital (continued)

Authorised and issued share capital (continued)

2017 (continued)

Following the reduction of the share capital of BOC PCL, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank pari passu with the existing ordinary shares of BOC PCL. Also, the reserve arising in the books of account of BOC PCL as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of BOC PCL, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of BOC PCL were cancelled and BOC PCL issued and allotted 8,922,944,533 new ordinary shares of nominal value €0.10 each, credited as fully paid to the Company; and the Company issued and allotted new shares (New Shares) and procured the issue of Depositary Interests representing New Shares, in accordance with the terms of the scheme of arrangement. Each one New Share or one Depositary Interest represents one New Share for each individual holding of 20 Existing Shares. As a result, the Company issued 446,199,933 ordinary shares with a nominal value of €0.10 each.

Share premium reserve

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

	2018	2017
	€000	€000
Reset Perpetual Additional Tier 1 Capital Securities	220,000	-

In December 2018 the Company issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. The Company may elect to cancel any interest payment for an unlimited period, and on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. 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. AT1 was listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market on 24 December 2018.

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY
Notes to the Financial Statements

12. Share capital (continued)

The transaction costs, directly attributable to the issuance, amounted to €2,458 thousand and have been recognised in retained earnings. The net proceeds from the issuance after deduction of these transaction costs amounted to €217,542 thousand, as presented in the statement of cashflows.

13. Retained earnings/(accumulated losses)

For the purpose of dividend distribution, retained earnings determined at Company level, are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals who are domiciled in Cyprus and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the company on account of the shareholders.

During 2018 and 2017 no deemed dividend distribution was paid by the Company.

14. Other payables

	2018	2017
	€000	€000
Accruals	510	30
Other payables	253	-
VAT payable	141	175
	904	205

Other payables are due within 12 months from the balance sheet date.

15. Fair value measurement

The fair value of the financial assets and financial liabilities approximates their carrying value as at 31 December 2018 and 31 December 2017.

16. Related party transactions

The following transactions were carried out with related parties:

(i) Other income

	2018	2017
	€000	€000
Management consultancy services	1,034	940
Reimbursement of expenses and fees	14,804	713
	15,838	1,653

The above transactions were carried out between the Company and its subsidiary BOC PLC on an arm's length basis.

16. Related party transactions (continued)

(ii) Administrative and other expenses

	2018	2017
	€000	€000
Consultancy and other professional fees	30	27

The above transactions were carried out between the Company and its subsidiary BOC PLC on an arm's length basis.

(iii) Directors' remuneration

The total directors' fees amount to €970 thousand (2017: €882 thousand). These were reimbursed by BOC PCL and included in other income above.

Fees are included for the period that Directors serve as members of the Board of Directors.

Non-executive Directors

	2018	2017
	€000	€000
Josef Ackermann	150	150
Wilbur L. Ross Jr.	-	20
Arne Berggren	115	115
Maksim Goldman	120	120
Michalis Spanos	100	100
Ioannis Zographakis	135	135
Marios Kalochoritis	-	45
Michael Heger	110	110
Lyn Grobler	90	72
Anat Bar-Gera	85	15
Pola Hadjisotiriou	36	-
Maria Philippou	29	-
	970	882

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company, as well as of committees of the Board of Directors.

(iv) Year-end balances

	2018	2017
	€000	€000
Receivables from related parties		
BOC PCL	734	61
Bank balances		
BOC PCL	-	151
Bank overdrafts		
BOC PCL	18	-

The receivable from related parties relates to income outstanding from management consultancy services and reimbursement of expenses and fees.

There were no other significant transactions with related parties of the Company and no information to be disclosed under section 307 of the Companies Act 2014 for the years 2018 and 2017.

16. Related party transactions (continued)

(v) AT1 Loan

On 19 December 2018 the Company and BOC PCL entered into an agreement pursuant to which the Company on-lent to BOC PCL the entire €220,000 thousand proceeds of the issue of the AT1. Further details are disclosed in Note 9.

17. Dividend

Based on the Supervisory Review and Evaluation Process (SREP) decisions of prior years, the Company and BOC PCL were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2018 and 2017.

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

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

18. Financial risk management

The Company is exposed to risks the most significant of which are the liquidity risk and market risk.

18.1 Liquidity risk

Liquidity risk refers to probable losses that the Company may face, in case of repayment difficulties to its cash flow obligations. The level of operational costs is low and the Company enjoys adequate liquidity.

18.2 Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Price risk

Equity securities price risk

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

Investments in equities are outside the Company's risk appetite.

Changes in the prices of equity securities that are classified as FVOCI affect the equity of the Company.

The table below shows the impact on the equity of the Company from a change in the price of the equity instruments held, as a result of reasonably possible changes in the relevant stock exchange indices.

2018	Change in index	Impact on equity
	%	€000
Other stock exchanges	+20	44,000
Other stock exchanges	-20	(44,000)

19. Capital management

The capital management of the Company is consistent with the capital management of the Group as presented in Note 50 of the consolidated financial statements of the Group for the year ended 31 December 2018.

20. Events after the reporting period

20.1 Dividends

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

20.2 Resignation of the Group's CEO

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

Annual Corporate Governance Report 2018

Introduction

Good governance generates trust and engagement between a company and its stakeholders and contributes to the company's long term success. Accountability, integrity, transparency, fairness, equity, sustainability and ethics are all fundamental values of good governance. The Board of Directors (the 'Board') of the Bank of Cyprus Holdings Plc (the 'Company') is committed to the highest standards of corporate governance and aims to ensure on an ongoing basis that the Company is a modern, transparent, competitive and sustainable organisation. By adopting best practices in corporate governance and corporate administration, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to the successful implementation of its strategy.

A key objective of the governance framework of the Company together with its subsidiaries (the 'Group') is to ensure compliance with applicable legal and regulatory requirements. The Company is subject to the Code of Corporate Governance of the Cyprus Stock Exchange (the 'CSE Code' available on www.cse.com.cy), as well as the Directive on Governance and Management Arrangements of the Central Bank of Cyprus (the 'CBC Directive on Governance').

The Company has also elected to apply the UK Corporate Governance Code 2016 published by the Financial Reporting Council in the UK (the 'UK Code' which is available on www.frc.org.uk).

Part A

The Company has adopted both the CSE Code and the UK Code, has incorporated their provisions in the Group's Corporate Governance Policy and fully implements their principles. The policy together with the Board Manual, the terms of reference of the Board committees and the practices followed by the Board and its committees, constitute important foundations for maximising shareholder value.

Part B

The Company confirms that it has complied with the provisions of the CSE Code throughout 2018. The Company applies the provisions of the Code throughout the Group. As at the date of this Report, all significant subsidiary companies maintain an Audit Committee and a Risk Committee.

The Directors further consider that the Company has also complied with the provisions of the UK Code.

Details of how the Company has applied the provisions of the CSE Code throughout 2018 are set out in this Corporate Governance Report and in the Remuneration Policy Report which comes next. The narrative that follows also covers how the Company has applied the main and supporting principles and disclosure requirements set out in the UK Code.

The Group believes that its governance framework is robust with a clear organisational structure, well defined, transparent and consistent lines of responsibility and effective processes through which to identify, manage, monitor and report risks to which it is or might be exposed. It has appropriate internal control mechanisms including sound administrative and accounting procedures, Information Technology ('IT') systems and controls. The Company continually monitors and reviews internally, at least once a year, its governance framework and that of its subsidiary companies (where applicable) through effective oversight.

The Directors are aware that in case they have material concerns about the overall governance of the Group, these should be reported without delay to the Board and, if their concerns are not satisfactorily addressed, the Directors should report these concerns to the Central Bank of Cyprus (the 'CBC').

The Board has delegated authority to committees of the Board to support its oversight of risk and control. The committees are the Group Audit Committee (the 'AC'), the Group Risk Committee (the 'RC'), the Nominations and Corporate Governance Committee (the 'NCGC'), the Human Resources and Remuneration Committee (the 'HRRC') and the Technology Committee (the 'TC'). Details of these committees are set out in section 5 of this report. The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. The committee terms of reference are reviewed annually by the relevant committees and by the Board and are available on the Group's website www.bankofcyprus.com, or by request to the Company Secretary.

1. Board of Directors

The Board derives its authority to act from the Articles of Association of the Company and the prevailing companies, stock exchange and banking laws, the directives of the CBC, as well as the CSE and UK Codes. The role of the Board and its committees is well described and analysed in the Board Manual that is annually fully revised and incorporates all responsibilities that emanate from the regulatory framework.

1.1 The Role of the Board

The Board's role is to provide leadership of the Group and promote the Group's vision, values, culture and behaviour, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board is collectively responsible for the long-term success of the Group; it sets the Group's strategic objectives, integrates sustainability into the way business is conducted, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board also ensures that its obligations towards its shareholders and other stakeholders are understood and met.

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

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, including in relation to the annual and interim financial statements and other price-sensitive public reports and reports required by regulators and by law.

There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. The day to day operations of the Group have been delegated to management.

The Board is the decision-making body for all matters of importance because of their strategic, financial or reputational implications or consequences. A formal schedule of matters reserved for approval by the Board ensures that control of these key decisions is maintained by the Board. The schedule is reviewed and updated regularly. Matters requiring Board approval include amongst others:

- The Group's long-term objectives and strategy;
- The overall risk policy and risk management procedures;
- The Group's Risk Appetite Statement;
- The annual and three-year budgets and business plans;
- Capital expenditures for amounts over €20 million;
- Unusual transactions;
- Mergers, acquisitions and disposals of the Group's assets for amounts over €20 million;
- Intra-group guarantees, indemnities and security;
- Directors' conflicts of interest;
- The selection, appointment, re-appointment of Directors of the Company and the termination of the services of the Chief Executive Officer;
- The establishment and oversight of policies for selecting, developing and replacing senior management and heads of internal control functions;
- The Remuneration Policy; and
- The declaration of a Recovery Emergency Situation.

Moreover the Board is responsible for:

- Overseeing the corporate governance and succession planning framework; and
- Setting the right tone and promoting the appropriate culture, values and ethics of the Group;

The appointment, replacement, transfer or removal from office of the heads of internal control functions is subject to Board approval. The appointment of individuals who may have a material impact on the risk profile of the Group is also subject to Board approval. Their appropriateness for the role is monitored on an ongoing basis.

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

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 Board approves the Group Risk Appetite Statement on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through the Risk Report reviewed monthly.

Detailed information relating to Group risk management is set out in Notes 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2018 Annual Financial Report.

1.1.1 Information and Support

The Board meets on a regular basis and has a formal schedule of matters for consideration which is annually reviewed. The Board receives regular reports and presentations from the Group Chief Executive Officer (the 'Group CEO') and other senior management on strategy and developments in the operations of the Group. The Board considers reports from each of the Board committees, while regular reports are also provided on the Group's risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

1.1.1 Information and Support (continued)

The key areas of focus in 2018 for the Board, inter alia, were:

Business environment	<ul style="list-style-type: none"> • Cyprus economic development; • Quarterly economic reports; • Investors and stakeholder perspectives; • Market updates and share trading activity.
Group Strategy and risk appetite	<ul style="list-style-type: none"> • Approval of the Group's Risk Appetite Statement; • Three-year business and capital plan; • Acquisitions and divestments; • Resolution Plan & Minimum Requirement for own funds and Eligible Liabilities (MREL); • Progress of the Bank's Digital Transformation Program; • Review of divisional and business unit strategies; • Succession Planning; • Review of strategic and operational plan to address NPEs.
Business performance	<ul style="list-style-type: none"> • Review of the performance of Corporate Finance projects; • Progress of REMU; • Progress of shipping business; • Progress of Overseas Loan Book; • Review and approval of Group financial performance updates, forecasts, budgets, capital position; • Potential AT1 issuance.
Risk management	<ul style="list-style-type: none"> • Approval of Internal Capital Adequacy Assessment Process ('ICAAP') Report; • Approval of Internal Liquidity Adequacy Assessment Process ('ILAAP') Report; • Review of monthly risk reports; • Approval of Annual Risk Report; • Action Plan to implement Supervisory Review and Evaluation Process (SREP) recommendations; • Approval of the Group Recovery Plan; • Review of business and capital plan; • Directors & Officers (D & O) liability insurance.
Governance and regulatory compliance	<ul style="list-style-type: none"> • Approval of appointments to the Board and major subsidiary boards; • Review of corporate governance matters; • Approval of Corporate Governance Policy; • Action Plan to implement the revised 2018 UK Corporate Governance Code; • Approval of Group Regulatory & Ethics Compliance Department (RECD) Annual Report; • Approval of Group Financial Crime Compliance Department (FCCD) Annual Report; • Board performance evaluation.

1.2 Composition of the Board of Directors

As at 31 December 2018, the Board comprised of twelve Directors: the Group Chairman who was independent on appointment, two Executive Directors and nine Non-executive Directors. The Board has determined eight of the Non-executive Directors to be independent Non-executive Directors in accordance with the provisions of the UK Code and the CSE Code.

The names and brief biographical details including each Director's background, experience and independent status are set out in section 4 of this report.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

The NCGC annually reviews the structure, size, and composition of the Board (including skills, knowledge, experience, independence and diversity) to ensure that there is an appropriate mixture of skills, experience as well as gender. This includes a review of tenure and an assessment of the skills profile of the Board to ensure that the Board and committees comprise of Directors having an all-embracing perception of the Group's activities and the risks associated with them. The Committee also ensures plans are in place for the selection, appointment and orderly succession of Executive Directors and senior managers. Further, should the overall size of the Board be altered by any appointment or resignation, a review is undertaken to ensure that the composition remains appropriate. The Board regards its current size and composition appropriate to provide the broad range of skills and experience necessary to govern the business effectively, while enabling full and constructive participation by all Directors given the size and operations of the Group and the time demands placed on the Directors.

The Group carries out a review of the ongoing fitness and probity of Board and Executive Committee (ExCo) members on an annual basis, whereby they are required to confirm any changes in their circumstances in respect of their compliance with the CBC Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorised credit institutions (the 'CBC Fitness & Probity Directive'). All changes in circumstances disclosed were assessed and their materiality determined. Following the review of 2018, no material changes were reported. The Board concluded that each of the Directors has the requisite standard of fitness, probity and financial soundness to perform his/her functions effectively.

Executive Directors

The Group CEO and the Group Deputy CEO & Chief Operating Officer (the 'DCEO & COO') are employees of BOC PCL. The Group CEO's termination of employment is subject to six months' notice to that effect to be given to the Executive Director, without cause but at the sole discretion of BOC PCL. The DCEO & COO's employment is mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the BOC PCL based on years of service and for a four month prior written notice by the Executive Director in the event of a voluntary resignation.

Non-Executive Directors

Non-executive Directors are not Company employees and do not participate in the daily management of the Group. They are responsible for monitoring executive activity and contributing to the development of strategy. Their role is to constructively challenge the Company's existing strategy and contribute to the development of new strategies, to scrutinize the performance of senior management in meeting agreed goals and objectives and to monitor the reporting of the performance. Non-executive Directors must also satisfy themselves on the integrity of financial information and that the systems of financial controls, compliance and risk management frameworks and the internal control framework are robust and defensible.

1.2.1 Meetings of the Board of Directors

During 2018 the Board held 13 meetings. Further details on the number of the meetings of the Board and its committees and attendance by individual Directors are set out below. In March 2018 the Board held an offsite two day meeting specifically focused on strategy.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

1.2.1 Meetings of the Board of Directors (continued)

Board of Directors 1/1/2018-31/12/2018

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint
Josef Ackermann (Chairman)	13/13			10/10		
Maksim Goldman (Vice Chairman)	13/13			10/10	16/16	6/6
Anat Bar-Gera	13/13		10/10			
Arne Berggren	13/13	13/13			16/16	6/6
Lyn Grobler	13/13			10/10		
Paula Hadjisotiriou ¹	7/7	5/5			7/7	2/2
Michael Heger	13/13	13/13	10/10			6/6
John P. Hourican	13/13					
Christodoulos Patsalides	13/13					
Maria Philippou ²	8/8		5/5			
Michael Spanos	12/13		9/10			
Ioannis Zographakis	13/13	13/13			15/16	6/6
Total meetings³	13	13	10	10	16	6

1 Appointed on 13 August 2018

2 Appointed on 23 July 2018

3 The number of Board meetings at BOC PCL level was 20 during the year 2018. The attendance of these meetings can be found on page 303.

Agendas and papers are circulated in a timely manner prior to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them adequate time to review the relevant information and enable them to fully discharge their duties.

The Company Secretary is closely involved in preparing the schedule of all Board and committee meetings and the agendas for these meetings, in conjunction with the Chairman, ensuring that relevant information is dispatched timely to all members of the Board.

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between senior management and Non-executive Directors and between heads of internal control functions and Non-executive Directors, as well as facilitating the induction, development and evaluation of members of the Board.

All Directors have access to the advice and services of the Company Secretary and the Corporate Governance Compliance Officer (the 'CGCO') who can provide relevant information related to Board procedures and the CSE and UK Codes. Independent professional advice is also available to the Directors at the Group's expense if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

1.2.2 Term of Appointment, Retirement and Re-election of Directors

Non-executive Directors are appointed for an initial three-year term and are typically expected to serve two three-year terms. The Board may invite Directors to serve additional periods assuming a satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness and probity. A Non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years is subject to rigorous review and takes into account the need for progressive refreshing of the Board.

The Board may at any time appoint any person who is willing to act as Director and who fulfils the criteria as these are determined in the Board Nominations Policy, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors should not exceed 13. Any Director so appointed is subject to election at the AGM following his/her appointment.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

1.2.2 Term of Appointment, Retirement and Re-election of Directors (continued)

According to the Articles of Association of the Company, all Directors retire each year and if eligible and assuming satisfactory performance, are subject to re-election by shareholders. A rigorous review of their skills, experience, independence and knowledge was carried out in March 2018 and the Board concluded that they continue to be effective and make a valuable contribution to the deliberations of the Board. The following Directors, being eligible, offered themselves for re-election and were re-elected at the Annual General Meeting (the 'AGM') on 28 August 2018: Josef Ackerman, Maksim Goldman, Anat Bar-Gera, Arne Berggren, Lyn Grobler, Michael Heger, John Patrick Hourican, Christodoulos Patsalides, Michael Spanos and Ioannis Zographakis. Maria Philippou, appointed on 23 July 2018 and Paula Hadjisotiriou, appointed on 13 August 2018 were also elected to the Board. The names of Directors submitted for election or re-election are accompanied by sufficient biographical and other relevant information in the AGM documentation to enable shareholders to take an informed decision.

1.2.3 Conflicts of interest

The Board Manual documents procedures relating to Directors' conflicts of interest, and sets out how these are to be identified, reported and managed to ensure that the Directors act at all times in the best interests of the Company. The Board Manual is reviewed and revised if necessary, at least annually.

The Group's Policy on Conflicts of Interest which applies to all employees and Directors sets out their duty to avoid, manage and disclose actual, potential or perceived conflicts of interest. The policy is reviewed annually and is communicated throughout the Group.

The Board has adopted a Dealing Code for transactions in the Company's securities by Persons Discharging Managerial Responsibilities (PDMRs). The Dealing Code complies with the European Market Abuse Regulation. All Directors have complied with the Dealing Code during 2018. All Directors and PDMRs have been informed of their obligations under the Dealing Code in writing.

None of the Directors had, during the year or at year end, a material interest, directly or indirectly in any contract of significance with the Group (See Note 51 of the Consolidated Financial Statements of Bank of Cyprus Holdings).

1.2.4 Time commitment

The Board has determined the time commitment expected of Non-executive Directors to be 35-40 days per annum. Time devoted to the Group can be considerably more when serving on Board committees.

The NCGC considers, inter alia, whether a potential Director is able to devote the requisite time and attention to the Company's affairs, prior to the Board's approval of the individual's appointment.

BOC PCL has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulation 2014. The CBC Fitness and Probity Directive which incorporates the provisions of Article 91 of the European Capital Requirements Directive ('CRD IV') on management bodies of credit institutions, determines that a Director cannot hold more than one of the following combinations:

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

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

The ECB which supervises BOC PCL following the European Union Regulation 468/2014 which established the framework for cooperation within the SSM between the ECB and national competent authorities may in exceptional cases, and taking into consideration the nature and complexity of the business of the Group, authorise members of the Board to hold one additional directorship.

At the time of their appointment, the CBC was the relevant competent authority to grant permission to four of the Directors to hold one additional non-executive directorship to those permitted by article 91 of the CRD IV. During the year ended 31 December 2018, all Directors were within the directorship limits set out for 'significant institutions'.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

1.2.4 Time commitment (continued)

The Directors hold positions on the management bodies of other companies as noted in their biographical details included in section 4 of this report. Such participation does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company and is within the limits set by the CBC Fitness and Probity Directive. It was estimated that in 2018, each Non-executive Director spent at least 40 days on board-related duties. The Board considered the time commitment of all Directors and concluded that each Director devotes the requisite time for the effective performance of his/her duties.

1.2.5 Group Chairman and Group Chief Executive Officer

The respective duties of the Chairman of the Board and the Group CEO are clear and distinct. The two roles are segregated and they distinguish between the running of the Board and the executive responsibility for running the Company's business. The terms of reference of these two roles are set out in writing in the Group Board Manual which has been approved by the Board.

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board;
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy;
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making;
- Encouraging the active participation of members of the Board;
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision-making and voting on any matter on which they may have a conflict of interest;
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion; and
- Promoting high standards of corporate governance.

The Chairman commits a substantial amount of time to the Group. There were no material changes to the other significant commitments of the Chairman during the year ended 31 December 2018. During the year, the Chairman and the Non-executive Directors met without the executive Directors present, to discuss a range of business matters.

The Group CEO is responsible:

- To develop and present to the Board the strategy of the Group;
- To execute the approved strategy;
- To lead the senior management team in the day-to-day running of the business; and
- To make decisions on all matters affecting the operations, performance and strategy of the Group's business with the exception of those matters reserved for the Board.

The Group CEO's service contract is reviewed at least every three years. The last review took place in August 2018 and his contract was then extended from December 2018 until December 2020. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019.

1.2.6 Senior Independent Director

The Senior Independent Director (the 'SID') is available to shareholders and Directors if they have concerns that are not resolved through normal communication channels. He provides a sounding board for the Chairman, as well as support to the Chairman in delivering his objectives. He chairs an executive session of the Non-executive Directors to assess the performance of the Chairman as part of the annual evaluation of Board performance provided for in the CBC Governance Directive.

1. Board of Directors (continued)

1.3 Board Balance and Independence

Both the CSE Code and the UK Code provide that at least 50% of the Board, excluding the Chairman, should be independent non-executive Directors, so that no individual or small group of individuals can dominate the Board's decision-taking.

The NCGC and the Board determine the independence status of each Director on appointment. In addition, a review of the independence status of each Director takes place annually to ensure that the determination regarding independence remains appropriate.

In 2018 the Board considered the principles relating to independence contained in the CSE Code, the UK Code and the CBC Fitness and Probity Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

Up until 4 June 2018, Mr. Maksim Goldman, was a senior executive of a corporation controlled by a significant shareholder in the Company and therefore he is not considered independent by reference to the provisions of the CBC Directive on Fitness and Probity, the CSE Code or the UK Code.

The Board comprises a majority of independent Non-executive Directors to ensure that no individual or small group can dominate its decision making. The Board considers that each Non-executive Director brings independent challenge and judgement to the workings of the Board, through their character, objectivity and integrity.

A relevant 'Confirmation of Independence' based on the independence criteria of provision A.2.3 of the CSE Code is signed annually by each of the independent Non-executive Directors and is submitted to the Cyprus Stock Exchange together with the Corporate Governance Report.

1.3.1 Appointments to the Board

The Board is responsible for the appointment of Directors and recognises the need to identify the best qualified and available people to serve on the Board. In accordance with the Board Nominations Policy and the Board Diversity Policy, all appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board. The Board plans for its own renewal with the assistance of the NCGC which regularly reviews Board composition, tenure and succession planning.

The NCGC, prior to assessing candidates, identifies the skills and experience required for the role, assesses the time commitment involved and with due regard to the formal assessment of the skills profile of the Board and succession planning, recommends the nomination to the Board. The recruitment process for Non-executive Directors is supported by an experienced third party professional search firm, which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews/meetings (including meetings with members of the NCGC) and carry out comprehensive due diligence. In accordance with the Board Nominations Policy, the assessment and due diligence process is extensive and includes self-certification confirmations of probity and financial soundness as well as external checks involving a review of various publicly available sources.

The process also involves the NCGC satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity as well as assessing and documenting its consideration of possible conflicts of interest. The NCGC then makes recommendations to the Board.

The process described above was followed in the selection of Mrs Paula Hadjisotiriou and Mrs Maria Philippou in January 2018. Egon Zehnder, an external search consultancy firm with no other connection to the Company, was engaged in respect of these Non-executive Director appointments.

The same firm was also engaged to identify the right candidate for the Board following the announcement of the Chairman's decision to retire from the Board at the upcoming AGM. On 26 February 2019 Mr. Arapoglou was appointed to the Board subject to ECB consent. The Board intends to consider Mr. Arapoglou as a candidate to succeed Dr Ackermann to the Chair, following the AGM of 14 May 2019.

In the meantime, Mr. Spanos resigned from the Board on 21 January 2019, and Mr. Zographakis was appointed as Senior Independent Director on 26 February 2019. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019. The NCGC is currently re-assessing the composition of the Board.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.1 Appointments to the Board (continued)

Letters setting out the terms of appointment of each of the Non-executive Directors, including the time commitment expected of each of them, are available on request from the Company Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings, training sessions and briefings and preparation time for meetings. In addition, Non-executive Directors are normally required to sit on at least one committee of the Board, which involves the commitment of additional time. Certain Non-executive Directors, such as the SID and committee chairpersons are required to allocate additional time in fulfilling those roles.

1.3.2 Directors' induction and ongoing development

Full, formal and tailored induction programmes, with particular emphasis on risk management, corporate governance and internal control systems are arranged for newly appointed Directors. The programmes also entail a series of meetings with senior executives and other Directors to enable new Directors to familiarise themselves with the business, management and governance structure including the function of the Board and the role of the committees. The Company Secretary under the supervision of the Chairman develops programmes based on the Directors' individual needs. Following appointment, each Director receives a relevant package and undergoes an induction programme.

Focused training of the Board is arranged in conjunction with scheduled Board meetings where information is provided to ensure that Directors receive adequate insight into a particular area through presentations by Group Business units and briefings with senior management. Dedicated training sessions also take place on particular issues (refer to table below for 2018 training schedule) usually identified by the Directors themselves and the Company Secretary. A training schedule is prepared at the beginning of each year and Directors are expected to attend accordingly.

All the members of the Board were provided on appointment with an information pack which includes, among others, the Board Manual, key legislation, directives and regulations and the Company's Articles of Association. As demonstrated in the table below, during the year specialised training sessions with the contribution of external advisors were provided, covering issues relating to the duties and responsibilities of Board members.

Training sessions for the Board members during 2018

Name	ILAAP	*	**	Without Question	GDPR	***	General Banking	AML	ICAAP
J. Ackermann	√	√	√	√	√	√	√	√	√
M. Goldman	√	√	√	√	√	√	√	√	√
A. Bar-Gera	√	√	√	√	√	√	√	√	√
A. Berggren	√	√	√	√	√	√	√	√	√
L. Grobler	√	√	√	√	√	√	√	√	√
P. Hadjisotiriou	N/A	N/A	√	√	√	√	√	√	√
M. Heger	√	√	√	√	√	√	√	√	√
J. Hourican	√	√	√	√	√	√	√	√	√
C. Patsalides	√	√	√	√	√	√	√	√	√
M. Philippou	N/A	N/A	√	√	√	√	√	√	√
M. Spanos	√	√	√	√	√	√	√	√	√
Y. Zographakis	√	√	√	√	√	√	√	√	√

* Assessment of Suitability of members of the management body

** Information Security Awareness Programme

*** Update on Competition Law

The training material is distributed to all Directors regardless of attendance. In 2018, most of the training was in the form of e-learning sessions with an assessment quiz at the end.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors. The Company Secretary ensures all Directors are provided with relevant information on a timely basis to enable them to consider issues for decision-making and discharge of their oversight responsibilities.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.2 Directors' induction and ongoing development (continued)

The Directors also have access to the advice of the Group external legal advisors and to independent professional advice, at the Group's expense, if and when required. Board committees have similar access and are provided with sufficient resources to undertake their duties. The Directors also receive comprehensive guidance from the Company Secretary on Board procedures as well as guidance on duties and obligations by the CGCO.

In the performance of their roles, Executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management and through presenting on the Group's business to investors and analysts. They remain abreast of developments affecting the financial services sector and banking by representing the Group's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

1.3.3 Board Performance Evaluation

The Board is committed to regular and at least annual evaluation of its effectiveness and that of its committees. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board or committee as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role. The internal evaluation of the performance of the Board, its committees and individual members conducted in March 2018 by the CGCO, indicated a strong and diverse composition of experiences that could however, be further enhanced by appointing more members with HR background, while at the same time striving for gender diversity. The external Board performance evaluation report in early 2018 by SpencerStuart, made several recommendations and along with the recommendations of the internal evaluation, an action plan for the implementation of these recommendations was set up. The assessments carried out through on-line questionnaires and interviews considered overall performance relative to the role of the Board and its committees.

The outcome of the Board evaluation was considered by the NCGC and collectively discussed by the Board. Several recommendations were made to enhance the Board process, although they were not material to the effectiveness of the Board. The Board accepted them and set up an action plan to incorporate those recommendations. Taking into account the evaluation report, the Board concluded that it continues to be effective and that each Director continues to make a valuable contribution to the deliberations of the Board.

The Board also concluded that all the members of the Board have appropriate qualifications, broad relevant experience and continue to be effective and demonstrate continuing commitment to the role.

The chairperson of each principal Board committee led the self-assessment process in respect of committee performance. The process was supported by the completion of questionnaires tailored to each specific committee. The results of this process were considered by each individual committee with conclusions and any relevant recommendations reported to the Board. The effectiveness of each of the four principal committees was assessed as adequate.

The SID led the process of evaluation of the Chairman's performance based on a discussion during an executive session of the Non-executives (without the Chairman). The Board concluded that the Chairman continues to lead the Board effectively, continues to make valuable contribution and demonstrates continuing commitment to the role.

1.3.4 Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 51 of the Consolidated Financial Statements for the year ended 31 December 2018.

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.4 Loans to Directors and Other Transactions (continued)

- Approval by a resolution of the Board carried by a majority of two-thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution,
- The exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice,
- The total value of exposures in respect of all members of the Board should not exceed at any time 10% of BOC PCL's own funds, or such other lower percentage as the CBC may determine from time to time,
- The total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the BOC PCL's own funds or such other lower percentage as the CBC may determine from time to time,
- The total value of exposure to any member of the Board should not exceed at any time the amount of €500,000 or such other lower amount as the CBC may determine from time to time, and
- No financing is permitted to any executive member of the Board that does not comply with the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

All members of the Board complied with the relevant provisions of the CSE Code and the Banking Law as at 31 December 2018.

2. Internal Controls

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system ensures that:

- The effectiveness of the governance framework is monitored and periodically assessed and appropriate steps are taken to timely address any deficiencies;
- The appropriate compliance framework is in place;
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate; and
- The appropriate information security framework for the protection of confidential information is in place.

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

The overall system of internal controls of the Group includes:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board;
- Three lines of defence model for the management of risks across the Group;
- Board and Executive Committees with clear responsibilities;
- Policies and procedures;
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon;
- Monthly meetings of ExCo to review performance;
- A Code of Conduct setting out the standards expected of all officers and employees; and
- A Whistleblowing Policy including processes and procedures to be followed for independent investigation of concerns raised by staff.

The Board confirms that, through the AC and the RC, it has conducted reviews for the year ended 31 December 2018, regarding the effectiveness of the Group's internal control and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information provided to investors. The reviews covered all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. In carrying out their reviews, the AC and RC receive regular business and operational risk assessments, regular reports from the Group Internal Audit Director, the Director of Group Compliance and the Group Chief Risk Officer (the 'GCRO'), internal and external audit reports, as well as regulatory reports.

2. Internal Controls (continued)

Additionally, the Board receives a confirmation on an annual basis by the Group CEO as to the effectiveness of compliance, risk management and information security system of internal controls. At the same time, all members of the senior management team of the Bank provide written representations to the Group CEO on a quarterly basis as to the effectiveness of the system of internal controls. Similar representations are given on an annual basis by the Director Group Compliance and the GCRO.

The Board, through the AC and RC, has received confirmation that executive management has taken or is taking the necessary actions to remedy all weaknesses identified through the operation of the Company's framework of internal controls.

Based on the internal audit work carried out in 2018, reasonable assurance, with emphasis on specific matters, is provided that the system of internal controls within the Group is adequately designed and operates effectively to address significant risks according to the risk appetite set by the Board of Directors. Emphasis is provided on specific areas and namely on non-performing exposures (NPEs) and arrears management process, as well as specific areas within the Information Systems and Information Security environment. More specifically, despite the fact that steps have been taken by management for de-risking the balance sheet, as well as for addressing high risk technology and security related weaknesses, further actions are still required.

Overall, the Board of Directors through its committees has reviewed the effectiveness of the system of internal controls of the Group for the year ended 31 December 2018 and confirms its effectiveness. The Board also confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period. The submission of financial information from each reporting entity is subject to sign off by the responsible financial officer. Further analytical review procedures are performed at Group level. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate. The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

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

2.1 Going concern

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

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

The Group has developed a Financial and Capital Plan (the 'Plan'), which has been approved by the Board in February 2019. One of the most important objectives of the Plan was to ensure that the Group has sufficient resources and capital in order to continue the balance sheet de-risking and further deal with the residual NPEs. The IFRS9 impact on a fully phased-in basis has been considered within the Group's capital plan.

2. Internal Controls (continued)

2.1 Going concern (continued)

Despite the implementation risk associated with the outcome of future events outlined in the Plan at the reporting date, the Directors believe that there is sufficient capital throughout the period of assessment to meet regulatory capital requirements. The Group will continue its de-risking strategy and remains focused to implement the actions contemplated in the Plan.

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

Non-Performing Exposures

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

Capital

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% and 14.9% respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).

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

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

- The phase-in of IFRS9. The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the total impact on adoption of IFRS 9 of €308,511 thousand, on 1 January 2018 and any subsequent increase allowed by the regulation for phasing in (i.e. increase in Stage 1 and Stage 2 allowance), will impact the capital ratios over a period of 5 years. The impact on the regulatory capital is being phased-in based on a weighting factor until it is fully absorbed at the end of the five years. The initial impact of IFRS 9 was phased-in by 5% on 1 January 2018 regulatory capital and increases to 15% (cumulative) on 1 January 2019;
- The enactment of the Income Tax Amendment Law 28 (I) of 2019 by the Cypriot parliament in March 2019, allowing for the conversion of the Group's deferred tax assets into deferred tax credits. This results in a more capital efficient tax asset. The law will result in improved regulatory capital treatment under CRR and will increase CET1 by c. 170 bps (unaudited) on a transitional basis as at 31 December 2018. This improvement includes the impact from a reversal of impairment of the related deferred tax asset of approximately €108 million recognised during 2017 and 2018, which will be reversed in 2019 Income Statement of the Group; and
- The regulatory capital position of the Group will strengthen further, upon completion of the sale of loans and advances to customers (the 'Helix Portfolio' or the 'Transaction'), largely NPEs, classified as held for sale (Note 30 of the Consolidated Financial Statements). A significant step towards completion of the Transaction was the ECB approval of the Significant Risk Transfer (the 'SRT') for regulatory capital purposes. BOC PCL has received the SRT approval on 18 March 2019. The completion of the Transaction remains subject to various other conditions precedent. On completion, the de-recognition of the Helix Portfolio will have a positive impact on the Group's CET1 ratio, of 160 basis points, resulting from the release of risk weighted assets. Completion is currently expected to occur in the early second quarter of 2019.

2. Internal Controls (continued)

2.1 Going concern (continued)

Funding and liquidity

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

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

2.2 Group Code of Conduct and Whistleblowing Policy

The Group has set out the standards that are expected from all the employees and Directors of the Group in a Code of Conduct along with guidance on how these standards should be applicable.

The Group also has a Whistleblowing Policy in place for all staff, including Directors, which is in accordance with international practice. The policy is reviewed annually. Its general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimisation, discrimination, disadvantage or dismissal;
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate, and use the anonymous reporting line;
- Disclosures are managed in a timely, consistent and professional manner; and
- The appointment of the Chairman of the AC, an independent Non-executive Director as a Whistleblowing Champion with specific responsibilities.

Following the Group wide training on whistleblowing through a mandatory e-learning module in 2017, the focus in 2018 was in raising awareness of the whistleblowing procedure through a formal call to action to all employees on their obligations to speak up.

The Board and Group CEO are committed to this policy, which encourages staff to raise concerns and the Group will continue with a number of initiatives to further increase awareness in 2019.

3. Other matters

On 18 January 2017, the Company became the sole shareholder of BOC PCL. The owners of BOC PCL before the reorganisation have the same absolute and relative interests in the net assets of the Group immediately before and after the reorganisation, since the assets and liabilities of the Group and the BOC group (being BOC PCL and its subsidiaries) are the same immediately before and after the reorganisation. Hence the Group is considered a continuation of BOC group.

On 19 January 2017, the Company was admitted to listing and trading on the London Stock Exchange ('LSE') and the CSE.

A common Board and committee structure applies with the same Directors sitting on the Board of Directors of the Company and on the Board of Directors of BOC PCL and on the committees of each of the two Boards.

3. Other matters (continued)

The table below show attendance of the Directors on the meetings of BOC PCL throughout 2018.

Board of Directors of BOC PCL 1/1/2018-31/12/2018

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint	TC
Josef Ackermann (Chairman)	20/20			10/10			
Maksim Goldman (Vice Chairman)	20/20			10/10	16/17	7/7	
Anat Bar-Gera	20/20		10/10				9/9
Arne Berggren	20/20	13/13			17/17	7/7	
Lyn Grobler	20/20			10/10			9/9
Paula Hadjisotiriou ¹	8/8	5/5			7/7	2/2	
Michael Heger	20/20	13/13	10/10			7/7	9/9
John P. Hourican	20/20						
Christodoulos Patsalides	20/20						
Maria Philippou ²	9/9		5/5				
Michael Spanos	17/20		9/10				
Ioannis Zographakis	20/20	13/13			17/17	7/7	9/9
Total meetings	20	13	10	10	17	7	9

1 Appointed on 13 August 2018

2 Appointed on 23 July 2018

3.1 Company Secretary

The Board appointed Mrs Katia Santis as the Company Secretary.

3.2 Group Internal Auditor

The Board appointed Mr. George Zornas as the Group Internal Audit Director.

3.3 Corporate Governance Compliance Officer

The Board appointed Mr. Marios Skandalis as Corporate Governance Compliance Officer (CGCO).

4. Members of the Board of Directors

4.1 Non-Executive Directors

Josef Ackermann (Chairman)

Dr Ackermann is the former Chairman of the Management Board and the Group Executive Committee at Deutsche Bank. Dr Ackermann joined Deutsche Bank's Board of Managing Directors in 1996, where he was responsible for the investment banking division. Under his leadership, this business unit developed into one of Deutsche Bank's principal revenue sources and entered the top group of global investment banks. Prior to Deutsche Bank, Dr Ackermann was President of Schweizerische Kreditanstalt (SKA), today's Credit Suisse.

Dr Ackermann has held numerous board positions including sitting on the Board of Directors at Zurich Insurance Group, Royal Dutch Shell plc, Siemens AG and EQT Holdings AB among others. He also served as Vice-Chairman of the Foundation Board of the World Economic Forum. Dr Ackermann is an Honorary Fellow of the London Business School, was visiting professor in finance at the London School of Economics, and was appointed honorary professor at the Johann Wolfgang Goethe University in Frankfurt.

He studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece.

4. Members of the Board of Directors

4.1 Non-Executive Directors

Josef Ackermann (Chairman) (continued)

Dr. Ackermann has extensive experience in the financial services industry, having spent more than 40 years in various senior strategic, investment and oversight roles in Scheizerische Kreditanstalt and Deutsche Bank.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in October 2016

External Appointment:

Investor AB
Honorary Chairman of the St. Gallen Foundation for
International Studies
Honorary Senate Member of the Foundation Lindau
Nobel Prize winners Meetings at Lake Constance
Vice Chair and Member of the Board of Trustees of the
Conference Board

Independent:

On an on-going basis

Committee Membership:

Chairman of the Nominations and Corporate
Governance Committee

Maksim Goldman (Vice Chairman)

Mr. Goldman served as Director of Strategic Projects at Renova Group until 4 June 2018 where he was responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman had served as Deputy Chief Investment Officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. From 2005 to 2007 he worked as Vice President and International Legal Counsel of Sual-Holding, which was the management company for OAO 'SUAL', the second largest aluminium company in Russia, and also participated in the creation of UC Rusal through combination of the assets of Sual-Holding, Rusal and Glencore. From 1999 to 2005 Mr. Goldman worked as an associate at Chadbourne & Parke LLP in New York and in Moscow.

Mr. Goldman holds a J.D. from the School of Law, University of California (Los Angeles). He also holds a Bachelor of Arts degree in History from the University of California (Los Angeles).

Mr. Goldman has extensive experience in investments and business developments and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in October 2016

External Appointment:

Stentex s.a.r.L

Independent:

No

Committee Membership:

Member of the Risk Committee
Member of the Nominations and Corporate Governance
Committee

Efstratios-Georgios (Takis) Arapoglou

Mr. Arapoglou is an expert financial consultant. He has served as Chairman and CEO of the National Bank of Greece Group, Chairman of the Hellenic Banks Association, Member of the Board of Eurobank and has held senior management positions with Citibank and Chase Manhattan in the UK and with American Express in Greece. Currently, Mr. Arapoglou is Chairman of the Board of Titan Cement, an international cement company listed on the Athens Stock Exchange and of Tsakos Energy Navigation, a shipping company listed on the New York Stock Exchange.

Mr. Arapoglou holds an MSc in Finance and Management from the University of Brunel, London, a BSc in Naval Architecture and Ocean Engineering from the University of Glasgow and a BA in Mathematics and Physics from the University of Athens.

4. Members of the Board of Directors

4.1 Non-Executive Directors

Efstratios-Georgios (Takis) Arapoglou (continued)

He has extensive experience in international capital markets and in corporate, commercial and investment banking in South East Europe, the UK, the Middle East and Africa.

Term of Office:

Appointed to the Board of BOC PCL and the Board in February 2019 (subject to ECB consent)

External Appointment:

Chairman of the Board of Tsakos Energy Navigation
Chairman of the Board of Titan Cement SA
EFG Hermes Holding SAE
Credit Libanais SAL
Bank Alfalah Ltd

Independent:

Yes

Committee Membership:

Arne Berggren (Chairman of the Risk Committee)

Mr. Berggren has been involved in corporate and bank restructurings, working for both the private sector as well as for international organisations since the early 90s, starting with Nordea during the Swedish financial crisis. This was followed by bank crises management and bank restructuring assignments in numerous countries in Latin America, Eastern Europe and Asia, and more recently during the current financial crisis in the Baltics, Spain and Slovenia. He has been Head of Financial Restructuring and Recovery at Carnegie Investment Bank AB and Swedbank AB and as CEO of Swedcarrier AB he led the restructuring of parts of Swedish Rail. Mr Berggren has held numerous Board positions in the financial and corporate sector, including a position on the Board of Directors at LBT Varlik Yönetim AS and DUTB Ltd.

He is a graduate of the University of Uppsala, Sweden.

Mr. Berggren has significant experience in corporate and bank restructurings, bank crises management and risk management and has extensive experience in oversight from a number of directorships.

Term of Office:

Appointed to the Board of BOC PCL in November 2014 and the Board in October 2016

External Appointment:

Eusticon AB
Pireaus Bank Group

Independent:

Yes

Committee Membership:

Chairman of the Risk Committee
Member of the Audit Committee

Anat Bar-Gera

Since 2015, Mrs Bar-Gera is the Chairwoman of Cyverse, a leading Switzerland-based cybersecurity company established with the aim of providing access to the most advanced cybersecurity solutions coming out of Israel and the Silicon Valley. Mrs Bar-Gera is currently a member of the expert network of the World Economic Forum and a former member of the Global Agenda Council on the future of the internet, of the World Economic Forum. Prior to this and for more than 20 years, Mrs Bar-Gera co-founded, scaled and exited a number of telecom and internet international companies operating primarily across Europe and Africa. In 1988, she joined UBS in Switzerland as an Associate in the M&As department, where she initiated and executed pan-European deals especially in the high-tech area.

Mrs Bar-Gera graduated from INSEAD, France with an MBA and from the Hebrew University, Israel, with a Bachelor of Laws (LL.B.).

Mrs Bar-Gera has significant experience in start-ups and cybersecurity and benefits from oversight experience in a number of external directorships.

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Anat Bar-Gera (continued)

Term of Office:

Appointed to the Board of BOC PCL
and the Board in October 2017

External Appointment:

Cyverse AG
Swiss Mobile Data
Expert Network of the World Economic Forum

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration
Committee
Member of the Technology Committee

Lyn Grobler (Chairperson of Technology Committee)

Mrs Grobler is an experienced executive with a strong track-record in technology and IT roles. She was appointed Group Chief Information Officer (CIO) at Hyperion Insurance Group in 2016. Prior to this she was Vice President and CIO Corporate Functions at BP where she led the transformation of both the organisation and the digital landscape through introducing sustained change in process, capability and technology, having held a variety of roles across IT and global trading over 16 years. Before BP, Mrs Grobler managed large scale global technology projects and strategies within banking and trading based in both London and South Africa. Mrs Grobler has been recognised as one of the 25 most influential women in UK IT and has been shortlisted for CIO of the Year at the 2016 Women in IT awards.

Mrs Grobler holds an HND in computer systems from Durban University in South Africa.

Mrs Grobler has significant experience in IT and digital transformation and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in February 2017

External Appointment:

Technology Advisory Board at Board Intelligence Ltd
Hyperion Services Ltd
Howden Broking Group
Hyperion & Partners Ltd

Independent:

Yes

Committee Membership:

Chairperson of the Technology Committee
Member of the Nominations and Corporate Governance
Committee

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Paula Hadjisotiriou

Mrs Hadjisotiriou is an experienced executive with a long career in senior management roles in financial institutions. She started her accountancy career at Howard, Wade & Jacob before moving to Pricewaterhouse Coopers. Following a eight-year tenor at the Latsis Group of Companies as Deputy General Manager of Internal Audit, she embarked between 1990-2015 on a career in banking, at first with Eurobank Ergasias S.A as Group Chief Financial Officer and then with National Bank of Greece as Deputy Chief Executive Officer & Chief Financial Officer. Currently Mrs Hadjisotiriou serves as an advisor to the Latsis Group of Companies in the UK.

She is a Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales (ICAEW).

Mrs Hadjisotiriou has significant experience in financial institutions and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board of BOC PCL and the Board in August 2018

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Audit Committee
Member of the Risk Committee

Michael Heger (Chairman of the Human Resources and Remuneration Committee)

Dr Heger currently serves as the general manager of finance and investment and as an independent senior advisor for S.I.F. International Holding S.A., Luxembourg at its representative office in Vienna. Previously, during 2009-2012 he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland. He began his career in 1980 as a manager in export finance and legal affairs for Waagner-Biro AG in Vienna, Austria. Having spent two years at Waagner-Biro AG, he moved to UniCredit Bank Austria Group, where he held various management positions from 1982 to 2002. In 2001-2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002-2003, he served as the deputy general manager and head of International division for Raiffeisenlandesbank Niederösterreich-Wien AG. Dr Heger then joined MPH Management and Participation Holding S.A., a special purpose company for equity participation in commercial and industrial companies, financial institutions and in property developments as well as for financial and consulting services for domestic and international clients and commodity trading, as the general manager of finance and investment and head of the representative office from 2004-2009.

Dr Heger holds a doctorate in law from the University of Vienna and obtained a postgraduate degree in law from the College of Europe in Bruges, Belgium.

Dr Heger has extensive banking experience having spent more than 20 years in various senior positions in UniCredit Bank Austria Group and has considerable strategic knowledge of industrial and commercial companies, financial institutions and property developments.

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Michael Heger (Chairman of the Human Resources and Remuneration Committee) (continued)

Term of Office:

Appointed to
to the Board of BOC PCL in June 2016
and the Board in October 2016

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration
Committee (Chairman since 21 January 2019)
Member of the Audit Committee
Member of the Technology Committee

Maria Philippou

Mrs Philippou started her career as an HR Consultant with KPMG Greece, before moving to the Lambrakis Press Group as HR Generalist. Having spent three years with Eurobank Ergasias S.A as Compensation & Benefits Manager, in 2006 she moved to the Coca Cola Company Group, progressing through various roles such as Rewards Manager and HR Business & Strategic Partner to her current position as Global Talent & Development Director.

Mrs Philippou holds a degree in Business Administration from Nottingham Trent University and a Master of Science in Human Resources Management from Brunel University.

Mrs Philippou is an experienced executive in human resources and brings valuable skills to the Board in people management.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in July 2018

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration
Committee

Michael Spanos (Senior Independent Director)

Mr. Spanos is Managing Director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008). Mr. Spanos worked at Lanitis Bros Ltd from 1981 to 2008 as Marketing Manager, General Manager and Managing Director. Between 2005 and 2009, Mr. Spanos served as Vice-Chairman of the Board of Directors of the Cyprus International Institute (Republic of Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Coca-Cola İçecek (2012-2016), Heineken-Lanitis Cyprus Ltd (2005 to 2007), Lumiere TV Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd (2000 to 2007) and CypriaLife Insurance Ltd (1995 to 2000). He is a former member of the Central Bank of Cyprus Board of Directors.

Mr. Spanos holds a Master's degree in economics from North Carolina State University.

Mr. Spanos as an experienced Managing Director and member of a number of Boards, has in-depth knowledge of international business, management, finance and strategic development.

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Michael Spanos (Senior Independent Director) (continued)

Term of Office:

Appointed
the Board of BOC PCL in November 2014
and the Board in October 2016
(resigned on 21 January 2019)

External Appointment:

M.S. Business Power Ltd
Green Dot (Cyprus) Ltd
Lanitis Bros Ltd

Independent:

Yes

Committee Membership:

Chairman of the Human Resources and Remuneration
Committee (up to 21 January 2019)

Ioannis Zographakis (Chairman of the Audit Committee)

Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he served as Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and UK Retail Bank Head. In 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested. He has been a Director for the Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the Secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece.

He holds an MBA from Carnegie Mellon University in the USA and a Bachelor's degree in civil engineering from Imperial College in London.

Mr. Zographakis has extensive experience in the banking industry, having spent more than 20 years in various senior operational and financial roles in Citibank and on the Board of a number of financial entities.

Term of Office:

Appointed
to the Board of BOC PCL in September 2013
and the Board in October 2016

External Appointment:

National Bank of Greece
A. Eternity Capital Management Ltd

Independent:

Yes

Committee Membership:

Chairman of the Audit Committee
Member of the Risk Committee
Member of the Technology Committee

4.2 Executive Directors

John Patrick Hourican (Group CEO)

Mr. Hourican served as Chief Executive of The Royal Bank of Scotland ('RBS') Group's Investment Bank (Markets & International Banking) from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as Chief Financial Officer of ABN AMRO Group and as a Member of its Managing Board. He joined RBS in 1997 as a Leveraged Finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's Board as Finance Director and Chief Operating Officer. He also ran the bank's Leveraged Finance business in Europe and Asia. Mr. Hourican started his career at Price Waterhouse in Ireland.

He is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

4. Members of the Board of Directors (continued)

4.2 Executive Directors (continued)

Mr. Hourican is an experienced Chief Executive Officer, Finance Director and Chief Operating Officer having served in various senior roles for over fifteen years with the RBS.

Term of Office:

Appointed
to the Board of BOC PCL in December 2013
and the Board in July 2016

External Appointment:

Atradius N.V.

Independent:

No

Committee Membership:

None

Christodoulos Patsalides (DCEO & COO)

From 1989 to 1996, Dr. Patsalides worked for the Central Bank of Cyprus in the management of Government External Debt and Foreign Exchange Reserves Department. In 1996, Dr Patsalides joined the Group where he has held a number of positions in corporate banking, treasury and private banking, among others. From December 2013 to April 2016, Dr Patsalides served as Finance Director and was responsible for finance, treasury, investor relations, economic research and procurement. In his current capacity as the DCEO & COO, he is responsible for human resources, corporate affairs, central operations, legal services, organisation and methods, information technology, business transformation and administrative operations.

Dr Patsalides holds a PhD and an MSc in economics from the London School of Economics and a BSc in economics from Queen Mary College in London.

Dr Patsalides is an experienced financial services professional having served in a number of senior roles in the Group including as Finance Director.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in July 2016

External Appointment:

Chairman of the Association of Cyprus Banks
European Banking Federation
Cyprus Anti-Cancer Society

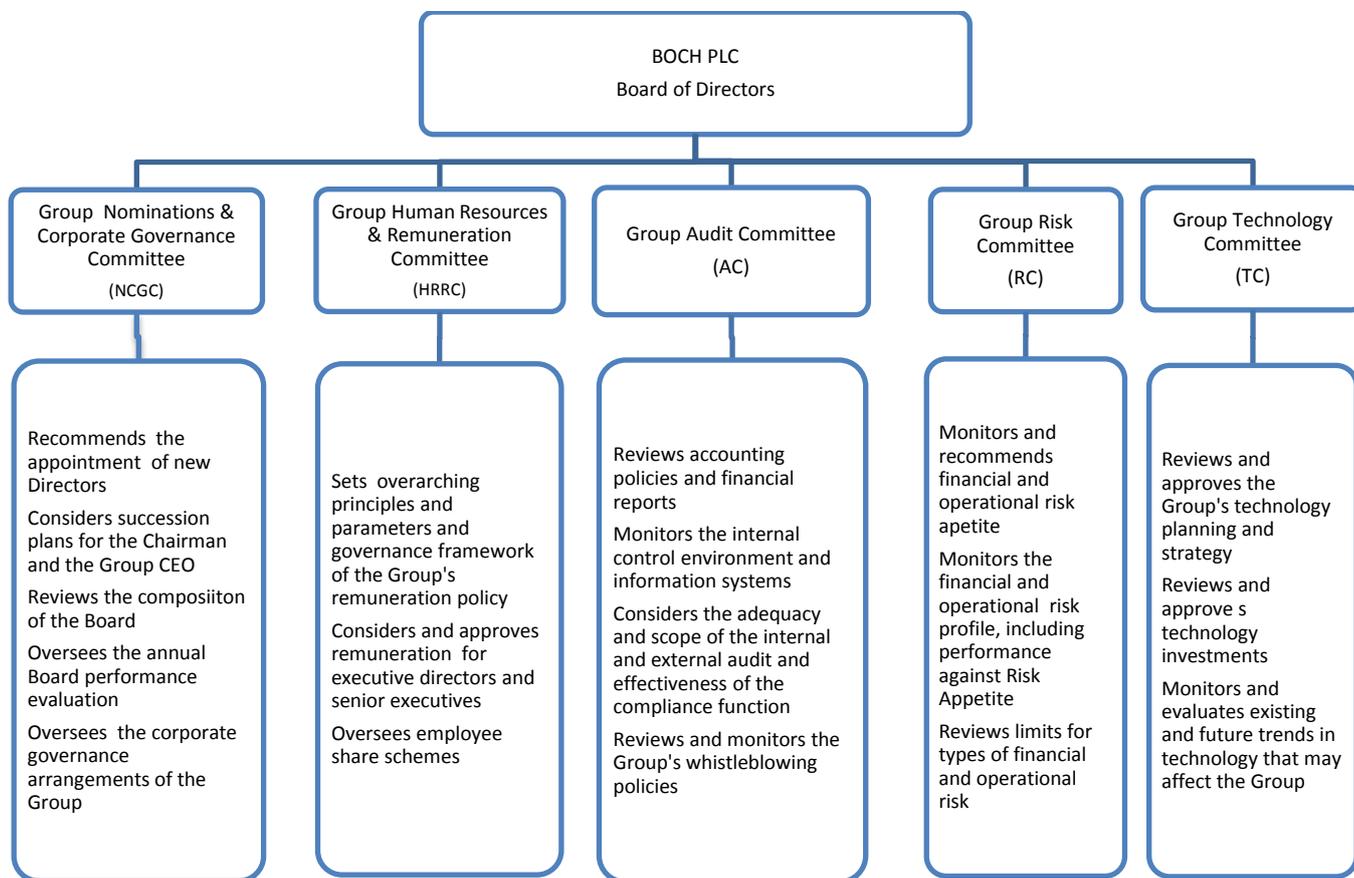
Independent:

No

Committee Membership:

None

5. Board Committees



In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the AC, the RC, the NCGC and the HRRC. The key roles of the Board committees are described above. Further information of the work of these committees follows in the section below. The terms of reference of the committees are based on the relevant provisions of the CSE and UK Codes and the CBC Governance Directive (where applicable) and are available on the Group's website (www.bankofcyprus.com) or by request to the Company Secretary. Each committee reviews its terms of reference annually.

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the RC and the AC.

The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. This linkage is important between the committees given that it is impractical for independent Non-executive Directors to be members of all the committees.

In addition to the principal committees, the Board in 2017 set up a Technology Committee to drive the digital transformation of BOC PCL. The Committee is comprised of four Non-executive members and is chaired by Mrs Lyn Grobler whose extensive knowledge and experience in IT will be instrumental to the digital transformation of BOC PCL.

5. Board Committees

5.1 Nominations and Corporate Governance Committee

As at 31 December 2018 the NCGC comprised three Non-executive Directors, two of whom independent. Its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive. The Chairman of the Board chairs the Committee, except when the NCGC is dealing with the appointment of a successor to the role of Chairperson.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee met 10 times in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below. The Group CEO is invited to attend meetings. The NCGC meets annually with no management present.

Member attendance in 2018:

NCGC meetings* in 2018

Josef Ackermann (Chairman)	10/10
Maksim Goldman	10/10
Lyn Grobler	10/10

* The number of committee meetings at BOC PCL level were 10 during 2018. The attendance of these meetings can be found on page 303.

The key responsibilities of the NCGC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee is to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors and to support and advise the Board in relation to:

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board);
- Vice-Chairperson, Director and CEO development (under the overall responsibility and supervision of the Chairperson of the Board);
- Chairperson development (under the overall responsibility and supervision of the SID);
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors; and
- Succession planning for Directors and senior management.

The Committee also:

- Oversees the adoption of appropriate internal policies on the assessment of the fitness & probity of members of the Group ExCo, other senior managers and Heads of the internal control functions;
- Keeps the Board's governance arrangements under review and makes appropriate recommendations to the Board to ensure that such arrangements are consistent with best corporate governance standards and practices in place;
- Considers and authorises a situation in which a Director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Group, and decides on remedial action to eliminate such conflict or seeks to terminate the situation giving rise to it; and
- Oversees the corporate governance arrangements of material subsidiaries and reviews the evaluation of board performance of the subsidiary boards.

The matters considered and the actions taken by the NCGC during the year are set out in the following table.

5. Board Committees (continued)

5.1 Nominations and Corporate Governance Committee (continued)

Matters considered and action taken by the NCGC in 2018

Board and Committee size and composition	<ul style="list-style-type: none"> • Review of: <ul style="list-style-type: none"> ○ Board and Board Committee structure, size and composition; ○ Skills, knowledge and expertise; ○ Independence of Non-executive members; ○ Succession plans taking into account the skills profile and the action plan to achieve the diversity target set for 2020; and ○ The annual Board Performance evaluation including its committees and individual Directors. • Approval of follow-up actions from the externally conducted review by SpencerStuart. • Assessment of the fitness & probity and recommendation for appointment of nominated directors.
Corporate Governance	<ul style="list-style-type: none"> • Review and approval of revisions to: <ul style="list-style-type: none"> ○ The Board Manual and its Appendices; ○ Three corporate governance policies: <ul style="list-style-type: none"> ▪ The Group Fitness & Probity of Directors, Managers and Key Function Holders; ▪ The Group Nominations Policy; and ▪ The Group Diversity Policy. ○ The 2018 Action Plan for corporate governance compliance. • Review and recommendation for approval to the Board the Group Corporate Governance Policy; • Review of the Annual Corporate Governance Report; • Review of the quarterly Corporate Governance reports; • Approval of the action plan to implement the revised UK Code; • Approval of the report on compliance with the CSE Code and the UK Code; • Review of potential conflicts of interest with Directors' other appointments.
Executive performance review	<ul style="list-style-type: none"> • Carry out the performance appraisal of the Executive Directors.
Subsidiary corporate governance	<ul style="list-style-type: none"> • Review of board composition and succession planning for BOC UK Board; • Review and approval of the revision of the Corporate Governance Guidelines for Group Subsidiaries; • Approval of the revised Framework Agreement with BOC UK and the action plan to implement it; • Consideration of the 2018 Priorities of the Prudential Regulation Authority (PRA) of the UK.

Discussions were held on the matter of succession planning. Job specifications were prepared to be available for the external consultants who would assist in the search for potential candidates for the positions of CEO and Chairperson. Interviews were carried out once a shortlist was prepared.

The Committee also resolved to set up an action plan that would lead to compliance with the revised UK Code.

The chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.1.1 Diversity

The Group recognises the importance of ensuring that there is diversity on the Board and is committed to this respect. In reviewing Board composition and identifying suitable candidates, the NCGC considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, industry experience, nationality, gender, age and other relevant qualities, in order to maintain an appropriate range and balance of skills, experience and background on the Board.

5. Board Committees (continued)

5.1 Nominations and Corporate Governance Committee (continued)

5.1.1 Diversity (continued)

The Group's approach to Board diversity is set out in full in the Board Diversity Policy which can be found online at <https://www.bankofcyprus.com/en-GB/who-we-are/corporate-governance/>. The Policy recognises that a truly diverse Board will include and make good use of the differences in skills, experience, background, race, gender and other distinctions brought by each Director, with such differences being considered in determining the optimum composition of the Board.

Non-executive members of the Board possess a wide range of skills, knowledge and extensive experience acquired from executive and/or non-executive appointments as directors of other companies that combine to provide independent perspective and effective board dynamics. The effectiveness of the Board depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience.

Following review in 2018, the NCGC determined that the skills profile of the Board, either academically or through professional experience was appropriate and relevant to the business of the Group including inter alia, banking, insurance, manufacturing, audit and accounting, economics, risk management, dealing with competent authorities, strategy and business models, legal and consultancy services, Information Technology and cyber-security and human resource management.

Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. The participation of Executives on the Board enhances the banking expertise of the Board and ensures that the Board is provided with direct, precise and up-to-date information about significant issues concerning the Group.

During 2018, the NCGC reviewed the Board Diversity Policy which aims to achieve gender diversity by 2020 with appointments based on merits in the context of the skills and experience required. The Group having recognised the benefits of a diverse Board is aiming to achieve and maintain 40% female representation by the end of 2020 and is implementing an action plan approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. On July 23 2018, the Board appointed Mrs Maria Philippou to the Board and on 13 August 2018 appointed Mrs Paula Hadjisotiriou thereby achieving diversity of 33.3%.

The Code of Conduct similarly ensures equal opportunities to all members of staff and treats diversity with fairness and respect aiming to provide fair treatment for everyone at work.

5.2 Human Resources and Remuneration Committee

On 31 December 2018, the Committee comprised of 4 independent Non-executive members. During 2018 the HRRC was chaired by the SID and its composition complied with the requirements of the CSE Code, the UK Code and the CBC Governance Directive. The Board considers that at least one member of the Committee possesses appropriate knowledge and expertise on Human Resources ('HR') and remuneration issues. The diverse backgrounds of the members of the Committee provide a balanced and independent view on remuneration matters.

Maria Philippou was appointed to the Board and the Committee on the 23 July 2018. The Chairman of the Committee resigned on 21 January 2019 and was replaced by Dr Michael Heger who has been a member of the Committee since his appointment to the Board in 9 June 2016.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 10 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below. The Group CEO and the Director of Human Resources are invited to attend meetings as appropriate.

5. Board Committees (continued)

5.2 Human Resources and Remuneration Committee (continued)

Member attendance in 2018:

HRRC meetings* in 2018:

Michael Spanos (Chairman)	9/10
Michael Heger	10/10
Anat Bar-Gera	10/10
Maria Philippou (appointed 23 July 2018)	5/5

* The number of committee meetings at BOC PCL level were 10 during 2018. The attendance of these meetings can be found on page 303.

The key responsibilities of the HRRC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee 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. It is imperative for the Group to employ the appropriate forward-looking, commercially minded, human resources that would promote digital transformation and continuous innovation;
- 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 propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- To consider the remuneration arrangements of the executive Directors of the Group, other senior managers and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

The HRRC oversees the HR initiatives that foster employee engagement such as the application of a holistic internal communication programme, the implementation of an employee wellbeing /care programme and the application of fair and transparent recognition initiatives across the Group.

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

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the CBC Governance Directive which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the European Banking Authority ('EBA') Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions currently pertinent to the banking sector and the Group in particular.

The remuneration of Non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

5. Board Committees (continued)

5.2 Human Resources and Remuneration Committee (continued)

The Committee reviews and approves the content of any resolutions submitted for approval at the general meeting of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the CSE Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

Matters considered and action taken by the HRRC in 2018

Annual Remuneration Review	<ul style="list-style-type: none"> • Annual review and approval of the Remuneration Policy; • The performance appraisals and remuneration of Senior Management.
Disclosure and governance	<ul style="list-style-type: none"> • Review of the Remuneration Policy Report in the Annual Report; • Review of the Terms of Reference of the Committee; • Committee self-assessment; • Review of the External Recruitment Policy; • Review of the Remuneration package of the CEO; • Update on the Exit Policy; • Review of the Internal Transfer Policy; • Update on Disciplinary process, Exits and Care Leave and Financial Aid.
Human resources review	<ul style="list-style-type: none"> • Review of the training plan of staff for the year; • Close monitoring of the progress of the negotiations with the labour union and the mediation process with the Ministry of Labour with regards to the renewal of the 2018 Collective Agreement and recommendation to the Board on the approval of the renewal of 2018 Collective Agreement; • Review of the 2018 Group Staff Opinions Survey results and action plans; • Update on mini survey results on modernisation agenda; • Review of the 2017 Management Practices Survey; • Review of the Performance Appraisal statistics; • Monitor of the BOC PCL's head count and payroll cost evolution; • Review of Internal Communication Reports and Annual Communication Plan; • Update on the Staff Acknowledgement Scheme 2018; • Update on the results of the extreme Business Continuity Plan (BCP); • Update on the work of the Change Working Group.

Priorities for the HRRC in 2018 were the action plan of the HR to promote Employee engagement and encourage two-way open communication. Finally the Committee was kept informed and updated on the discussions for the renewal of the Collective Agreement and other matters with the labour union.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

Further information on the role of the Committee is presented in the Remuneration Policy Report, on page 325 of this report.

5.3 Audit Committee

As at 31 December 2018, the AC comprised four independent Non-executive Directors. The Board considers that the AC's members as a whole have experience of the banking and financial services sector. The Board further believes that Ioannis Zographakis and Paula Hadjisotiriou can be regarded as having recent and relevant financial experience for the purposes of the UK Code and can be regarded as an Audit Committee financial expert.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 13 meetings during 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below. Arne Berggren is the Chairman of the RC and Ioannis Zographakis and Paula Hadjisotiriou are members of the RC. Michael Heger is a member of the HRRC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided.

5. Board Committees (continued)

5.3 Audit Committee (continued)

Member attendance in 2018:

AC meetings* in 2018

Ioannis Zographakis (Chairman)	13/13
Arne Berggren	13/13
Michael Heger	13/13
Paula Hadjisotiriou (since 13 August 2018)	5/5

* The number of committee meetings at BOC PCL level were 13 during 2018. The attendance of these meetings can be found on page 303.

The key responsibilities of the AC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee, inter alia, is:

- To review and monitor the effectiveness of the Group's system of internal controls;
 - To assess the integrity of the Group's financial statements and related announcements;
 - To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor, including monitoring their independence and objectivity;
 - To review the Group's and Company's financial and accounting policies and practices;
 - To monitor the effectiveness of the Group's whistle-blowing procedures;
 - To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance;
 - To assist the Board in meeting its obligations under relevant stock exchange listing rules and other applicable laws and regulations;
 - To monitor and review the effectiveness of the Group's internal audit function and its operations;
- and to make recommendations to the Board on such matters.

The role of the Committee is fundamental to ensuring the financial integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Finance Director, the Group Internal Audit Director and the Director of Group Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external) and inviting appropriate divisional directors to meetings to explain how they are delivering the agreed actions for which they are responsible. In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The AC considered the following key significant accounting and other related issues in its review of the financial statements for the year ended 31 December 2018. In addressing these issues, the AC considered the appropriateness of management's judgements and estimates and where appropriate, discussed those judgements and estimates with the external auditors:

Internal Controls and Risk Management	<ul style="list-style-type: none"> • Annual review of the effectiveness of the Group's internal controls; • Review of the Group Financial Crime Compliance Department ('FCCD') Annual Report, the Group FCCD Risk Management Report, the Regulatory & Ethics Compliance Department ('RECD') Annual Report; • Review of the quarterly reports of the FCCD and RECD; • Quarterly updating on outstanding operational risk findings monitoring Dashboard; • Review of the General Data Protection Regulation ('GDPR') status reports; • Review of the Annual Information Security Assessment Report.
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5. Board Committees (continued)

5.3 Audit Committee (continued)

External Reporting	<ul style="list-style-type: none"> • Review and recommendation for approval of the annual and interim reporting; • Review and approval of the quarterly financial results; • Review and approval of the Group's existing accounting policies; • Approval of new and significant changes in existing policies; • Endorsement of the Going concern assessment for the purposes of the basis of preparation of the financial statements.
Internal Auditors	<ul style="list-style-type: none"> • Review of the Group Internal Audit's ('GIA') Triennial Audit Plan; • Approval of the revised GIA policies and procedures/charter; • Review of the independence of the GIA Division and the GIA Director; • Update on the Quality Assurance; • Appraisal of the GIA Director; • Review of the self-assessment of GIA conformance with IIA standards and the Code of Ethics; • Review of the Audit Opinion in GIA Report; • Approval of the GIA budget; • Review of the GIA quarterly activity reports; • Update on complaints received through the whistleblowing line.
External Auditors	<ul style="list-style-type: none"> • Discussion of the results of the audit of the financial statements; • Assessment of the independence of the external auditors; • Update on the internal and external mechanisms to support the assessment of the independence of the external auditors; • Approval of audit, tax compliance and other assurance fees for the year; • Approval of permissible non-audit services assigned to the auditors; • Update on the 2018 External Audit Plan.
Governance	<ul style="list-style-type: none"> • Review of the revised Terms of Reference of the AC; • Approval of the Annual Corporate Governance Report; • Approval of the Directors' Compliance Statement; • Self-Assessment of the AC.
Compliance	<ul style="list-style-type: none"> • Review and approval of the FCCD Action Plan, the RECD Action Plan; • Review and approval of the Anti-Money Laundering ('AML') risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy; • Consideration of major compliance issues and reports submitted to it by the Group Compliance Division; • Review and approval of the various regulatory & ethics compliance policies; • Update on important forthcoming regulatory developments; • Appraisal of the Director Group Compliance; • Review of the Data Privacy compliance function and the overall function of the Data Protection Officer (DPO).

In assisting the Board to monitor the integrity of the financial statements, the AC has reviewed the Annual Report and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements and estimates made by the Group.

The Committee advised the Board that the Group Annual Financial Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.

5. Board Committees (continued)

5.3 Audit Committee (continued)

The AC considered among others, the following significant issues in its review of the financial statements for the year ended 31 December 2018. In addressing these issues, the Committee discussed key areas of management's judgements and estimates with the external auditors, Ernst & Young Chartered Accountants ('EY'); particular areas for discussion included their findings/observations as part of their audit/review of the Group's financial statements, including inter alia, loan provisioning and impairment policies, going concern issues, the recoverability of deferred tax asset and litigation and claims. The AC also considered management's recommendations in respect of provisions for impairment of loans and advances and any other impairment losses and charges as reported in the Group's financial statements.

- **Loan impairment**
The AC considered loan impairment allowances and charges, discussing with management the basis of calculation and the reasons for significant changes. Judgements and estimates discussed included impairment of loans and advances; interest income recognition, and the disclosures relating to provisions and contingent liabilities for litigation and regulatory claims.
- **Deferred Tax assets**
The Committee discussed the extent of deferred tax assets to be recognised and in particular management's projections for future taxable profits against which those losses may be utilised in the future. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.
- **Going concern**
Further the AC considered management's assessment of the appropriateness of preparing the financial statements of the Group on a going concern basis. The considerations assessed by the AC are also set out in Note 3 of the Consolidated Financial Statements.
- **Litigation and claims**
The AC considered the results / findings of the work carried out by external consultants on complaints and legal cases to assess the adequacy of the Bank's capital held against legal risk.

The Committee has the responsibility for examining any significant transactions in any form, carried out by the Company and/or its subsidiary companies, where any member of the Board, CEO, senior executive officer, Secretary, auditor or large shareholder has, directly or indirectly, any significant interest. It ensures that these transactions are carried out within the framework of the Company's normal commercial practices (at arm's length).

The Committee received regular reports from the Group Finance Director, the Group Internal Audit Director and the Director of Group Compliance as well as the Group Chief Risk Officer.

Reports were submitted to the Committee on internal control matters. The Group Finance Director, the Group Internal Audit Director, the Director of Group Compliance, external auditors and other senior executives regularly attended the Committee's meetings. The Committee has regular discussions with the external auditors, the Group Internal Audit Director and the Director of Group Compliance and discusses issues without the presence of the management.

Other responsibilities

The AC and the RC liaise closely and in joint committee meetings review the appropriateness of and completeness of the system of internal controls. The AC is primarily responsible to review the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal controls system, including accounting control systems, thereby maintaining an effective system of internal controls.

The Board has delegated authority to the NCGC to draw up the Annual Corporate Governance Report, but the AC retains its duty to review and approve the Annual Corporate Governance Report.

5. Board Committees (continued)

5.3 Audit Committee (continued)

The Chairman of the Committee continues to hold the role of Whistleblower's Champion and continues to have specific responsibility for the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for protecting employees who raise concerns from detrimental treatment. He has also been named as the designated Board member responsible for the implementation of the AML Law and relevant Directives.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

The Committee's performance during 2018 was assessed as part of an internal committee effectiveness review. The conclusion drawn was that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

5.3.1 Internal Audit independence

The Group Internal Audit and Group Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Company, except the Director of Group Compliance who has a dotted reporting line to the DCEO & COO, for administration matters.

The Committee's activities included the consideration of reports submitted by the Group Internal Audit and Group Compliance Divisions. The Committee has satisfied itself that the Group Internal Audit Division was effective and adequately resourced through regular meetings held with and reports provided by the Group Internal Audit Director on internal audit issues, including the effectiveness and adequacy of resources. The Committee received reports over the course of 2018 on the activities of the internal audit function and reviewed its planned activities for the following year.

Management's responses to Group Internal Audit's findings and recommendations and mitigating actions taken were reviewed and monitored. The monthly reports issued by the Group Internal Audit Director and Director of Group Compliance enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

The Committee proposes to the Board the appointment, replacement, transfer or removal of the Group Internal Audit Director and the Director of Group Compliance. It submits a report to the Board on: a) the adequacy of the audits carried out, the conclusions and the proposals of the Group Internal Audit, and b) subjects that are related to the independence and smooth execution of audit work carried out by Group Internal Audit.

The independence of the two functions as well as the independence of the Group Internal Audit Director were reviewed by the AC.

5.3.2 Arrangements relating to the external auditors

The AC is responsible for overseeing all matters relating to the relationship between the Group and its statutory auditors, including the external audit plan, terms of engagement, audit and non-audit fee arrangements, interim findings and audit finding reports. The AC also meets semi-annually with the auditors without management present.

The Group is committed to ensuring the independence and objectivity of the external auditors and on an annual basis the AC formally reviews the effectiveness, independence and performance of the external auditors. This process is supported by tailored questionnaires completed by the AC members and relevant senior management personnel. The responses received are collated and presented to the AC for discussion.

The objectivity and independence of the external auditors is safeguarded and effectiveness of the external audit process assessed through monitoring of their relationship with the Group by the AC, including the monitoring of the balance between audit and permissible non-audit services. As an additional check on independence the AC has developed and implemented a Group Policy on the Provision of Non-Audit Services by the Group's statutory auditors in line with the EU Directive and related regulation.

5. Board Committees (continued)

5.3 Audit Committee (continued)

5.3.2 Arrangements relating to the external auditor (continued)

The Group policy ensures, among other things, that auditor objectivity and independence are not compromised. Under this policy, a key procedural control requires that any engagement of the external auditors for services must be approved in advance by the AC. The AC monitors compliance with the Group Policy and receives reports on the performance of such services.

The external auditors provide written confirmation of their objectivity and independence to the Group. In addition, the external auditors do not provide internal audit services to the Group. The AC reviews annually a detailed analysis of the audit and non-audit fees relating to work done by the external auditors, to confirm their independence and refers this analysis to the Board.

Information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in Note 16 of the Consolidated Financial Statements.

The European Directive which was enacted into national law in May 2017 in Cyprus and in June 2016 in Ireland on statutory audits covers mandatory audit firm rotation, additional restrictions on the provision of non-audit services, further requirements on audit committee oversight of the performance of the audit and new requirements regarding auditor reporting. Following a transparent and competitive tender process, including presentations from all candidate firms and discussions with management, the AC recommended to the Board the appointment of the audit firm of PricewaterhouseCoopers ('PwC') for accounting periods commencing 1 January 2019 and the AC also examined the process followed to ascertain the independence of the new statutory auditors.

5.4 Risk Committee

The RC is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than financial reporting).

The RC on 31 December 2018 comprised four Non-executive Directors most of whom independent. The Board considers that the RC, as a whole, possesses adequate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Group.

Biographical details, including each member's background, experience and independence status, are set out in section 4 of this report.

The Committee held 16 meetings during 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below.

Member attendance in 2018:

RC meetings* in 2018

Arne Berggren (Chairman)	16/16
Maksim Goldman	16/16
Ioannis Zographakis	15/16
Paula Hadjisotiriou (since 13 August 2018)	7/7

* The number of committee meetings at BOC PCL level were 17 during 2018. The attendance of these meetings can be found on page 303.

To ensure coordination with the work of the AC, Mr. Zographakis is the Chairman of the AC while Mr. Berggren and Mrs Hadjisotiriou are members of the AC. Mr Goldman is also a member of the NCGC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided.

5. Board Committees (continued)

5.4 Risk Committee (continued)

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically it:

- Advises the Board on risk appetite and alignment with strategy;
- Monitors the effectiveness of the Group’s risk management and internal control systems except from financial reporting and compliance internal control systems;
- Monitors the Group’s risk appetite and risk profile against key performance/risk indicators as set out in the Group’s Risk Appetite Statement;
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group;
- Ensures that the Group’s overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment;
- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees;
- Advises the Board on alignment of remuneration with risk appetite (through advice to the Group HRRC); and
- Advises the Board on risks associated with proposed strategic acquisitions and disposals.

The Group, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

To ensure consistency of scope and approach by subsidiary company committees, the RC has established core terms of reference to guide subsidiary companies when adopting terms of reference for the non-executive risk committees. The Committee’s endorsement is required for any proposed material changes to subsidiary company risk committee terms of reference and for appointments to such committees.

Detailed information relating to Group Risk Management is set out in Notes 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2018 Annual Financial Report.

Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to non-performing exposures management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs. The Committee also reviewed and challenged the approach and the assumptions of the ICAAP and ILAAP. A more granular approach to legal risk in terms of ICAAP was requested and reviewed.

The Committee identified the current and potential impact of key issues and themes that have an actual or potential impact on the Group’s risk profile and performed deep dive discussions in order to better understand and provide guidance to the management. Deep dive discussions concentrated on the transition from non-performing to performing status as well as Information Security Control maturity assessment. Further the Committee discussed and approved, or recommended for approval a large number of restructurings and contractual or non-contractual write-offs.

The RC discussed and approved the RC calendar for 2018 and undertook the following key activities:

Risk Strategy and Management	<ul style="list-style-type: none"> • Recommendation of the Risk Appetite Statement and approved the Group Risk Framework and Policy; • Review of top and emerging risks; • Approval of risk-related limits; • Review of Alignment of Risk appetite and Group strategy; • Review of monthly reports from the GCRO including a risk map; • Review of Shipping Loans; • NPE strategy for the years 2018-2020; • Loan syndication strategy to facilitate diversification of risk.
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5. Board Committees (continued)

5.4 Risk Committee (continued)

Operational Risk	<ul style="list-style-type: none"> • Approval of the operational risk framework; • Review of IT risk and cybercrime and model risk; • Consideration of business continuity, information security, cybersecurity etc.
Credit Risk	<ul style="list-style-type: none"> • Review of the Group's asset quality while reviewing the assessment of impairment provisions; • Approval of the non-performing loans strategy and operating plan; • Recommendation for approval of the Group Credit Policy; • Review of the Group Country Risk Policy and limits; • Approval/recommendation of a large number of restructurings and contractual or non-contractual write-offs.
Market / Liquidity Risk	<ul style="list-style-type: none"> • Recommendation of the Group Market Risk Policy and review of controls on discretionary risk and stress testing; • Recommendation of the Group Funding and Liquidity Policy and management strategy including the Contingency Funding Plan and the Group Liquidity Stress Testing Position; • Approval of the Liquidity Adequacy Statement; • Monitor the activities and decisions of ALCO through a review of its minutes.
Other Risk	<ul style="list-style-type: none"> • Review of Reputational Risk; • Review of regulatory communication; • Review of other Risk related policies such as Concentration Risk Policy, Asset Acquisition and Disposal Policy; • Approval of the Capital Adequacy Statement; • Review and approval of the Recovery Plan.
Governance	<ul style="list-style-type: none"> • Review of the terms of reference of the RC. • Review of the effectiveness of the Committee. • Appraisal of the Group Chief Risk Officer and the Information Security Manager. • Review of the reports of material subsidiaries. • Update on Group Regulatory/Supervisory Activity.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

6. Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board following a proposal by the HRRC in accordance with Annex 1 of the CSE Code and the UK Code. It is presented in the 2018 Annual Financial Report of the Group, after the Corporate Governance Report. Information on the remuneration of the members of the Board for the year 2018 is disclosed in Note 51 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

7. Shareholder Relations

Mrs Annita Pavlou, Manager Investor Relations Department, has been appointed by the Board as Investor Relations Officer, responsible for the communication between shareholders and the Group since 30 August 2016. Information concerning the Group is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Group uses its website (www.bankofcyprus.com) to provide shareholders and potential investors with recent and relevant financial information, including the annual, the mid-year financial report and quarterly results, announcements and presentations.

The Investor Relations section of the Group's website is updated with all announcements published on the LSE and CSE as these are made. It also contains contact details for the Investor Relations Department.

7. Shareholder Relations (continued)

Directors receive an investor relations update from management at all scheduled Board meetings. This update typically includes market updates, share price and valuation analysis, updates on analysts' reports and share register analysis.

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that Directors develop an understanding of the views of major investors. The SID, Mr. Ioannis Zographakis, is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

Under the Irish Companies Act 2014, one or more members holding at least 3% of the issued share capital of the Company, representing at least 3% of the total voting rights of all the members who have a right to vote at the meeting to which the request for inclusion of the item relates, has the right to: (a) put an item on the agenda of the AGM provided that the item has been accompanied by stated grounds justifying its inclusion or a draft resolution to be adopted; and (b) to table a draft resolution for an item on the agenda of a general meeting. Such a request must have been received by the Company at least 42 days prior to the relevant meeting.

Any change or addition to the Articles of Association of the Company is only valid if approved by special resolution at a meeting of the shareholders.

Major shareholders do not have different voting rights from those of other shareholders. As at 31 December 2018 the following were the major shareholders in Bank of Cyprus Holdings Public Limited Company:

• Lamesa Investments Limited	9.27%
• European Bank for Reconstruction and Development	5.02%
• Cyprus Popular Bank Public Co Ltd	4.81%
• TD Asset Management	4.01%
• Eaton Vance	3.82%
• Senvest Management LLC	3.67%
• Osome Investments Ltd	3.03%

The AGM was held on 28 August 2018 at the Company's headquarters. The Chairman of the Board (who is also the Chairman of the NCGC) and the Chairmen of the AC, the RC and the HRRC were present to hear the views of the shareholders and answer questions. As is the practice, all Directors of the Board at the time of the AGM attended the AGM. At the 2018 AGM, separate resolutions were proposed on each substantially separate issue and voting was conducted by poll. The results of every AGM of the Company including details of votes cast for and against on each resolution are posted on the Group's website www.bankofcyprus.com and released to the London and Cyprus Stock Exchanges.

The AGM of the Company in 2019 is scheduled to be held on 14 May 2019.

Remuneration Policy Report for the year 2018

1. Introduction

In accordance with the provisions of the CSE Code published by the CSE (4th Edition (Revised) April 2014) and in particular Annex 1 of the CSE Code, the HRRC prepares the Annual Board of Directors' Remuneration Policy Report which is ratified by the Board and submitted to the shareholders' AGM as part of the Annual Report of the Group. The Board of Directors Remuneration Policy Report for the year 2018 was ratified by the Board on 28 March 2019.

The Bank of Cyprus Group's objective to attract, develop, motivate and retain high value professionals is considered fundamental in achieving the goals and objectives of the Group and ensuring that the right people are in the right roles whilst managing the Group's remuneration strategy and policies in a manner aligned with the interests of the Group's shareholders.

2. Human Resources and Remuneration Committee

The Committee's primary role is to ensure that staff members contribute to sustainable growth by staying ahead of challenges and opportunities.

The Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management.

Every year, the Committee proposes to the Board the Annual Remuneration Policy Report as part of the Annual Report of the Group, which is submitted to the shareholders' AGM. The Committee also reviews the related party transactions note (Note 51) of the Consolidated Financial Statements of the Group and the Remuneration Policy Report itself.

2.1 Terms of Reference of the Human Resources and Remuneration Committee

The role of the Committee 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 & 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 CSE Code and the UK Code.

The Committee reviews the implementation and effectiveness of the Remuneration Policy and ensures this is in compliance with the Remuneration Framework of the CBC Governance Directive.

The Committee exercises oversight of negotiations with the labour union in Cyprus and provides guidance and support to management. It advises the Board on the approval of the collective agreements and reviews the framework of industrial relations and collective agreements to ensure they are relevant to best practices and conducive to good performance.

It ensures that internal control functions are involved in the design, review and implementation of the Remuneration Policy and that staff members who are involved in the design, review and implementation of the Remuneration Policy and practices have relevant expertise and are capable of forming independent judgement on the suitability of the Remuneration Policy and practices, including their suitability for risk management.

The Committee reviews any voluntary retirement/separation schemes for material subsidiaries in cooperation with the Group Human Resources Division ('HRD') and succession planning for all divisions and subsidiaries for Senior Management throughout the Group.

Remuneration Policy Report for the year 2018 (continued)

2. Human Resources and Remuneration Committee (continued)

2.1 Terms of Reference of the Human Resources and Remuneration Committee (continued)

The Committee monitors compliance with the Code of Conduct and reviews disciplinary controls and measures of the Group as presented by HRD on an annual basis. It also reviews the annual training plan as presented by HRD and approved by the Group CEO and ensures that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Group's strategic priorities.

The Committee reviews and approves the content of any resolutions submitted for approval at the AGM of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

Senior Management

The Committee reviews and approves remuneration packages of Group divisional directors, senior managers and subsidiaries' general managers, including salary, pension policy, option plans, and other types of compensation, recommended by the Group CEO or by the Chairmen of the Risk and Audit Committees (in the case of the heads of internal control functions) in consultation with the Group CEO and HRD.

The Committee also reviews the performance appraisals of Group divisional directors (except heads of internal control functions). Senior managers and subsidiaries' general managers' appraisals are performed by the Group CEO.

The Committee reviews and approves appointments, transfers and dismissals of Group divisional directors, senior managers and subsidiaries' general managers (except heads of internal control functions), recommended by the Group CEO, and ensures that all contractual obligations are adhered to.

The Chairman of the Committee is available to shareholders in the AGM to answer any questions regarding the Remuneration Policy of the Group.

3. Governance of Group Remuneration Policy

3.1 Principles of the CSE Code of Corporate Governance

Companies should implement official and transparent procedures for developing policies concerning the remuneration of executive Directors and fixing the remuneration of each Board member separately.

The level of remuneration should be sufficient to attract and retain talent required for the efficient operation of the Company. Part of the remuneration of Executive Directors should be determined in such a way as to link rewards to corporate and individual performance. Resolution, or any other authority allowing, variable pay should be linked to performance.

The Company's Corporate Governance Report includes a statement of the Remuneration Report and relevant criteria, as well as the total remuneration of the Executive and Non-executive members of the Board.

3.2 EBA Guidelines

The EBA Guidelines aim to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. The Group seeks to ensure it implements remuneration policies which are in compliance with regulatory guidelines, while at the same time operating under legal and regulatory constraints.

In accordance with EBA guidelines for identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees known as Material Risk Takers. The list was approved by the Board in December 2017 and was applicable for 2018.

Remuneration Policy Report for the year 2018 (continued)

4. Remuneration

4.1 Remuneration of Non-executive Directors

The remuneration of Non-executive Directors is not linked to the profitability of the Group. It is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the committees of the Board and any participation in the boards of Group subsidiary companies. The shareholders' AGM held on 28 August 2018 approved the same levels of remuneration as those approved by the shareholders' AGM on 29 August 2017. They also approved remuneration for the members and Chairperson of the Technology Committee established in February 2017.

The Committee proposes fees payable to the Chairman and the Vice Chairman, while the Chairman makes recommendations for the remuneration of the Non-executive Directors to the Board for approval by the AGM, considering the following factors:

- The time allocated and effort exerted by Non-executive Directors to meetings and decision-making in the management of the Group.
- The undertaken level of risk.
- The increased compliance and reporting requirements.
- The requirement not to link remuneration of Non-executive Directors to the profitability of the Group.
- The requirement that Non-executive Directors do not participate in the pension schemes of the Group.
- The requirement not to include share options as remuneration of Non-executive Directors.

Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The Chairman receives annual fees of €120,000, the Vice Chairman of €80,000, the SID of €70,000 and the members of €45,000. Additionally the Group reimburses all Directors for expenses incurred in the course of their duties.

The Chairmen of the Audit and Risk Committees receive annual fees of €45,000 each and members receive €25,000. The Chairmen of the HRRC, the Nominations and Corporate Governance Committee (NCGC) and the Technology Committee (TC) receive annual fees of €30,000 each. Each member of the HRRC and the TC receives €20,000 per annum, while each member of the NCGC receives €15,000 per annum.

4.2 Remuneration and Other Benefits of Executive Directors

Executive Directors

The Committee reviews and approves the remuneration packages vis-a-vis their performance. The Group CEO and the Group Deputy CEO & Chief Operating Officer ('DCEO & COO') are employees of BOC PCL.

Contracts of Employment

The employment contract of the Group CEO, Mr. John Patrick Hourican, has been extended up to 31 December 2020. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019.

No amount of variable remuneration has been paid during 2018 and 2017. In line with the 2016 and 2017 SREP decisions, the variable pay is capped at 10% of consolidated net revenues.

Service Termination Agreements

The service contract of the Group CEO includes a clause for termination, by service of six months' notice to that effect upon the Executive Director, without cause but at BOC PCL's sole discretion. In such a case, BOC PCL shall have the right to pay the Director, in lieu of notice for immediate termination.

The terms of employment of Dr Christodoulos Patsalides, DCEO & COO and Executive member of the Board, are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the BOC PCL based on years of service and for a four month prior written notice by the Executive director in the event of a voluntary resignation.

Bonus

No bonus was recommended by the Company's Board for Executive Directors for 2018.

Remuneration Policy Report for the year 2018 (continued)

4. Remuneration (continued)

4.2 Remuneration and Other Benefits of Executive Directors (continued)

Retirement Benefit Schemes

The Group CEO participates in a defined contribution plan largely on the same basis as other employees. The DCEO & COO 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 for the year ended 2018.

Share Options

No share options were granted to the Executive Directors during 2018.

Other Benefits

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

The Group CEO, Mr Hourican, receives and retains fees relative to his appointment as a Non-executive on the Board of Atradius N.V. of €50,000.

5. Information Regarding the Remuneration of Directors for Year 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 €
Executive Directors								
John P. Hourican	2,338,672	-	2,338,672	-	-	-	2,338,672	198,000
Christodoulos Patsalides	211,861	-	211,861	-	-	-	211,861	17,599
Non-Executive Directors								
Josef Ackermann	-	150,000	150,000	-	-	-	150,000	-
Maksim Goldman	-	120,000	120,000	-	-	-	120,000	-
Arne Berggren	-	115,000	115,000	-	-	-	115,000	-
Anat Bar-Gera		85,000	85,000				85,000	
Lyn Grobler		90,000	90,000				90,000	
Paula Hadjisotiriou		36,519	36,519				36,519	
Michael Heger		110,000	110,000	-	-	-	110,000	-
Maria Philippou	-	28,656	28,656	-	-	-	28,656	-
Michael Spanos	-	100,000	100,000	-	-	-	100,000	-
Ioannis Zographakis	-	135,000	135,000	-	-	-	135,000	-
	2,550,533	970,175	3,520,708	-	-	-	3,520,708	215,599

* Includes employers' contributions excluding contributions to retirement benefits.

28 March 2019

**Additional Risk and Capital Management
Disclosures**

2018

1. Credit risk

The Central Bank of Cyprus (CBC) issued to credit institutions the Loan Impairment and Provisioning Directives of 2014 and 2015 (Directive), which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of International Financial Reporting Standards (IFRSs) in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Directive, in addition to those presented in Notes 2 and 44 of the Consolidated Financial Statements for the year ended 31 December 2018, are set out in the following tables. The tables disclose Non-Performing Exposures (NPEs) based on the definitions of the European Banking Authority (EBA) standards.

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

- (i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirements Regulation (CRR) (Article 178).
- (iii) Material exposures (as defined below) which are more than 90 days past due.
- (iv) Performing forbore exposures under probation for which additional forbearance measures are extended.
- (v) Performing forbore exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic 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 problematic part of the exposure is classified as non-performing.
- Material arrears/excesses are defined as follows:
 - Retail exposures:
 - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
 - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.
 - Exposures other than retail: Total customer arrears/excesses are greater than €1,000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

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

1. Credit risk (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

31 December 2018	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances ¹	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	70,638	3	1,595	-	3,681	-	468	-
Other financial corporations	167,910	21,338	28,028	5,621	13,378	8,471	3,374	2,076
Non-financial corporations	6,331,381	1,941,479	1,682,997	1,042,164	947,857	864,983	367,235	347,924
Of which: Small and Medium sized Enterprises ²	4,573,824	1,488,289	1,108,153	793,579	759,484	692,343	280,675	266,736
Of which: Commercial real estate ²	4,473,159	1,284,145	1,124,078	742,839	569,351	501,842	231,694	216,486
Non-financial corporations by sector								
Construction	972,059	382,697			184,282			
Wholesale and retail trade	1,431,706	522,151			254,823			
Accommodation and food service activities	1,005,691	96,702			58,563			
Real estate activities	1,140,596	406,226			174,269			
Manufacturing	428,828	134,950			74,884			
Other sectors	1,352,501	398,753			201,036			
Households	6,588,202	2,805,496	1,924,928	1,486,583	1,271,429	1,208,624	481,701	471,184
Of which: Residential mortgage loans ²	5,022,617	2,112,152	1,552,445	1,180,705	828,205	774,656	336,651	327,956
Of which: Credit for consumption ²	891,964	397,747	234,572	195,422	225,505	221,996	79,417	77,930
	13,158,131	4,768,316	3,637,548	2,534,368	2,236,345	2,082,078	852,778	821,184
Loans and advances to customers classified as held for sale	2,851,113	2,749,301	1,492,083	1,437,851	1,697,005	1,646,091	825,977	797,692
Total on-balance sheet	16,009,244	7,517,617	5,129,631	3,972,219	3,933,350	3,728,169	1,678,755	1,618,876

¹ Excluding loans and advances to central banks and credit institutions.

² The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

1. Credit risk (continued)

31 December 2017	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances ³	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	88,780	2,618	4,263	2,358	2,098	1,128	1,367	1,061
Other financial corporations	387,169	264,809	202,501	180,836	97,237	95,696	41,254	40,532
Non-financial corporations	10,586,922	5,187,722	4,025,293	2,851,028	2,702,685	2,604,430	1,228,304	1,181,589
Of which: Small and Medium sized Enterprises ⁴	8,695,078	4,843,832	3,630,398	2,661,059	2,464,383	2,378,953	1,089,330	1,049,587
Of which: Commercial real estate ⁴	8,002,352	4,153,585	3,497,693	2,431,002	2,037,490	1,952,487	1,013,916	973,244
Non-financial corporations by sector								
Construction	2,303,375	1,743,627			893,938			
Wholesale and retail trade	1,973,382	876,763			495,099			
Accommodation and food service activities	1,314,939	420,392			222,789			
Real estate activities	2,768,637	1,028,638			518,261			
Manufacturing	648,131	342,666			172,232			
Other sectors	1,578,458	775,636			400,366			
Households	7,691,844	3,348,567	2,452,419	1,700,494	1,350,241	1,287,442	500,603	480,676
Of which: Residential mortgage loans ⁴	5,254,483	2,294,294	1,918,345	1,277,136	732,039	684,818	307,742	292,726
Of which: Credit for consumption ⁴	1,000,327	504,304	285,386	221,049	275,873	266,760	84,288	80,526
Total on-balance sheet	18,754,715	8,803,716	6,684,476	4,734,716	4,152,261	3,988,696	1,771,528	1,703,858

³ Excluding loans and advances to central banks and credit institutions.

⁴ The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

2. Liquidity risk and funding

2.1 Encumbered and unencumbered assets

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Bank of Cyprus Holdings Group (the Group) for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €3,384,455 thousand as at 31 December 2018 (2017: €3,575,278 thousand).

An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can be potentially pledged and those that are not readily available to be pledged. As at 31 December 2018, the Group held €12,518,132 thousand (2017: €14,909,010 thousand) of unencumbered assets that can be potentially pledged and can be used to support potential liquidity funding needs and €4,878,219 thousand (2017: €3,748,804 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

Loans and advances indicated as encumbered as at 31 December 2018 and 31 December 2017 are mainly used as collateral for funding from the ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,009 million (31 December 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 (31 December 2017: €1,273 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 31 of the Consolidated Financial Statements for the year ended 31 December 2018). As at 31 December 2018, no loans and advances to customers were pledged as collateral for deposits of the Republic of Cyprus (31 December 2017: €715 million).

The table below presents an analysis of the Group's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes. The carrying amount of such assets is disclosed below:

31 December 2018	Encumbered		Unencumbered		Total
	Pledged as collateral	Which can potentially be pledged	Which are not readily available to be pledged		
	€000	€000	€000	€000	
Cash and bank placements	118,627	4,326,166	638,230	5,083,023	
Investments	737,587	742,152	34,952	1,514,691	
Loans and advances to customers	2,528,241	5,708,960	2,684,585	10,921,786	
Non-current assets held for sale	-	-	1,470,038	1,470,038	
Property	-	1,740,854	50,414	1,791,268	
Total on-balance sheet	3,384,455	12,518,132	4,878,219	20,780,806	

31 December 2017				
Cash and bank placements	120,525	4,135,621	330,421	4,586,567
Investments	317,167	726,963	76,482	1,120,612
Loans and advances to customers	3,137,586	8,278,614	3,186,254	14,602,454
Non-current assets held for sale	-	-	6,500	6,500
Property	-	1,767,812	149,147	1,916,959
Total on-balance sheet	3,575,278	14,909,010	3,748,804	22,233,092

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

Encumbered assets primarily consist of loans and advances to customers and investments in debt securities. These are mainly pledged for the funding facilities of the Central Banks (ECB and CBC) (Note 31 of the Consolidated Financial Statements for the year ended 31 December 2018), 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 (Note 48 of the Consolidated Financial Statements for the year ended 31 December 2018). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond and for other operational purposes.

BOC PCL maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of CBC. Under the Covered Bond Programme, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bond have been amended to extend the maturity date to 12 December 2021, and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

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

Unencumbered assets which can potentially be pledged include Cyprus loans and advances which are less than 90 days past due and are expected to be eligible for ELA funding, as well as loans of overseas subsidiaries and branches which are available to be pledged. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for ELA. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary/branch and not to provide liquidity to any other entity of the Group. Balances with central banks are reported as unencumbered and can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered not readily available to be pledged.

Unencumbered assets that are not readily available to be pledged primarily consist of loans and advances which are prohibited by contract or law to be encumbered or which are over 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred in the name of the Company or the subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as they are primarily due to the insurance policyholders.

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 31 December 2018 and 2017 are as follows:

31 December 2018	Carrying value of encumbered investments	Fair value of encumbered investments	Carrying value of unencumbered investments	Fair value of unencumbered investments
	€000	€000	€000	€000
Equity securities	-	-	149,948	149,948
Debt securities	737,587	739,222	627,156	633,773
Total investments	737,587	739,222	777,104	783,721

31 December 2017				
Equity securities	1,740	1,740	153,903	153,903
Debt securities	315,427	315,425	649,542	655,990
Total investments	317,167	317,165	803,445	809,893

2.2 Liquidity regulation

The Group has to comply with provisions on the Liquidity Coverage Ratio (LCR) under CRD IV/CRR (as supplemented by the Commission Delegated Regulation (EU) No 2015/61 which prescribes the criteria for liquid assets and methods of calculation as from 1 October 2015 and the Commission Implementing Regulation (EU) No 2016/322 which prescribes supervisory reporting requirements and applied from 10 September 2016). It also monitors its position against the Net Stable Funding Ratio (NSFR) as proposed under Basel III. The LCR is designed to promote short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

In October 2014, the Basel Committee on Banking Supervision proposed the methodology for calculating the NSFR. It is noted that the NSFR did not become effective on 1 January 2018 as opposed to what was expected.

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

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

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

2. Liquidity risk and funding (continued)

2.2 Liquidity regulation (continued)

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

The additional liquidity requirement was applicable up to 31 December 2018. As at 31 December 2018, the Group and BOC PCL were in compliance with both the LCR and the LCR add-on.

2.3 Liquidity reserves

The below table sets out the Group's liquidity reserves:

Composition of the liquidity reserves	31 December 2018			31 December 2017		
	Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible		Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible	
		Level 1	Level 2A		Level 1	Level 2A
	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	4,447,511	4,447,511	-	3,239,985	2,896,935	-
Nostro and overnight placements with banks	281,383	-	-	676,431	-	-
Other placements with banks	-	-	-	283,735	-	-
Liquid investments	881,091	929,380	93,165	591,565	548,706	69,782
Available ECB Buffer	108,374	-	-	2,151	-	-
Total	5,718,359	5,376,891	93,165	4,793,867	3,445,641	69,782

Investments under Liquidity Reserve are shown at market value net of haircut (as prescribed by regulators) in order to reflect the actual liquidity value that can be obtained. The Liquidity Reserves exclude Local Law Government of Cyprus issues amounting to €48 million. Going forward, Local Law Government of Cyprus issues will be included in the Liquidity Reserves given that they are now ECB eligible.

Liquidity Investments include an amount of €405 million bonds that were part of the ECB pool at year end. Given that these bonds were not utilized and as per LCR Delegate Regulation (EU) 2015/61, these bonds are considered liquid, even though in section 2.1. Encumbered and Unencumbered assets they are indicated as encumbered.

Under the LCR Liquidity Reserves, all Cyprus Government Bonds remain eligible for inclusion as Level 1 assets given that they are issued by a Member State. LCR does not require liquid assets to be eligible as collateral for central bank operations and are included at market value.

The Liquidity Reserves are managed by Group Treasury.

As at 31 December 2018, ECB funding was at €830 million in the form of 4-year TLTRO II. The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. The interest rate applicable to the amount borrowed by BOC PCL under the TLTRO II transactions, in total €830 million, will be 0% as eligible net lending in the pre-specified period did not exceed the benchmark.

3. Other risks

3.1 Operational risk

Operational risk is defined as the risk of a direct or indirect impact loss resulting from inadequate or failed internal processes, people and systems or external events. The Group includes in this definition compliance, legal and reputational risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile at a Company, Unit and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and that the impact on the Group's profitability and corporate objectives is contained.

Operational risks can arise from all business lines and from all activities carried out by the Group and are thus diverse in nature. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management and own the risk. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities.

The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence, supported by other specialist control and support functions such as the Group Compliance, Legal, Information Technology, Information Security and Health and Safety functions. The third line of defence comprises the Internal Audit function, which provides independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

During 2018, ongoing activities/initiatives towards further enhancement of Operational Risk Management involved-inter alia-the following: (i) enhancement to the operational risk database, (ii) plan finalisation for the implementation of Phase II (Cards & ATMs), of the Fraud Risk Management System, (iii) setting up of a new fraud alerts investigation team, (iv) deployment of a Business continuity Management System Software tool, (v) implementation of rigorous monitoring of the progress on agreed action plans for risk mitigation, with strict criteria for adherence to agreed deadlines, (vi) enhancements incorporated to the RCA Methodology, (vii) enhancement the ICAAP and stress testing processes with emphasis on legal risk.

Operational risk loss events are classified and recorded in the Group's internal loss database (a new improved system was launched in 2016 providing for the integration of all risk-control data under the same system) to enable risk identification, corrective action and statistical analysis. During the year ended 31 December 2018, 239 loss events with gross loss equal to or greater than €1,000 each were recorded (2017: 282).

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training. Further to classroom/workshop type of training offered, e-learning sessions to all staff also ran in 2018 on Business Continuity Risk awareness and Conduct Risk awareness, while more e-learning sessions on Operational Risk Management concepts and tools are planned to run on an on-going basis.

The Group also maintains adequate insurance policies to cover for unexpected material operational losses.

Business resilience is treated as a priority and as such the Group places significant importance on continuously enhancing the continuity arrangements for all markets in which the Group operates, to ensure timely recovery in the case of events that may cause major disruptions to the business operations.

3. Other risks (continued)

3.2 Regulatory risk

The Group's operations are supervised by the ECB as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism, SSM). The ECB exercises its supervisory responsibilities in cooperation with the national central banks which together constitute the Eurosystem, the central banking system of the Eurozone. As such, in Cyprus the ECB cooperates with the CBC, as the Company is considered as an Other Systemically Important Institution (O-SII) for the purposes of the ECB Regulation.

The overseas subsidiaries and branches of the Group are also supervised by the ECB and the national regulatory authorities in the countries where they operate.

In this context, the Group is exposed to a series of regulatory and legal risks:

- Legislative action and regulatory measures which may materially impact the Group and the financial and economic environment in which it operates.
- The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with/non-implementation of regulatory requirements and any adverse regulatory and governmental developments.
- The implementation of SSM recommendations as well as Supervisory Review and Evaluation Process (SREP) prudential requirements, may impact the Group and the Group's strategy.
- The implementation of a more demanding and restrictive regulatory framework (including CRD IV/CRR) with respect to, amongst others, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, poses additional risks for banks.
- Changes in laws or regulations might also restrict certain types of transactions, affect the Group's strategy and lead to modification of the customer charges for banking products or transactions.
- The Group is subject to certain regulatory and legal constraints in originating new loans, managing and restructuring existing loans and foreclosing on collateral.
- The Group is exposed to tax risk and failure to manage such risk may adversely impact the Group.

The EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD) establishes a framework for the recovery and resolution of European Union (EU) credit institutions. The stated aim of the BRRD is to provide supervisory resolution authorities, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers exposure to losses. The BRRD includes the concept of loss absorption and a minimum requirement for own funds and eligible liability (MREL).

The BRRD also has significant funding implications for credit institutions, which include the establishment of pre-funded resolution funds of 1% of deposits covered under the EU Deposit Guarantee Schemes Directive (DGSD) 2014/49 to be built up by 31 December 2024. The BRRD has been implemented in Cyprus.

The EU has also established a Single Resolution Mechanism (SRM), set up under the Single Resolution Mechanism Regulation No 806/2014 as part of the European Banking Union. Under the SRM, a single resolution process applies to all credit institutions supervised by the SSM. This process is co-ordinated by the Single Resolution Board (SRB). The Company is subject to the supervision of the SSM and accordingly the SRM.

The SRM Regulation is closely connected with the BRRD. For credit institutions within the SSM, the SRB effectively takes on the role of the relevant national resolution authority established under the BRRD. The Company is subject to the supervision of the SRB.

3. Other risks (continued)

3.2 Regulatory risk (continued)

On 1 January 2016 the Directive 2009/138/EC of the European Parliament and of the Council and the relevant Regulations on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) came in force. Additionally, on 11 April 2016 the Law on Insurance and Reinsurance Services and Other Related Issues (Law 38(I)/2016) became effective. The new legal and regulatory framework introduced significantly increased quantitative and qualitative requirements. The Insurance Companies Control Service (Ministry of Finance) supervises the required capital which should be maintained by insurance companies in order to ensure they meet the solvency requirement. Additional targets are set by the insurance subsidiaries of the Group, EuroLife Ltd and General Insurance of Cyprus Ltd, in order to maintain sound capital ratios which can support operational targets. The insurance subsidiaries of the Group manage their capital base by monitoring the coverage of solvency capital requirements on a quarterly basis using high quality own funds. Both subsidiaries are compliant with the solvency capital requirements imposed by the Insurance Companies Control Service during 2018.

The Cyprus Investment and Securities Corporation Ltd (CISCO) and BOC Asset Management Ltd (BOCAM) are members of the Investor Compensation Fund (ICF) for clients of Investment firms. The ICF was established pursuant to Article 59(1) and (2) of Law 144(I)/2007 which provides for the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and other Related Matters as an investor compensation fund for ICF clients other than credit institutions. In 2017 Law 144(I)/2007 was replaced by Law 87(I)/2017. The powers and functions of the ICF are regulated by the provisions of the Directive 144-2007-15 of the Cyprus Securities and Exchange Commission (CySEC) for the Continuance of the Operation and the Operation of the IF Investor Compensation Fund. The ICF is administered by a five member Administrative Committee, comprised of two members designated by CySEC and CSE, two members elected by the General Meeting of the members of the Fund and one member designated by the Minister of Finance. Both CISCO and BOCAM are obliged to contribute annually an amount of up to 0.1% of the eligible funds and financial instruments of the member's clients and to contribute when called upon by CySEC an extraordinary supplementary contribution, if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure of a member of the ICF. The amount of the extraordinary supplementary contribution is not designated (nor capped).

The EU Investor Compensation Schemes Directive 97/9/EC (the ICSD) requires member states to establish Investor Compensation Schemes (ICS) to protect investors with respect to firms carrying on investment business (which may be an investment firm or a credit institution). An ICS will typically make payouts if an investment firm or credit institution carrying on investment business fails.

In Cyprus, the Investor Compensation Fund for Clients of Banks (the Fund) was established under the Investment Firms (IF) Law 2002, as amended. It is governed by the establishment and operation regulations of an Investor Compensation Fund for Clients of Banks Regulations of 2004 and 2007. Such a Fund is administered by a five member Management Committee, comprised of the Governor and the Senior Manager of the Banking Supervision and Regulation Division of CBC and three other members appointed by the Governor of CBC. The Company is obligated to contribute annually an amount of up to 0.01% of the eligible funds and financial instruments of the Company's clients.

Regulation (EU) No. 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (also known as the EU General Data Protection Regulation or the "GDPR") directly applies in all EU member states (including Cyprus) from 25 May 2018. The GDPR introduces new obligations on data controllers and enhanced rights for data subjects. The requirements of the GDPR affect the Group's ability to collect, record, store, retain and use personal data as well as transfers of personal data to countries that do not have adequate data protection laws. The implementation of the GDPR required substantial amendments to the Group's procedures, systems and policies.

3. Other risks (continued)

3.2 Regulatory risk (continued)

Directive (EU) 2015/2366 on payment services (the "PSD II") was enacted into the Law on the Provision and Use of Payment Services and Access to Payment Systems (Law No. 31(I)/2018). The Company is fully compliant with this Law, by duly amending the agreement and relative terms and conditions applied to the payment services offered by the Company to its clients.

Directive (EU) 2014/65/EU and Regulation (EU) No. 600/2014 on markets in financial instruments (the "MiFID II and MiFIR") was transposed into national law with the enactment of the Law on the provision of investment services, the exercise of investment activities and the operation of regulated markets (Law No. 87(I)/2017). This new legislative framework strengthens investor protection and improves the functioning of financial markets. The implementation of MiFID II and MiFIR required substantial amendments to the Group's procedures, systems and policies.

A package of new laws and legislative amendments have been enacted in the course of 2018 with the purpose of facilitating transactions aimed at reducing the non-performing exposures ("NPE transactions") of banks in Cyprus:

- A new Securitisation Law (Law No. 88(I)/2018) was introduced regulating the securitisation transactions.
- The Sale of Credit Facilities Law (Law No. 169(I)/2015) has been amended in order to, amongst others, make clear that, with the sale of a credit facility, the automatic transfer of mortgages and securities registered at the LRO and/or the Registrar of Companies, as well as the transfer of recoveries and of judgements, legal and foreclosure proceedings is achieved.
- The Immovable Property (Transfer and Mortgage) Law (Law No. 9(I)/1965) was also amended with the aim of improving the foreclosure procedure, in order to minimize and/or avoid any impediments or undue delays and make the whole procedure more efficient.
- Certain tax laws (Transfer Fees Law, Income Tax Law, Defence Tax Law, Stamp Duty Law and Capital Gains Tax Law) were amended:
 - in order to capture, in the relevant exemptions for fees and taxes in cases of restructuring, not only banks but also CyCACs (credit acquiring companies under the Sale of Credit Facilities Law) and
 - for the extension of the tax exemptions that banks currently benefit from when entering into debt for asset swaps (DFAS) with the debtholders to direct disposals by the debtholders to any third party in the open market.

3.3 Intensity of competition

The Group faces intense competition in the markets in which it operates in the Cyprus economy. Competition primarily originates from other commercial banks, branches and subsidiaries of foreign banks, and insurance companies offering savings and investment products.

During 2016 the Group's market share in deposits increased significantly and continued to increase in 2017 and 2018 as well. The Group remains today the biggest and most systemically important local banking organisation in Cyprus.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

3.4 Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 40 of the Consolidated Financial Statements for the year ended 31 December 2018) and in the event that legal issues are not properly dealt with, by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

3. Other risks (continued)

3.5 Political risk

External factors which are beyond the control of the Group, such as developments in the European and the global economy, as well as political and government actions in Cyprus can affect the operations of the Group, its strategy and prospects, either directly or indirectly through their possible impact on the domestic economy.

Cyprus is a small open economy with a large and expanding export sector. Exports of goods and services have been about 66% of Gross Domestic Product (GDP) in 2017 and the first three quarters of 2018. As a result the Cyprus economy is exposed to developments outside its borders, particularly in Russia, the UK and Greece. Cyprus is also exposed to developments in the European Union and the Eurozone that might impact bond markets and interest rates as well as to developments in the global economy at large, including trade.

According to the IMF, the global economy is slowing in 2019-20 (World Economic Outlook Update, January 2019). For a second time the IMF lowered its forecast for global growth and growth within the Eurozone (especially for Germany and Italy) in its January update compared to its October forecast.

In the UK uncertainty over Brexit has risen. Parliament rejected the Withdrawal Agreement the government negotiated with the EU when first put to a vote in January and then again in March. Subsequently at an EU summit the EU leaders agreed to extend Brexit past March 29 but on an if-then basis. If the UK government succeeds in getting the withdrawal agreement approved by Parliament before April 12, the extension will last until May 22. If Parliament rejects the Withdrawal Agreement the extension will last until April 12. At this point the UK can ask for a longer extension to which the EU will likely agree to avoid a no-deal Brexit. A longer extension however, will require the UK to participate in European Parliament elections.

Cyprus has close trade and investment links with the UK making its economy vulnerable to the impact of the exit of UK from the EU (Brexit) on the UK economy. According to the European Commission (European Economic Forecast, winter 2019, interim), UK's GDP growth is currently subdued and expected to remain so in 2019-20 rising by 1.3% in each year compared with 1.4% in 2018 and 1.7% in 2017. Business investment growth is likely to remain constrained. The net trade contribution to growth is projected to decrease in line with a moderation in external demand. Weaker demand in the UK and the depreciation of sterling against the euro following the referendum in 2016 affected the competitiveness of Cypriot exports to the UK. Exports of goods to the UK were about 8% of total exports of goods on average in the three years to 2016 and 5.7% in 2017. Tourist arrivals from the UK accounted for about 34% of total arrivals in 2017-18. A decline in tourist arrivals from the UK and a drop in their spending will need to be mitigated by increasing arrivals and revenues from other countries.

Italy is in a fragile economic situation which can potentially lead to instability in the Eurozone at large. Italy faces a combination of a stagnant economy and a high public debt which reached 132% of GDP in 2018. The result is domestic banks with a significant quantity of non-performing loans and significant quantities of government bonds. Bond yields will be subject to sustained upward pressures as the ECB's ended its Quantitative Easing programme at the end of December 2018. Italy's inherent fragility makes it vulnerable to external shocks related to Brexit and slow global trade.

The German economy is also slowing down, expected to grow by 1.1% in 2019 according to the European Commission. Germany is heavily dependent on exports. Germany remains particularly vulnerable to trade tensions between the US and Europe. The imposition of tariffs on auto exports from the EU to the US and Europe's retaliation constitute a significant risk.

Cyprus is less exposed to Greece than it was prior to the crisis in 2013. Greece's departure from the Eurozone is no longer a short-term risk. The outlook appears positive and the European Commission projects growth of 2.2% and 2.3% in 2019 and 2020 respectively (European Economic Forecast, winter 2019, interim). However, the indirect effects of a disorderly debt default in Greece could be severe if it damages confidence in the wider euro area.

Developments in other non-EU countries with which Cyprus maintains significant economic links, the unresolved Cyprus problem, and political and social unrest or escalation of military conflict in neighbouring countries and/or other overseas areas may adversely affect the Cyprus economy.

3. Other risks (continued)

3.5 Political risk (continued)

Russia is an important economic partner of Cyprus both in terms of tourism and international business flows. Any developments that impact negatively on these linkages will have a negative impact on the economy and will thus affect the Group's operations.

Further restrictions on Russia may seriously affect business and professional services in Cyprus linked with Russia. The economic situation in Russia has been gradually improving driven by the stabilisation in oil prices, the return of foreign direct investment and booms in certain sectors, for example agriculture. After dropping by 0.2% in 2016, real GDP recovered by 1.5% in 2017 and 2018 and expected to increase by 1.6% in 2019 and 1.7% in 2020 according to the IMF (World Economic Outlook Update, January 2019).

Political risk remains at an elevated level for two reasons: the de facto division of the island and the potential for tension with Turkey over hydrocarbons explorations in Cyprus' Exclusive Economic Zone (EEZ). However, given that economic relations between Cyprus and Turkey are not significant the impact of such tensions may be expected to be low provided that these tensions do not lead to prolonged political instability in Cyprus.

Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties, which may have a significant impact on the Group's activities, operating results and position.

4. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

With the exception of certain specified provisions, the CRR and Capital Requirements Directive IV (CRD IV) came into effect on 1 January 2014. The CRR and CRD IV transposed the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions and investment firms. It is directly applicable in all EU member states. CRD IV governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD IV into national laws and it allowed national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, which will be largely fully effective in 2019. In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The CET1 ratio of the Group at 31 December 2018 stands at 12.1% and the total capital ratio at 14.9% on a transitional basis.

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

4. Capital management (continued)

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

The Group'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 CCB of 1.875%. 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 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.

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

The capital position of the Group and BOC PCL 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.

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.

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.

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

The Capital Conservation Buffer (CCB) is gradually phased-in at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 and is fully implemented on 1 January 2019 at 2.5%.

4. Capital management (continued)

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

The Group's overseas banking subsidiaries complied with the regulatory capital requirements of the local regulators in the countries in which they operate in 2017. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

The capital position of the Group and the BOC PCL under CRD IV/CRR basis (after applying the transitional arrangements) is presented below:

Regulatory capital	Group		BOC PCL	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	€000	€000	€000	€000
Transitional Common Equity Tier 1 (CET1) ^{5, 6}	1,864,000	2,184,152	1,861,098	2,022,949
Transitional Additional Tier 1 capital (AT1)	220,000	-	220,000	-
Tier 2 capital (T2)	212,000	266,174	250,000	255,026
Transitional total regulatory capital⁶	2,296,000	2,450,326	2,331,098	2,277,975
Risk weighted assets – credit risk ⁷	13,832,589	15,538,637	13,820,385	14,491,974
Risk weighted assets – market risk	2,182	4,731	-	2,448
Risk weighted assets – operational risk	1,538,588	1,717,125	1,411,788	1,613,463
Total risk weighted assets	15,373,359	17,260,493	15,232,173	16,107,885
	%	%	%	%
Transitional Common Equity Tier 1 ratio	12.1	12.7	12.2	12.6
Transitional total capital ratio	14.9	14.2	15.3	14.1

IFRS 9 and Deferred Tax Asset fully loaded	Group		BOC PCL	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	€000	€000	€000	€000
Common Equity Tier 1 ratio (%)	10.1	n/a	10.2	n/a
Total capital ratio (%)	13.2	n/a	13.4	n/a

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.

On 1 March 2019 the Cyprus Parliament adopted legislative amendments allowing for the conversion of deferred tax assets into deferred tax credits for regulatory purposes, under the CRR. The law amendment increases CET1 by c.170 bps on a transitional basis as at 31 December 2018. For more details refer to Note 56.1 of the Consolidated Financial Statements.

⁵ CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €206,391 thousand and €135,205 thousand as at 31 December 2018 and 31 December 2017 respectively.

⁶ Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the deferred tax asset phase-in period reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016.

⁷ Includes Credit Valuation Adjustments (CVA).

4. Capital management (continued)

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five years.

The RWAs 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 risk weighted assets optimization.

As a result of the above, the CET1 ratio decreased by 60 bps during the period.

5. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP) and ECB 2018 Stress Test

The Group prepares the ICAAP and ILAAP reports annually. Both reports for 2018 are in progress and will be submitted to the ECB in April 2019 once approved by the Board of Directors.

The Group also undertakes a quarterly review of its ICAAP results (as at the end of June and as at the end of September) considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration. The ICAAP process demonstrates that the Group has sufficient capital under both the base case and stress scenarios.

The Group also undertakes a quarterly review for the ILAAP through quarterly stress tests submitted to the Assets and Liabilities Committee (ALCO) and Board Risk Committee. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows. The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate.

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

ECB 2018 Stress Test

The EBA in cooperation with the European Systemic Risk Board (ESRB) initiated the 2018 EU-wide stress tests to assess the resilience of financial institutions to adverse market developments which was completed in the fourth quarter of 2018.

BANK OF CYPRUS HOLDINGS GROUP

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 in Directors' Report	New lending includes the average YTD change (if positive) for credit cards and overdraft facilities.

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Definitions and explanations on Alternative Performance Measures Disclosures

Non-performing exposures (NPEs)	<p>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:</p> <ol style="list-style-type: none">(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 forbore exposures under probation for which additional forbearance measures are extended.(v) Performing forbore exposures under probation that present more than 30 days past due within the probation period.
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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).
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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.
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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.
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The alternative performance measures described above, have been introduced since 1 January 2018 upon the adoption of IFRS 9 and replaced the alternative performance measures used as at 31 December 2017 which are listed below:

- Accumulated provisions
- Provisioning coverage ratio for 90+ DPD
- Provisioning coverage ratio for NPEs
- Provisioning charge (cost of risk)
- Loans in arrears for more than 90 days (90+ DPD)
- Loans in arrears for more than 90 days (90+ DPD) ratio

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Definitions and explanations on Alternative Performance Measures Disclosures

Reconciliation of Gross loans	31 December 2018	31 December 2017
	€000	€000
Gross loans as per Directors' Report	15,900,427	18,754,715
Adjustments:		
Fair value adjustment on initial recognition (Note 46)*	(322,375)	(668,485)
Loans and advances to customers classified as non-current assets held for sale (Note 46)	(2,711,960)	-
Fair value adjustment on initial recognition on loans and advances to customers classified as non-current assets held for sale (Note 46)	(139,153)	-
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	99,000	-
Loans and advances to customers measured at fair value through profit and loss (Note 24)	(395,572)	-
Gross loans as per the Consolidated Financial Statements (Note 24)	12,430,367	18,086,230

* Including fair value adjustment on initial recognition of loans and advances to customers measured at fair value through profit and loss amounting to €60,326 thousand.

Reconciliation of accumulated expected credit losses on loans and advances to customers (ECL)	31 December 2018	31 December 2017
	€000	€000
ECL as per Directors' Report	3,852,218	4,204,248
Adjustments:		
Fair value adjustment on initial recognition (Note 46)*	(322,375)	(668,485)
Loans and advances to customers classified as non-current assets held for sale (Note 46)	(1,557,852)	-
Fair value adjustment on initial recognition on loans and advances to customers classified as non-current assets held for sale (Note 46)	(139,153)	-
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	99,000	-
Provisions for financial guarantees and commitments (Note 35)	(27,685)	(51,987)
Allowance for accumulated ECL as per the Consolidated Financial Statements (Note 24)	1,904,153	3,483,776

* Including fair value adjustment on initial recognition of loans and advances to customers measured at fair value through profit and loss amounting to €60,326 thousand.

Reconciliation of NPEs	31 December 2018
	€000
NPEs as per Directors' Report	7,418,613
Adjustments:	
Loans and advances to customers classified as non-current assets held for sale	(2,749,300)
Reclassification between gross loans and accumulated expected credit losses on loans and advances to customers classified as held for sale	99,000
Loans and advances to customers measured at fair value through profit and loss (Stage 3)	(160,907)
POCI (Stage 3)	(691,815)
Stage 3 loans and advances to customers as per the Consolidated Financial Statements (Note 46)	3,915,591